APPENDIX A

THE

COMMONWEALTH

OF

MASSACHUSETTS

INFORMATION STATEMENT

Dated November 7, 2013

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THE COMMONWEALTH OF MASSACHUSETTS

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Martha Coakley	**Attorney General**
Steven Grossman	**Treasurer and Receiver-General**
Suzanne M. Bump	**Auditor**

LEGISLATIVE OFFICERS

Therese Murray	**President of the Senate**
Robert A. DeLeo	**Speaker of the House**

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THE COMMONWEALTH OF MASSACHUSETTS

INFORMATION STATEMENT

November 7, 2013

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 financial obligations. This Information Statement contains information only through its date, or as otherwise provided for herein, 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, 2013. Exhibit A sets forth certain economic, demographic and statistical information concerning the Commonwealth.

Exhibits B and C, respectively, are the Commonwealth's Statutory Basis Financial Report for the year ended June 30, 2013 and the Commonwealth's Comprehensive Annual Financial Report, reported in accordance with generally accepted accounting principles (GAAP), for the year ended June 30, 2012. The Commonwealth's independent auditor has not been engaged to perform, and has not performed, since the respective dates of its reports included herein, any procedures on the financial statements addressed in such reports, nor has said independent auditor performed any procedures relating to the official statement of which this Information Statement is a part.

Specific reference is made to said Exhibits A, B and C, copies of which are attached hereto and have also been filed with the Municipal Securities Rulemaking Board (MSRB) through its Electronic Municipal Market Access (EMMA) System. The financial statements are also available at the home page of the Comptroller of the Commonwealth located at http://www.mass.gov/osc by clicking on "Financial Reports" under the "Publications and Reports" tab.

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THE GOVERNMENT

The government of the Commonwealth is divided into three branches: the Executive, the bicameral Legislature and the Judiciary.

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 (State Secretary), the Attorney General and the State Auditor. All are elected to four-year terms. The terms of the current office holders began in January, 2011.

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 Public Safety and Security, the Executive Office of Housing and Economic Development, the Executive Office of Labor and Workforce Development, the Executive Office of Energy and Environmental Affairs and the Executive Office of Education. In addition, the Secretary of Transportation, who is the chief executive of the Massachusetts Department of Transportation (MassDOT), is a member of the Governor's Cabinet. (MassDOT has a legal existence separate from the Commonwealth but houses several former departments of state government, including the Executive Office of Transportation and the Highway Department.) Cabinet secretaries and executive department chiefs, as well as the Secretary of Transportation, 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. In addition, the Secretary of Administration and Finance chairs the Commonwealth Health Insurance Connector Authority and co-chairs the Massachusetts Life Sciences Center.

State Treasurer. The State Treasurer has four primary statutory responsibilities: (i) the collection of all state revenues (other than small amounts of funds held by certain agencies); (ii) the management of both short-term and long-term investments of Commonwealth funds (other than the state employee and teacher pension funds), including all cash receipts; (iii) the disbursement of Commonwealth moneys and oversight of reconciliation of the state's accounts; and (iv) the issuance of 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, the Massachusetts Water Pollution Abatement Trust and the Massachusetts School Building Authority. The State Treasurer also serves as a member of numerous other state boards and commissions, including the Municipal Finance Oversight 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. 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 serves as a member of the Massachusetts Lottery Commission, the Inspector General Council, the Records Conservation Board and the Health Care Security Trust. 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 Court Administrator of the Trial Court and two persons with relevant experience appointed by the Governor for three-year terms. The Commonwealth's annual reports include financial statements on the statutory basis of accounting (the Statutory Basis Financial Report, or SBFR) and audited financial statements on a GAAP basis (the Comprehensive Annual Financial Report, or CAFR). The Statutory Basis Financial Report for the year ended June 30, 2013, included herein by reference as Exhibit B was reviewed, and the Comprehensive Annual Financial Report for the year ended June 30, 2012, included herein by reference as Exhibit C was audited, by KPMG LLP, as stated in its reports appearing therein. KPMG LLP has not been engaged to perform, and has not performed, since the respective dates of its reports included herein, any procedures on the financial statements addressed in such reports, nor has it performed any procedures relating to the official statement of which this Information Statement is a part. 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 Legislature (formally called the General Court) 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 Legislature 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 Legislature 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 chamber of the Legislature in which it was originated with a recommendation that certain amendments be made; such a 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 but may still veto the bill.

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 Legislature 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 a number of 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) Statements 14 and 39 articulate standards for determining significant financial or operational relationships between the primary government and its independent entities. In fiscal 2012, the Commonwealth had significant operational or financial relationships, or both, as defined by GASB Statements 14 and 39 (as amended), with 15 of these authorities. A discussion of these entities and the relationship to the Commonwealth is included in footnote 1 to the fiscal 2012 Basic 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, 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). See "COMMONWEALTH REVENUES AND EXPENDITURES – 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. The county governments that remain are responsible principally for the operation of courthouses 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 so approved by the voters do not constitute constitutional amendments and may be subsequently amended or repealed by the Legislature. Initiative petitions may not make appropriations. In recent years, ballots at statewide general elections typically have presented a variety of initiative petitions, sometimes including petitions relating to tax and fiscal policy. A number of these have been approved and become law. See particularly "COMMONWEALTH REVENUES AND EXPENDITURES – Limitations on Tax Revenues" and "COMMONWEALTH REVENUES AND EXPENDITURES – Local Aid."

On September 4, 2013, the Attorney General certified 25 petitions proposing voter-enacted laws covering 11 topics; some petitioners submitted more than one version of a petition on the same topic. Several of the petitions, if placed on the ballot and approved by the voters, would have a material impact on future Commonwealth revenues. The Department of Revenue is currently in the process of estimating the revenue impacts. See "COMMONWEALTH REVENUES AND EXPENDITURES – State Taxes."

Constitutional amendments also may be initiated by citizens, but they follow a longer adoption process, which includes gaining at least 25% of the votes of the House of Representatives and Senate jointly assembled in constitutional convention in two successive biennial legislative sessions before being decided by the voters.

On September 4, 2013, the Attorney General certified three petitions proposing constitutional amendments, including one requiring the state government to ensure the provision of comprehensive, affordable and equitably financed health insurance coverage for all Massachusetts residents.

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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 generally accepted accounting principles (GAAP), as defined by the Governmental Accounting Standards Board (GASB). The General Fund and other 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 this Information Statement as the "budgeted operating funds" of the Commonwealth. Budgeted operating funds are created and repealed from time to time through the enactment of legislation, and existing funds may become inactive when no appropriations are made from them. Budgeted operating funds 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" below.

Two of the budgeted operating funds account for most of the Commonwealth's appropriated spending: the General Fund and the Commonwealth Transportation Fund (formerly the Highway Fund), from which approximately 97.2% of the statutory basis budgeted operating fund outflows in fiscal 2013 were made. The remaining approximately 2.8% of statutory operating fund outflows occurred in other operating funds: the Commonwealth Stabilization Fund, the Intragovernmental Service Fund, the Inland Fisheries and Game Fund, the Marine Recreational Fisheries Development Fund, and the Massachusetts Tourism Fund. There were also 13 funds which were authorized by law but had no activity: the Collective Bargaining Reserve Fund, the Tax Reduction Fund, the Dam Safety Trust Fund, the International Educational and Foreign Language Grant Program Fund, the Gaming Local Aid Fund, the Education Fund, the Local Aid Stabilization Fund, the Gaming Economic Development Fund, the Manufacturing Fund, the Community College Fund, the Healthcare Payment Reform Fund, the Temporary Holding Fund and the Substance Abuse Prevention and Treatment Fund. In fiscal 2013, the Commonwealth Stabilization Fund had both inflows and outflows. At the end of a fiscal year, undesignated balances in the budgeted operating funds, unless excluded by law, are used to calculate the consolidated net surplus. Under state finance law, balances in the Stabilization Fund and the Tax Reduction Fund, both of which may receive consolidated net surplus funds, the Inland Fisheries and Game Fund and the Marine Recreational Fisheries Fund are excluded from the consolidated net surplus calculation.

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 early 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. State finance law requires the Legislature and the Governor to approve a balanced budget for each fiscal year, and the Governor may approve no supplementary appropriation bills that would 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. In recent years, the legislative budget review process has included joint hearings by the Ways and Means Committees of the Senate and the House. 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 appropriations act.

In years in which the general appropriations act is not approved by the Legislature and the Governor before 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.

In May, 2012, the Executive Office for Administration and Finance published a long-term fiscal policy framework to inform and guide annual budgetary decisions. The framework is intended to promote the achievement of three goals: (i) structural budgetary balance (budgetary spending based on sustainable levels of revenue, excluding fluctuations that occur as a result of economic cycles), (ii) sustainable spending growth (targeted to maintain structural balance throughout a five-year rolling forecast period and evaluated by comparing annual spending growth to projected long-term rates of revenue growth) and (iii) disciplined management of long-term liabilities (to protect intergenerational equity by preventing the costs associated with debt and unfunded retirement benefit obligations from crowding out other government services and investments in the future). The framework does not attempt to assess the proper level of services and investments, but rather how to ensure that any particular level of services is sustainable over time based on existing resources.

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 AND EXPENDITURES – 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, under current law, 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 moneys are expended consistently with statutory and public purposes. Two independently elected Executive Branch officials, the State Treasurer and the State Auditor, conduct the cash management and audit functions, respectively. Regarding periodic allotments, at the beginning of each fiscal year the Executive Office for Administration and Finance schedules the rate at which agencies will have access to funds included in their appropriation through a published periodic allotment calendar. This calendar is reviewed regularly, and depending on the fiscal climate, the Executive Office for Administration and Finance may choose to adjust the allotment schedule in order to tighten spending controls. In some cases agencies may request an ad hoc allotment in order to gain access to funds faster than the existing periodic allotment schedule would allow (*e.g.*, exceptional cases where unique payment concerns must be considered); such requests are carefully reviewed by the Executive Office for Administration and Finance before they are approved. 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

Capital expenditures are primarily financed with debt proceeds and federal grants. Authorization for capital investments requires approval by the Legislature, and the issuance of debt must be approved by a two-thirds vote of each house of the Legislature. Upon such approval to issue debt, the Governor submits a bill to the Legislature, as required by the state constitution, to set the terms and conditions of the borrowing for the authorized debt. The State Treasurer issues authorized debt at the request of the Governor, and the Governor, through the Secretary of Administration and Finance, controls the amount of capital expenditures through the allotment of funds pursuant to such authorizations.

Based on outstanding authorizations, the Executive Office for Administration and Finance, at the direction of the Governor and in conjunction with the cabinet and other officials, establishes a capital investment plan. The plan is an administrative guideline and subject to amendment at any time. The plan assigns authority for secretariats and agencies to spend on capital projects and is reviewed each fiscal year. The primary policy objectives of the plan are to determine and prioritize the Commonwealth's investment needs, to determine the affordable level of debt that may be issued and the other funding sources available to address these investment needs, and to allocate these limited capital investment resources among the highest priority projects. See "COMMONWEALTH CAPITAL 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. All agency capital spending is tracked against the capital investment plan on both a cash and encumbrance accounting basis on the state's accounting system, and federal reimbursements are 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 utilizes approximately 900 operating accounts to track cash collections and disbursements for the Commonwealth. The Division relies primarily upon electronic receipt and disbursement systems.

The State Treasurer, in conjunction with the Executive Office for Administration and Finance, 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 the last day of August, November, February and May. 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 "FISCAL 2013 AND FISCAL 2014 – Cash Flow." 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. The State Treasurer's office oversees the issuance of short-term debt to meet cash flow needs, including the issuance of commercial paper and revenue anticipation notes. See "LONG-TERM LIABILITIES – General Obligation Debt."

Under state finance law, the State Treasurer may invest Commonwealth funds in obligations of the United States Treasury, bonds or notes of various states and municipalities, corporate commercial paper meeting specified ratings criteria, bankers acceptances, certificates of deposit, repurchase agreements secured by United States Treasury obligations, money market funds meeting specified ratings criteria, securities eligible for purchase by a money market fund operated in accordance with Rule 2a-7 of the federal Securities and Exchange Commission or investment agreements meeting specified ratings criteria. Cash that is not needed for immediate funding needs is invested in the Massachusetts Municipal Depository Trust. The State Treasurer serves as trustee of the Trust and has sole authority pertaining to rules, regulations and operations of the Trust. The Trust has two investment options: a money market fund and a short-term bond fund. General operating cash is invested in the money market fund, which is administered in accordance with Rule 2a-7 of the Securities and Exchange Commission and additional policies and investment restrictions adopted by the State Treasurer. The three objectives for the money market fund are safety, liquidity and yield. The money market fund maintains a stable net asset value of one dollar and is marked to market daily. Moneys in the Stabilization Fund, which are not used by the Commonwealth for liquidity, are invested in both the money market fund and the short-term bond fund. The short-term bond fund invests in a diversified portfolio of high-quality investment-grade fixed-income assets that seeks to obtain the highest possible level of current income consistent with preservation of capital and liquidity. The portfolio is required to maintain an average credit rating of A-. The duration of the portfolio is managed to within +/- one half year duration of the benchmark. The benchmark for the short-term bond fund is the Barclays Capital 1-to-5-year Government/Credit Index, which includes all medium and larger issues of United States government, investment-grade corporate and investment-grade international dollar-denominated bonds.

Fiscal Control, Accounting and Reporting Practices of Comptroller

The Comptroller is responsible for oversight of fiscal management functions, establishment of 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 with the exception of the University of Massachusetts but not 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 has various modules for receivables, payables, fixed assets and other processes management.

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

The Comptroller is responsible for compiling expenditure requests into the certificates for approval by the Governor's Council. The Council approves an estimated warrant giving the Treasurer authority to issue payments up to the amount on the warrant, provided that those payments are otherwise determined by the Comptroller to comply with state finance law. In preparing these certificates, which become the warrant, the Comptroller's office has systems in place to ensure that the necessary moneys for payment have been both appropriated by the Legislature and allotted by the Governor in each account and 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. All unaccounted-for variances, losses, shortages or thefts of funds or property 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 certain programs, such as Medicaid, expenditures are recognized under the statutory basis of accounting only to the extent of disbursements supported by current-year appropriations. Some prior year services billed after the start of a fiscal year have been paid from the new fiscal year's appropriation, in an amount determined by the specific timing of billings and the amount of prior year funds that remained after June 30 to pay the prior year's accrued billings, though this practice may vary from year to year.

GAAP Basis of Accounting. The Comptroller also prepares Commonwealth financial statements on a GAAP basis. 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.

GAAP employs an economic resources management focus and a current financial resources management focus as two bases for accounting and reporting. Under the economic resources management focus (also called the "entity-wide perspective"), revenues and expenses (different from expenditures) are presented similarly to private-sector entities. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met. Capital assets, including infrastructure assets net of depreciation, and the long-term portion of all liabilities are reported on the statement of net assets.

Under the current financial resources management focus of GAAP (also called the "fund perspective"), the primary emphasis is to demonstrate inter-period equity. Revenues are reported in the period in which they become both measurable and available. Revenues are considered 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 include 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.

Major expenditure accruals are recorded for the cost of Medicaid claims that have been incurred but not paid, claims and judgments and workers' compensation claims incurred but not reported and contract assistance and amounts due to municipalities and state authorities. See Exhibit C - Comprehensive Annual Financial Report for the year ended June 30, 2012; Page 3 and Notes to the Basic Financial Statements.

Audit Practices of State Auditor

The State Auditor is mandated under state law to conduct an audit at least once every three years of the accounts of all departments, offices, commissions, institutions and activities of the Commonwealth. This audit encompasses hundreds of state entities, including the court system and independent authorities. The State Auditor also has the authority to audit federally aided programs and vendors and their subcontractors under contract with the Commonwealth as well as to conduct special audit projects. Further, the State Auditor upon a ratified majority vote by the board of selectmen or school committee, may, in the Auditor's discretion, audit the accounts, programs, activities and other public functions of a town, district, regional school district, city or county. The State Auditor conducts both compliance and performance audits in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States.

Within the State Auditor's office is the Division of Local Mandates, which evaluates 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 REVENUES AND EXPENDITURES – Local Aid; *Property Tax Limits*."

Also within the State Auditor's office is the Bureau of Special Investigations, which is charged with the responsibility of investigating fraud within public assistance programs.

COMMONWEALTH REVENUES AND EXPENDITURES

This section contains a description of the major categories of Commonwealth revenues and expenditures, beginning with a table presenting combined revenues and expenditures in the budgeted operating funds, followed by descriptions of categories of revenues and expenditures.

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 Commonwealth Transportation Fund (formerly the Highway Fund) and other operating budgeted 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 2013, on a statutory basis, approximately 58.6% of the Commonwealth's budgeted operating revenues and other financing sources were derived from state taxes. In addition, the federal government provided approximately 23.4% of such revenues, with the remaining 18.0% provided from departmental revenues and transfers from non-budgeted funds. The measurement of revenues for the budgeted operating funds on a statutory basis differs from governmental revenues on a GAAP basis. See "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 and Expenditures

The revenues and expenditures of the budgeted operating funds presented in the following table are derived from the Commonwealth's statutory basis financial statements for fiscal 2009 through 2013. Projections for fiscal 2014 have been prepared by the Executive Office for Administration and Finance. Except where otherwise indicated, they are based on the office's most recent estimate of tax revenue (as officially issued) and non-tax revenue, on enacted appropriations adjusted for projected reversions and on supplemental appropriations filed by the Governor that remain before the Legislature. The financial information presented includes all budgeted operating funds of the Commonwealth. See "COMMONWEALTH BUDGET AND FINANCIAL MANAGEMENT CONTROLS — Operating Fund Structure" for additional detail.

The following table sets forth the Commonwealth's revenues and expenditures for fiscal 2009 through fiscal 2013and projected revenues and expenditures for fiscal 2014.

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Budgeted Operating Funds – Statutory Basis (in millions)(1)

	Fiscal 2009	Fiscal 2010	Fiscal 2011	Fiscal 2012 (9)	Fiscal 2013	Projected Fiscal 2014 (2)
Beginning Fund Balances						
Reserved or Designated	$171.5	$68.9	$122.0	$400.1	$170.4	$297.0
Stabilization Fund	2,119.2	841.3	669.8	1,379.1	1,652.1	1,556.8
Undesignated	115.1	106.4	111.3	121.7	167.2	20.6
Total	**$2,405.8**	**$1,016.6**	**$903.1**	**$1,900.8**	**$1,989.7**	**$1,874.4**
Revenues and Other Sources						
Alcoholic Beverages	71.9	71.0	72.7	76.1	77.4	77.1
Banks	242.6	234.9	(11.0)	266.6	78.0	85.4
Cigarettes	456.8	456.2	453.6	451.0	440.1	541.9
Corporations	1,548.6	1,600.3	1,951.4	1,771.1	1,822.0	1,842.8
Deeds	105.5	137.9	140.2	158.8	188.9	198.6
Income	10,583.7	10,110.3	11,576.0	11,911.4	12,830.9	12,948.8
Inheritance and Estate	259.7	221.4	309.6	293.3	313.4	285.6
Insurance	356.7	330.0	340.3	363.6	373.1	441.4
Motor Fuel	654.0	654.6	660.8	661.9	651.4	747.0
Public Utilities	(1.7)	(0.3)	(8.8)	(35.9)	(11.5)	(11.5)
Room Occupancy	109.5	101.6	110.4	121.6	129.2	131.5
Sales:						
Regular	2,799.7	3,282.8	3,476.3	3,544.4	3,595.9	3,855.5
Meals	629.6	759.6	813.3	868.8	901.2	942.4
Motor Vehicles	439.3	569.3	615.2	646.1	666.9	696.5
Sub-Total–Sales	3,868.6	4,611.7	4,904.8	5,059.3	5,163.9	5,494.4
Miscellaneous	3.3	14.1	16.6	15.9	66.3	14.4
Total Tax Revenues	**$18,259.5**	**$18,543.7**	**$20,516.6**	**$21,114.7**	**$22,123.0**	**$22,797.3**
MBTA Transfer	(767.1)	(767.1)	(767.1)	(779.1)	(786.9)	(799.3)
MSBA Transfer	(702.3)	(605.2)	(654.6)	(670.5)	(682.0)	(728.3)
WTF Transfer(3)	-	-	-	(21.4)	(22.2)	(21.6)
Total Budgeted Operating Tax Revenues	**$16,790.0**	**$17,171.4**	**$19,094.9**	**$19,643.7**	**$20,631.9**	**$21,248.1**
Federal Reimbursements	8,250.9	8,548.8	9,299.5	7,971.7	8,228.4	8,555.4
Departmental and Other Revenues	2,326.2	2,800.9	2,912.3	3,175.0	3,370.5	3,673.4
Inter-fund Transfers from Non-budgeted Funds and other sources (4)	1,850.3	1,788.8	1,768.6	1,032.3	1,548.1	2,073.5
Budgeted Revenues and Other Sources	**$29,217.4**	**$30,310.0**	**$33,075.3**	**$32,546.5**	**$33,778.9**	**$35,550.4**
Inter-fund Transfers	1,963.8	770.8	3,460.9	1,032.3	1,456.6	899.9
Total Budgeted Revenues and Other Sources	**$31,181.2**	**$31,080.8**	**$36,536.3**	**$33,578.8**	**$35,235.5**	**$36,450.3**
Expenditures and Uses						
Direct Local Aid	4,723.6	4,837.4	4,784.7	4,929.5	5,115.7	5,292.2
Medicaid (5)	8,679.2	9,287.6	10,237.3	10,431.1	10,799.7	12,116.4
Other Health and Human Services	4,828.3	4,616.6	4,614.8	4,710.5	4,768.9	5,050.8
Group Insurance	973.1	1,063.8	1,130.3	1,206.2	1,278.5	1,349.6
Department of Elementary and Secondary Education	495.9	358.1	349.4	435.9	489.2	590.4
Higher Education	1,035.5	845.6	943.0	937.1	990.8	1,081.1
Department of Early Education and Care	560.3	513.5	515.1	494.3	483.4	500.3
Public Safety	1,514.3	1,423.2	905.0	929.7	960.0	1,518.2
Energy and Environmental Affairs	215.9	202.2	185.6	186.8	201.8	218.5
Debt Service	2,011.7	1,979.9	1,663.9	1,923.2	2,117.2	2,428.2
Post Employment Benefits (6)	1,314.4	1,748.6	1,838.9	1,892.3	1,967.0	2,050.4
Other Program Expenditures	2,350.9	2,509.0	2,850.4	2,898.7	3,006.7	2,371.1
Total - Programs and Services before transfers to Non-budgeted funds	**$28,703.1**	**$29,384.5**	**$30,018.6**	**$30,975.3**	**$32,178.7**	**$34,567.2**

	Fiscal 2009	Fiscal 2010	Fiscal 2011	Fiscal 2012 (9)	Fiscal 2013	Projected Fiscal 2014 (2)
Inter-fund Transfers to Non-budgeted Funds						
Commonwealth Care Trust Fund	987.6	631.7	739.0	614.9	661.2	340.1
State Retiree Benefit Trust Fund (7)	352.0	-	-	-	-	-
Medical Assistance Trust Fund	374.0	313.3	886.1	220.9	390.9	394.0
Massachusetts Transportation Trust Fund	-	-	195.1	180.1	161.7	315.1
Other	189.9	94.1	238.8	466.4	501.8	369.8
Total Inter-Fund Transfers to Non-Budgeted Funds	**$1,903.5**	**$1,039.1**	**$2,059.0**	**$1,482.3**	**$1,715.6**	**$1,419.0**
Budgeted Expenditures and Other Uses	**$30,606.6**	**$30,423.6**	**$32,077.6**	**$32,457.6**	**$33,894.3**	**$35,986.2**
Inter-fund Transfers	1,963.8	770.8	3,460.9	1,032.3	1,456.6	899.9
Total Budgeted Expenditures and Other Uses	**$32,570.4**	**$31,194.4**	**$35,538.5**	**$33,489.9**	**$35,350.9**	**$36,886.1**
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	**($1,389.2)**	**($113.6)**	**$997.8**	**$88.9**	**($115.4)**	**($435.8)**
Ending Fund Balances						
Reserved or Designated (8)	68.9	122.0	400.1	170.5	297.1	13.9
Stabilization Fund	841.3	669.8	1,379.1	1,652.1	1,556.7	1,378.9
Undesignated	106.4	111.3	121.7	167.1	20.6	17.4
Total	**$1,016.6**	**$903.1**	**$1,900.8**	**$1,989.7**	**$1,874.4**	**$1,410.2**

SOURCES: Fiscal 2009-2013, Office of the Comptroller; fiscal 2014, Executive Office for Administration and Finance.

(1) Totals may not add due to rounding.

(2) Based on the budgetary tax revenue estimate of $22.797 billion ($22.334 billion consensus estimate, adjusted for (a) budgeted revenue enhancements, the Amazon agreement and FAS109 delay based on the fiscal 2014 budget approved by the Governor on July 12, 2013, (b) approximately $370 million in tax revenues included in the transportation finance legislation enacted on July 24, 2013 and (c) estimated revenue loss impact of $24.3 million for the subsequently enacted (on August 2, 2013) two-day sales tax holiday held on August 10-11, 2013.

(3) The fiscal 2012 budget adopted changes to the Workforce Training Fund, which is funded annually through employer contributions for workforce training initiatives for incumbent workers in the private sector. Beginning in fiscal 2012 the WTF is not subject to annual appropriation, and the employer contributions are transferred directly to the WTF after their collection.

(4) Inter-fund Transfers from Non-budgeted Funds and Other Sources include profits from the State Lottery, transfer of tobacco settlement funds to allow their expenditure, abandoned property proceeds as well as other inter-fund transfers.

(5) Fiscal 2009 included program administration.

(6) Starting in fiscal 2010 Post Employment Benefits include budgeted pension transfers and State Retiree Benefit Trust Fund.

(7) Transfers of approximately $133.4 million in fiscal 2010 are included in “Other Program Expenditures” above.

(8) Consists largely of appropriations from previous years, authorized to be expended in current years.

(9) Some fiscal 2012 amounts have been reclassified to conform to the fiscal 2013 presentation in the Statutory Basis Financial Report.

State Taxes

The major components of state taxes are the income tax, which accounted for approximately 57.3% of the total tax revenues in fiscal 2013, the sales and use tax, which accounted for approximately 23.1%, and the corporations and other business and excise taxes (including taxes on insurance companies, financial institutions and public utility corporations), which accounted for approximately 10.1%. Other tax and excise sources accounted for the remaining 9.5% of total fiscal 2013 tax revenues.

Income Tax. The Commonwealth assesses personal income taxes at flat rates, according to classes of income, after specified deductions and exemptions. A rate of 5.3% has been applied to most types of income since January 1, 2002, although the rate was recently reduced to 5.25%, as described below. 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 rate on gains from the sale of capital assets owned more than one year is now 5.25% (effective January 1, 2012). Interest on obligations of the United States and of the Commonwealth and its political subdivisions is exempt from taxation.

Under current law, the state personal income tax rate on most classes of taxable income is scheduled to be gradually reduced to 5.0%, contingent upon "baseline" state tax revenue growth (*i.e*., revenue growth after factoring out the impact of tax law and administrative processing changes) growing by 2.5% more than the rate of inflation as measured by the consumer price index for all urban consumers in Boston. In the tax year following that in which the personal income tax rate is reduced to 5.0%, the charitable deduction, which was in effect for tax year 2000 but subsequently suspended, would be restored. Pursuant to this law, the state income tax rate on most classes of taxable income was reduced from 5.3% to 5.25%, effective January 1, 2012, because the growth in fiscal 2011 inflation-adjusted baseline revenues, as defined in the law, over fiscal 2010 exceeded 2.5%, and because, for each consecutive three-month period starting in August and ending in November, 2011, there was positive inflation-adjusted baseline revenue growth as compared to the same consecutive three-month period in calendar 2010. The Department of Revenue estimates that the revenue impact of this rate reduction (5.3% to 5.25%) for fiscal 2012 was between $52 million and $56 million. The revenue impact for fiscal 2013 was between $111 million and $117 million.

For the state income tax rate to be reduced further from 5.25% to 5.20%, effective January 1, 2013, the growth in fiscal 2012 inflation-adjusted baseline revenues, as defined in the law, over fiscal 2011 needed to exceed the 2.5% growth threshold, and for each consecutive three-month period starting in August and ending in November, 2012 there would have had to have been positive inflation-adjusted baseline revenue growth as compared to the same consecutive three-month period in 2011. The Department of Revenue initially determined that fiscal 2012 inflation-adjusted baseline revenues grew by 2.77% from fiscal 2011, exceeding the initial trigger of 2.5% for the income tax rate reduction. The first two three-month period certifications during the first half of fiscal 2013 also indicated positive inflation-adjusted baseline revenue growth. However, the growth for the third three-month period ended October 31, 2012 was negative (-1.29%) and did not exceed the statutory threshold requirement of 0%. Accordingly, the Department of Revenue determined that the thresholds to lowering the Part B income tax rate as set forth had not been met and that the Part B income tax rate would be kept unchanged at 5.25% for the tax year 2013.

The same process will be repeated during 2013 to determine whether the state income tax rate will be reduced further from 5.25% to 5.20%, effective January 1, 2014. In order for state income tax rate to be reduced further from 5.25% to 5.20% (effective January 1, 2014), the growth in fiscal 2013 inflation adjusted baseline revenues (as defined in state law) over fiscal 2012 would have to exceed 2.5%, and also for each consecutive three-month period starting in August and ending in November, 2013 there will have to be positive inflation-adjusted baseline revenue growth as compared to the same consecutive three-month period in calendar 2012. On September 4, 2013, the Commissioner of Revenue certified that fiscal 2013 inflation-adjusted baseline revenues grew by 3.99% from fiscal 2012, which exceeds the initial trigger (2.5%) for the income tax rate reduction. To determine if there will be a positive inflation-adjusted baseline revenue growth for each consecutive three-month period starting in August and ending in November, 2013 as compared to the same consecutive three-month period in calendar 2012, the Commissioner has so far issued two three-month period certifications, on September 16, 2013 and October 15, 2013, both of which indicated that there was positive inflation-adjusted baseline revenue growth during the first two three-month periods in fiscal 2013 (exceeding the 0% growth threshold). The Commissioner will issue two more three-month period certifications on November 15, 2013 and December 16, 2013. It will not be known until the time of the final certification whether the rate reduction will be triggered. The Department of Revenue estimates that the revenue impact of this rate reduction (5.25% to 5.20%) for fiscal 2014 would be between $60 million and $70 million (with a mid-point of $65 million). The revenue impact for fiscal 2015 (assuming no further rate reduction in calendar year 2015) would be between $125 million and $140 million (mid-point of $132.5 million).

Under state finance law, tax revenues collected from capital gains income during a fiscal year that exceed a specified threshold are required to be transferred to the Commonwealth's Stabilization Fund, with 5% of the amount so deposited then transferred to the State Retiree Benefits Trust Fund and an additional 5% transferred to the Commonwealth's Pension Liability Fund. A threshold of $1 billion was in effect for fiscal 2011, 2012 and 2013. For fiscal years after fiscal 2013, the threshold is subject to annual adjustment to reflect the average annual rate of growth in U. S. gross domestic product over the preceding five years. The adjusted threshold is certified annually by the Department of Revenue each December for the ensuing fiscal year. On December 28, 2012, the Department of Revenue determined the fiscal 2014 capital gains collections threshold to be approximately $1.023 billion. The Department of Revenue is also required, after each quarter, to certify the amount of tax revenues estimated to have been collected during the preceding quarter from capital gains income, and, once the threshold has been exceeded, the Comptroller is required to transfer the excess to the Commonwealth Stabilization Fund. For fiscal 2012, the final certified amount of tax revenues collected from capital gains income was $994.3 million, which was less than the statutory threshold. On June 25, 2013, the Commissioner of Revenue certified that for the period July 1, 2012 through May 30, 2013, fiscal 2013 capital gains tax revenues totaled approximately $1,305.2 million. Based on this certification, the Comptroller transferred $305.2 million to the Commonwealth Stabilization Fund and then made two transfers from the Stabilization Fund to the Commonwealth's Pension Liability Fund and the State Retiree Benefit Trust Fund of approximately $15.3 million each. On July 18, 2013, the Commissioner of Revenue certified the final amounts of capital gains tax revenues for fiscal 2013 to be $1.467 billion, an increase of approximately $162.3 million from the prior certification. This final certification triggered an additional transfer of approximately $146.1 million to the Commonwealth Stabilization Fund and transfers of $8.1 million each to the Commonwealth's Pension Liability Fund and the State Retiree Benefits Trust Fund.

Sales and Use Tax. Effective August 1, 2009, the sales tax rate imposed on retail sales of certain tangible property (including retail sales of meals) transacted in the Commonwealth and a corresponding use tax rate on the storage, use or other consumption of like tangible properties brought into the Commonwealth was raised from 5% to 6.25%. 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.

In August, 2009, when the sales tax rate increase was enacted, it was projected to produce an additional $759 million in fiscal 2010 and $900 million annually thereafter. Based on the most recently available data, reflecting both the economic recession and the recovery, the Department of Revenue currently estimates that the sales tax increase resulted in additional revenues of approximately $739 million in fiscal 2010, $918 million in fiscal 2011, $963 million in fiscal 2012 and $980 million in fiscal 2013.

As part of the same legislation that increased the sales tax rate, the sales tax exemption on alcohol sales was eliminated effective August 1, 2009. However, on November 2, 2010, an initiative passed by the voters reinstated this exemption and removed the sales tax on alcoholic beverages effective January 1, 2011. The Department of Revenue estimates that the Commonwealth's collections from eliminating the alcoholic beverages exemption were approximately $96.6 million in fiscal 2010 and approximately $81 million during the first seven months of fiscal 2011. The Department of Revenue estimates that the tax revenue loss resulting from the removal of the sales tax on alcoholic beverage was approximately $40 million to $52 million for fiscal 2011 and between $120 million and $130 million annually thereafter.

Sales tax receipts from establishments that first opened on or after July 1, 1997 and that are located near the site of the Boston Convention and Exhibition Center, sales tax receipts from retail vendors in hotels in Boston and Cambridge that first opened on or after July 1, 1997 and sales tax receipts from retail vendors located in the Springfield Civic and Convention Center or in hotels near the Springfield Civic and Convention Center that first opened on or after July 1, 2000 are required to be credited to the Convention Center Fund. As of enactment of the fiscal 2004 general appropriations act, 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*."

A portion of the Commonwealth's receipts from the sales tax (other than the tax on meals) is dedicated through trust funds to the Massachusetts Bay Transportation Authority (MBTA) and the Massachusetts School Building Authority (MSBA). The amount dedicated to the MBTA is the amount raised by a 1% sales tax (not including meals), with an inflation-adjusted floor. A comparable amount, though without the floor, is dedicated to the MSBA beginning in fiscal 2010, with lesser amounts dedicated to the MSBA from fiscal 2005 through fiscal 2009.

Beginning in fiscal 2011, a portion of the Commonwealth's receipts from the sales tax has been dedicated to the Commonwealth Transportation Fund. From fiscal 2011 through fiscal 2013, the amount dedicated was the amount raised by a portion of the sales tax equal to a 0.385% sales tax, with a floor of $275 million per fiscal year. Beginning in fiscal 2014, the amount dedicated to the Commonwealth Transportation Fund is the amount received on account of motor vehicle sales (net of amounts required to be credited to the Convention Center Fund or dedicated to the MBTA or MSBA).

Business Corporations Tax. Business corporations doing business in the Commonwealth, other than banks and other financial institutions, 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 8.00%, as of January 1, 2012. The minimum tax is $456. See discussion below under "Corporate Tax Reform*"* for a discussion of changes to the corporate tax structure and the business corporations' tax rates.

Corporate Tax Reform. On July 3, 2008, the Governor approved legislation that changed the corporate tax structure in Massachusetts from a "separate company" reporting state to a "combined reporting" state, effective January 1, 2009. Under a combined reporting structure, commonly owned business corporations (together with financial institutions, public utilities and certain other entities) engaged in a "unitary" business, whether or not they have nexus in Massachusetts, determine their income as one combined business in the aggregate. The combined income of the group is then apportioned to Massachusetts in accordance with the existing apportionment rules and taxed to those members of the group that have nexus in Massachusetts. Transactions between member companies are generally disregarded.

The legislation also repealed the differences between federal and Massachusetts business entity classification rules for tax purposes so that companies will be classified as the same type of legal entity for federal and Massachusetts tax purposes. The new law retained the existing structure for different types of corporations – business corporations, manufacturers, financial institutions, utilities and S corporations, with different tax rates and apportionment rules.

Together with these structural changes, the legislation reduced the then current 9.5% business corporations' tax rate to 8.75% as of January 1, 2010, 8.25% as of January 1, 2011 and 8.00% as of January 1, 2012 and thereafter.

Massachusetts tax law imposes an entity level tax on S corporations with more than $6 million in annual receipts. The corporate tax reform legislation also reduced the tax rate for S corporations with more than $9 million in annual receipts so that the regular, non-S corporation rate (for a business corporation or financial institution, as applicable) for the year minus the personal income tax rate for the year equals the rate for such S corporations. The tax rate for S corporations with between $6 million and $9 million in annual receipts will equal two-thirds of the rate applicable to the larger S corporations.

The Department of Revenue estimates that, prior to the so-called FAS 109 deduction (described in the following paragraph), the structural corporate tax law changes, combined with the gradual reductions in the business corporations tax rate, the large S corporations tax rates and the financial institutions tax rate (see *"Financial Institutions Tax"* below), increased revenues by approximately $185.2 million in fiscal 2009 (reflecting less than a full year's impact of the changes), $252.8 million in fiscal 2010 and $173.8 million in fiscal 2011, and will increase revenues by $128.5 million in fiscal 2012 and $107.7 million in fiscal 2013 and thereafter.

FAS 109 Deduction. The corporate tax reform described above included a new tax deduction designed to limit the impact of combined reporting in the Commonwealth on certain publicly traded corporations' financial statements. The deduction is generally referred to as the "FAS 109" deduction, in reference to the Statement of Financial Accounting Standards (FAS) No. 109, Accounting for Income Taxes. The Department of Revenue issued a report on "FAS 109" deductions on September 23, 2009, based on notices filed by the companies intending to claim FAS 109 deductions. The Department of Revenue used the aggregate amount of FAS 109 deductions intending to be claimed to calculate the aggregate potential tax benefit to such companies, and corresponding tax revenue reduction for the Commonwealth.

The Department of Revenue report indicated that the companies filing such notices stated that their FAS 109 deductions would total approximately $178.1 billion, which would result in corporate tax savings of $535 million at the applicable tax rates in the years in which the deductions will be claimed. Corporations are required to claim deductions over a seven-year period starting in tax year 2012. These deductions are expected to result in corporate tax savings (and corresponding Commonwealth corporate tax revenue reductions) of $76 million to $79 million annually for tax years 2012 through 2018, inclusive. See "FISCAL 2013 AND FISCAL 2014 – Fiscal 2013" for information on the delay of the implementation of the FAS 109 deduction for one year, which was enacted as part of the fiscal 2013 budget and fiscal 2014 budget.

In general, corporations apportion their income to Massachusetts based on the proportion of payroll, property and sales within the Commonwealth, with sales being double-weighted. However, beginning January 1, 1996, legislation was phased in over five years establishing a “single sales factor” apportionment formula for the business corporations tax for manufacturing companies. 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. Beginning January 1, 1997, legislation was phased in which sourced income of mutual fund service corporations to the states of domicile of the shareholders of the mutual funds that receive services instead of sourcing the sales to the state where the mutual fund provider bore the cost of performing services.

On September 4, 2013, the Attorney General certified an initiative petition that would provide corporate taxpayers with a tax credit for each newly hired employee, for the first five years of the employee’s employment. The amount of the tax credit would be equal to the employee’s wages, multiplied by the greater of the tax rate applicable to the taxpayer or 5%. The credit would be allowed only if the taxpayer has not previously employed the employee at any time, the employee is eligible for legal employment in Massachusetts, and the employee earns less than $100,000 annually. The proposed law would take effect on January 1, 2015.

Financial Institutions Tax. Financial institutions (which include commercial and savings banks) are subject to an excise tax. The corporate tax reform legislation discussed above also provides for a reduction in the financial institutions tax rate from 10.5% to 10% as of January 1, 2010, 9.5% as of January 1, 2011 and 9.0% as of January 1, 2012 and thereafter.

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 2.28% tax on gross premiums. Domestic companies also pay a 1% tax on gross investment income.

Public Utility Corporation Taxes. Public utility corporations are subject to an excise tax of 6.5% on net income.

Other Taxes. Other tax revenues are derived by the Commonwealth from excise taxes on motor fuels, cigarettes, alcoholic beverages and deeds, and hotel/motel room occupancy, among other tax sources. The state tax on hotel/motel room occupancy is 5.7%. Effective July 31, 2013, the excise tax on motor fuels was increased from 21¢ per gallon to 24¢ per gallon. The same legislation that increased the rate also provided that the excise tax is to be adjusted for increases in the consumer price index beginning January 1, 2015. On September 4, 2013, the Attorney General certified an initiative petition that would repeal the indexing provision. See “THE GOVERNMENT – Initiative Petitions.”

On July 1, 2008, the Governor approved legislation raising the tax on cigarettes from $1.51 per pack to $2.51 per pack. The Department of Revenue estimates that the $1.00 per pack cigarette tax increase resulted in a fiscal 2009 revenue increase of between $140 million and $150 million, and resulted in a fiscal 2010 revenue increase of $124 million, compared to revenue generated at the $1.51 per pack rate. The Department of Revenue estimates that revenue increases in subsequent years should also be between $115 million and $130 million annually. Effective July 31, 2013, the excise tax on cigarettes was further increased from $2.51 per pack to $3.51 per pack, along with increases in the cigar excise rate (from 30% to 40%), the smoking tobacco rate (from 30% to 40%) and the smokeless tobacco rate (from 90% to 210%).

ARRA “De-coupling.” The fiscal 2010 budget included several provisions “decoupling” Commonwealth tax law from certain federal tax law changes made by the American Recovery and Reinvestment Act of 2009 (ARRA) and, in one instance, from the impact of an interpretation by the federal Internal Revenue Service that was effectively repealed (but only prospectively) by ARRA. The purpose of the decoupling provisions is to prevent revenue losses to the Commonwealth. The federal provisions at issue are ones that affect the scope of income or deductions of businesses under the federal Internal Revenue Code (IRC) and, in the absence of decoupling, would also apply for purposes of Commonwealth taxation. The specific federal provisions from which the Commonwealth legislation decouples include: (a) deferral of the recognition of certain cancellation of indebtedness income under the IRC; (b) suspension of IRC rules that would otherwise disallow or defer deductions for original issue discount claimed by issuers of debt obligations; and (c) relief from certain limitations on the use of losses after changes of ownership of a business under (i) IRS Notice 2008-83 (for periods prior to its effective repeal by ARRA) and (ii) new IRC Section 382(n) as added by ARRA.

In addition, the Commonwealth legislation specifically adopts a new federal exclusion from gross income of certain individuals. ARRA provides a subsidy of 65% of the cost of the Consolidated Omnibus Budget Reconciliation Act (or "COBRA," which gives workers and their families who lose their health benefits the right to choose to continue group health benefits provided by their group health plan for limited periods of time under certain circumstances) continuation premiums for up to nine months for certain involuntarily terminated employees and for their families. This subsidy also applies to health care continuation coverage if required by states for small employers. ARRA provides for an exclusion from federal gross income of the COBRA subsidy. Because Commonwealth personal income tax law generally adopts IRC rules defining the scope of gross income as of January 1, 2005, it was necessary to adopt a specific Commonwealth exclusion to prevent this 2009 federal subsidy from being included in the Commonwealth taxable income of affected employees.

Tax Credits and Other Incentives. Massachusetts law provides for a variety of tax credits that may be applied against corporate excise or personal income taxes due, as applicable under relevant law. These credits are designed as benefits for specified economic activities as a means to encourage such business in the state. Certain of these credits, to the extent not used to reduce a current tax liability, may be carried forward, transferred or refunded, as specified in the applicable statute. In addition, certain statutory provisions may also provide an exemption from sales and use taxes for qualifying expenditures, or other specified tax benefits. The Governor annually files a "tax expenditure budget" that provides a list, description and revenue estimate of various tax credits and incentives.

In July, 2007, the Commonwealth revised its film tax credit to provide tax credits of 25% of certain production costs incurred by film production companies in Massachusetts that incurred at least $50,000 of film production costs in the state. Such production companies were also granted a sales and use tax exemption for goods purchased in the Commonwealth. A film production company may elect either to transfer all or part of its production credit to another taxpayer or to claim a refund of 90% of the amount that is not currently used. There is no cap on the amount of film tax credits that may be claimed. Under current law, the film tax credit will expire on January 1, 2023. Since the program's inception, approximately $326.5 million in tax credits have been approved or are currently in the process of being approved by the Department of Revenue (figures are preliminary). The Department of Revenue estimates that the tax credits reduced fiscal 2007 tax revenues by approximately $11.9 million, fiscal 2008 tax revenues by approximately $10.5 million, fiscal 2009 tax revenues by approximately $110.0 million, fiscal 2010 tax revenues by approximately $90.8 million, fiscal 2011 tax revenues by approximately $45.4 million, fiscal 2012 tax revenues by approximately $55.6 million and fiscal 2013 revenues by between $70 million and $90 million, and will reduce fiscal 2014 revenues by between $70 million and $90 million, not including any offsetting tax revenue from the film-related economic activity generated by the tax incentives. Virtually all of the reduction in tax payments resulting from credits that have been transferred or sold is reflected in the insurance, financial institutions, public utilities, and corporate tax categories. The Department of Revenue is required to prepare an annual report of the impact of the film tax credit.

Under legislation approved June 16, 2008 in support of the life sciences industry, up to $25 million per year in tax incentives is available to certified life sciences companies over a ten-year period, commencing January 1, 2009 for an aggregate amount of $250 million.

The Department of Revenue estimates that this program resulted in a revenue reduction of $5 million in fiscal 2010, a revenue reduction of $20 million in fiscal 2011 and a probable revenue reduction between $18 million and $22 million in fiscal 2012, and that it will result in a revenue reduction between $23 million and $27 million in fiscal 2013.

Tax Expenditure Commission. The fiscal 2012 budget established a study commission on tax expenditures which was chaired by the Secretary of Administration and Finance and included legislators and economists. The commission was charged with reviewing and evaluating the administration and fiscal impact of tax expenditures and making recommendations to the Legislature on the administrative efficiency and cost benefit of tax expenditures. Tax expenditures include credits, deductions and exemptions from the basic provisions of the state tax code. The commission filed its report on April 30, 2012. The report includes recommendations to reduce the number and cost of existing tax expenditures, based on identified criteria, to provide for periodic review of tax expenditures, including an automatic sunset of discretionary “grant-like” tax expenditures every five years, based on data-driven analysis and reports regarding effectiveness, and to establish clawbacks and other enforcement measures for grant-like tax expenditures to ensure that recipients meet commitments.

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 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 January 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. Beginning in fiscal 2005, state finance law has required that the consensus tax revenue forecasts be net of the amount necessary to fully fund the pension system according to the applicable funding schedule, which amount is to be transferred without further appropriation from the General Fund to the Commonwealth’s Pension Liability Fund. See “Employee Benefits; *Pension*” below.

An additional component of the consensus revenue process is the new requirement, beginning in January, 2013, that the consensus tax revenue forecast joint resolution must include a benchmark for the estimated growth rate of Massachusetts potential gross state product, or PGSP. The recently passed health care cost control legislation requires that the Secretary and the House and Senate Committees on Ways and Means include a PGSP growth benchmark for the ensuing calendar year, initially, for calendar year 2014. The PGSP growth benchmark is to be used by the health policy commission to establish the Commonwealth’s health care cost growth benchmark. See “Medicaid and the Commonwealth Care Trust Fund; *Health Care Cost Control Legislation*” below.

The following table compares actual budgeted tax revenues to consensus tax revenue forecasts for fiscal 2009 to 2014. Figures for fiscal 2014 are projected. The figures include sales tax receipts dedicated to the Massachusetts Bay Transportation Authority and the Massachusetts School Building Authority and amounts transferred to the state pension system.

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Tax Revenue Forecasting (in millions)

	Fiscal 2009	Fiscal 2010	Fiscal 2011	Fiscal 2012	Fiscal 2013	Projected Fiscal 2014
Consensus forecast	$20,987	$17,989	$19,050	$20,525	$21,950	$22,334
Total taxes per enacted budget	$21,402	$18,879	$19,078	$20,615	$22,011	$22,797
October revision	20,302	18,279	-	21,010	21,496 (1)	- (2)
January revision	19,450	18,460	19,784	-	-	-
April revision	19,333	-	-	-	-	-
May revision	18,436	-	-	-	-	-
Actual budgeted operating tax revenues	$18,260	$18,544	$20,517	$21,115	$22,123	N/A
Actual revenues as a percentage of consensus forecast	87%	103%	108%	103%	101%	N/A
Actual revenues as a percentage of total taxes per enacted budget	85%	98%	108%	102%	101%	N/A

SOURCE: Executive Office for Administration and Finance; actual budgeted operating tax revenues, Office of the Comptroller
(1) Revised on December 4, 2012.
(2) The fiscal 2014 budget estimate of $22.797 billion was kept unchanged on October 15, 2013 by the Secretary of Administration and Finance.

On December 11, 2012, the Secretary of Administration and Finance and the House and Senate Ways and Means Committees conducted a hearing on state tax revenue estimates for fiscal 2014. The Commissioner of Revenue provided a forecast that fiscal 2014 tax revenue collections will be $22.150 billion to $22.467 billion, reflecting actual growth of 3.2% to 4.5% from the projected fiscal 2013 revenues, and baseline growth of 3.5% to 4.9% from fiscal 2013, which represents growth of $688 million to $977 million over projected fiscal 2013 revenues.

The Secretary of Administration and Finance and the Committees on Ways and Means also heard public testimony from economists and state budget experts from Northeastern University, the Massachusetts Taxpayers Foundation and the Beacon Hill Institute, who provided a range of forecasts for fiscal 2013 tax revenue collections, from $21.113 billion to $21.585 billion.

On January 14, 2013, a fiscal 2014 consensus tax revenue estimate of $22.334 billion was agreed upon by the Secretary of Administration and Finance and the chairs of the House and Senate Committees on Ways and Means. The fiscal 2014 consensus tax revenue estimate represents revenue growth of 3.9% actual from the revised fiscal 2013 estimate of $21.496 billion. The $22.334 billion figure includes off-budget transfers of $1.630 billion for pension funding, $799.3 million in dedicated sales tax receipts for the MBTA (as certified by the Comptroller on March 1, 2013), $703.6 million in dedicated sales tax receipts for the MSBA and $21.6 million for the Workforce Training Fund. The total amount of off-budget transfers is $3.155 billion. Accordingly, after taking into account the $37 million of capital gains tax revenue that exceeds the fiscal 2014 threshold and that must be deposited into the Stabilization Fund, the Secretary and Committees agreed that $19.142 billion would be the maximum amount of tax revenue available for the fiscal 2014 budget and that they would base their respective budget recommendations on that number.

The Secretary of Administration and Finance and the chairs of the House and Senate Committees on Ways and Means also agreed upon a potential gross state product (PGSP) estimate of 3.6% for calendar year 2014. The estimate of PGSP was developed through consultation with the Health Policy Commission, the Executive Office for Administration and Finance, the Department of Revenue, the House and Senate Ways and Means Committees and outside economists. The PGSP growth benchmark is to be used by the Health Policy Commission to establish the Commonwealth's health care cost growth benchmark.

Fiscal 2013 and Fiscal 2014 Tax Revenues

Fiscal 2013. On January 12, 2012, a fiscal 2013 consensus tax revenue estimate of $21.950 billion was agreed upon by the Secretary of Administration and Finance and the chairs of the House and Senate Committees on Ways and Means. The fiscal 2013 consensus tax revenue estimate of $21.950 billion represents revenue growth of 4.5% actual and 5.4% baseline from the revised fiscal 2012 estimate of $21.010 billion. The revenue estimate in the fiscal 2013 budget is $22.011 billion and reflects the consensus estimate of $21.950 billion adjusted for the impact of fiscal 2013 revenue initiatives enacted as part of the budget, including a one-year delay of the FAS 109 deductions (increase of $45.9 million), enhanced tax enforcement initiatives (increase of $36.3 million) and the revenue loss impact of $21.6 million for the subsequently enacted two-day sales tax holiday on August 11-12, 2012 (the final estimate was determined to be $23.4 million, which was certified by the Commissioner of Revenue on December 31, 2012). On October 15, 2012, the Secretary of Administration and Finance kept the fiscal 2012 tax revenue estimate of $22.011 billion unchanged based on available data on tax revenue collections and economic trends. On December 4, 2012, the Secretary reduced the tax revenue estimate for fiscal 2013 by $515 million, to $21.496 billion.

Tax revenues for fiscal 2013, ended June 30, 2013, totaled approximately $22.123 billion, an increase of approximately $1.009 billion, or 4.8%, compared to fiscal 2012. The following table shows the tax collections for fiscal 2013 and the change from tax collections in the prior year, both in dollars and as a percentage. The table also notes the amount of tax collections during the fiscal year that are dedicated to the MBTA and the MSBA.

Fiscal 2013 Tax Collections (in millions)

Month	Tax Collections	Change from Prior Year	Percentage Change	MBTA Portion(2)	MSBA Portion	Tax Collections: Net of MBTA and MSBA
July	$1,453.4	$8.8	0.6%	$60.5	$60.5	$1,332.4
August	1,422.6	(2.7)	(0.2)	56.2	56.2	1,310.1
September	2,204.8	9.0	0.4	80.0	53.3	2,071.6
October	1,401.4	(47.4)	(3.3)	57.7	57.7	1,286.1
November	1,420.8	57.5	4.2	54.0	54.0	1,312.7
December	2,147.8	180.5	9.2	85.0	55.1	2,007.7
January	2,287.0	248.4	12.2	67.6	67.6	2,151.9
February	1,057.0	45.9	4.5	51.3	51.3	954.3
March	1,884.1	82.0	4.5	77.8	49.3	1,756.9
April	2,865.6	358.1	14.3	59.4	59.4	2,746.9
May	1,514.5	(102.3)	(6.3)	58.0	58.0	1,398.6
June	2,464.1	170.6	7.4	79.4	59.8	2,325.1
Total (1)	**$22,123.0**	**$1,008.3**	**4.8%**	**$786.9**	**$682.0**	**$20,654.1**

SOURCE: Executive Office for Administration and Finance.
(1) Totals may not add due to rounding.
(2) The figure for September includes a quarterly adjustment of $26.7 million, the figure for December includes a quarterly adjustment of $30.0 million, the figure for March includes a quarterly adjustment of $28.5 million, and the figure for June includes a quarterly adjustment of $19.6 million to cover the shortfall between the dedicated sales tax revenue and the base revenue amount statutorily required to be credited to the MBTA during the first, the second, the third, and the fourth quarters of fiscal 2013, respectively.

The tax revenue increase from fiscal 2012 to fiscal 2013 of approximately $1.009 billion is attributable, in large part, to an increase of approximately $403.1 million, or 23.6%, in income tax payments with returns and extensions, an increase of approximately $273.2 million, or 14.9%, in income cash estimated payments, an increase of approximately $248.3 million, or 2.5%, in withholding collections, and an increase of approximately $104.5 million, or 2.1%, in sales and use tax collections, which were partly offset by a decline of approximately $58.3 million, or 2.5%, in corporate and business collections. Fiscal 2013 tax collections were approximately $627.2 million above the revised benchmark for the fiscal 2013 tax revenue estimate of $21.496 billion.

Fiscal 2014. On January 12, 2013, as noted above, a fiscal 2014 consensus tax revenue estimate of $22.334 billion was agreed upon by the Secretary of Administration and Finance and the chairs of the House and Senate Committees on Ways and Means. The fiscal 2014 budget assumes tax revenues of $22.797 billion, reflecting the fiscal 2014 consensus tax estimate of $22.334 billion, adjusted for the impact of revenue initiatives enacted as part of the budget, most notably a one-year delay of the FAS 109 deductions (additional $45.9 million) and enhanced tax enforcement initiatives (additional $35 million), and Amazon agreement (additional $36.7 million), as well as approximately $370.0 million in tax revenues included in the transportation finance legislation enacted on July 24, 2013. The tax estimate also reflects the estimated cost of the subsequently enacted two-day sales tax holiday held on August 10-11, 2013 ($24.3 million). The enacting legislation for the sales tax holiday requires that proceeds of one-time settlements and judgments that otherwise would be transferred to the Commonwealth Stabilization Fund, be used to reimburse the General Fund for foregone tax revenue as a result of the holiday. Approximately $1.060 billion of the $22.797 billion tax estimate is assumed to be generated from taxes on capital gains.

Approximately $37 million of that amount will be deposited into the Stabilization Fund and will not be available for budgetary purposes pursuant to the certification released by the Department of Revenue on December 28, 2012, that established a fiscal 2014 capital gains threshold of $1.023 billion. On October 15, 2013, the Secretary of Administration & Finance, kept the GAA estimate of $22.797 billion unchanged.

Preliminary tax revenues for the first four months of fiscal 2014, ended October 31, 2013, totaled approximately $3.128 billion, an increase of approximately $252.2 million, or 8.8%, over the same period in fiscal 2013. The following table shows the tax collections for the first four months of fiscal 2014 and the change from tax collections in the same period in the prior year, both in dollars and as a percentage. The table also notes the amount of tax collections during the same four-month period that are dedicated to the MBTA and the MSBA.

Fiscal 2014 Tax Collections (in millions)(1)

Month	Tax Collections	Change from Prior Year	Percentage Change	MBTA Portion (3)	MSBA Portion	Tax Collections: Net of MBTA and MSBA
July	$1,584.9	$131.4	9.0%	$64.2	$64.2	$1,456.4
August	1,544.3	121.7	8.6	60.3	60.3	1,423.8
September	2,414.4	209.6	9.5	75.3	56.8	2,282.4
October (2)	1,554.8	153.4	10.9	61.5	61.5	1,431.9
Total (2)	**$7,098.4**	**$616.2**	**9.5%**	**$261.3**	**$242.7**	**$6,594.4**

SOURCE: Executive Office for Administration and Finance.
(1) Figures are preliminary.
(2) Totals may not add due to rounding.
(3) Includes adjustments of $18.6 million on the account of the first quarter related to the inflation-adjusted floor applicable to tax receipts dedicated to the MBTA.

The year-to-date tax revenue increase of approximately $616.2 million through October 31, 2013 from the same period in fiscal 2013 is attributable, in large part, to an increase of approximately $156.8 million, or 5.1%, in withholding collections, an increase of approximately $86.6 million, or 48.1%, in income payments with returns and bills, an increase of approximately $59.7 million, or 11.7%, in income cash estimated payments, an increase of approximately $109.3 million, or 6.2%, in sales and use tax collections, an increase of approximately $131.4 million, or 26%, in corporate and business collections, and an increase of approximately $107.4 million, or 18%, in several other tax categories (i.e., estate tax, motor fuels tax, cigarette tax), which were partly offset by an increase in income cash refunds of approximately $30.5 million, 20.6%. Year-to-date fiscal 2014 tax collections (through October) were approximately $273 million above the benchmarks associated with the fiscal 2014 tax revenue estimate of $22.797 billion.

Federal and Other Non-Tax Revenues

Federal revenues are collected through reimbursements for the federal share of entitlement programs such as Medicaid and through block grants for programs such as Transitional Assistance to Needy Families (TANF). The amount of federal reimbursements 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. Federal reimbursements for fiscal 2013 were approximately $8.22 billion and are projected to be $8.555 billion for fiscal 2014.

Departmental and other non-tax revenues are derived from licenses, tuition, fees and reimbursements and assessments for services. For fiscal 2013, departmental and other non-tax revenues were $3.370 billion. The largest budgeted departmental revenues, assessments and miscellaneous revenues in fiscal 2013 included $487.8 million for Registry of Motor Vehicles fees, fines and assessments, $255.1 million from filing, registration and other fees paid to the Secretary of State's office, $102.6 million in fees, fines and assessments charged by the court systems and $600.6 million in reimbursements from cities, towns and non-state entities for retiree benefits. Fiscal 2014 departmental and other non-tax revenues are projected to be $3.673 billion.

Lottery Revenues. For the budgeted operating funds, inter-fund transfers include transfers of profits from the State Lottery Fund and the Arts Lottery Fund and reimbursements for the budgeted costs of the State Lottery Commission, which accounted for transfers from the Lottery of $1.003 billion, $989.7 million, $976.5 million, $1.075 billion and $1.050 billion in fiscal 2009 through 2013, respectively. Under state law, the net balance in the State Lottery Fund, as determined by the Comptroller on each September 30, December 31, March 31 and June 30, is to be used to provide local aid.

As enacted, the fiscal 2014 budget is supported by total transfers from the Lottery of $1.036 billion to fund various commitments appropriated by the Legislature from the State Lottery Fund and the Arts Lottery Fund, including Lottery administrative expenses, and $848.7 million of appropriations for local aid to cities and towns, with the balance, if any to be transferred to the General Fund for the general activities of the Commonwealth.

A five-year history of Lottery revenues and profits is shown in the following table as well as current projections for fiscal 2014.

Lottery Revenues and Profits
(amounts in thousands)

Fiscal Year	Revenues	Net Operating Revenues	Net Profits
2014 (1)	$4,713,428	$1,035,870	$937,260
2013	4,850,482	1,050,128	955,801
2012	4,741,417	1,074,927	983,786
2011	4,427,961	976,547	887,913
2010	4,423,732	989,727	903,486
2009	4,442,924	959,007	859,407

Source: State Lottery Commission
(1) Fiscal 2014 figures are projected.

Tobacco Settlement. In November, 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%, which equals more than $8.962 billion through fiscal 2024, subject to adjustments, reductions and offsets. However, in pending litigation tobacco manufacturers are claiming that because of certain developments they are entitled to reduce future payments under the master settlement agreement, and certain manufacturers withheld payments to the states due in April, 2006, April, 2007, April, 2008, April, 2009, April, 2010 and April, 2011. The Commonwealth believes it is due the full amount and is pursuing its claim to unreduced payments. See "LEGAL MATTERS – Other Revenues." 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.

Tobacco settlement payments were initially deposited in a permanent trust fund (the Health Care Security Trust), with only a portion of the moneys made available for appropriation. Beginning in fiscal 2003, however, the Commonwealth has appropriated the full amount of tobacco settlement receipts in each year's budget. The balance accumulated in the Health Care Security Trust amounted to $509.7 million at the end of fiscal 2007. The fiscal 2008 budget established the State Retiree Benefits Trust Fund for the purposes of depositing, investing and disbursing amounts set aside solely to meet liabilities of the state employees' retirement system for health care and other non-pension benefits for retired members of the system. In fiscal 2008 the Health Care Security Trust's balance was transferred to the State Retiree Benefits Trust Fund. The fiscal 2010, 2011 and 2012 budgets transferred all payments received by the Commonwealth in fiscal 2010, 2011 and 2012 pursuant to the master settlement agreement from the Health Care Security Trust to the General Fund. The fiscal 2012 budget included a requirement that, beginning in fiscal 2013, 10% of the annual tobacco payments were to be transferred to the State Retiree Benefits Trust Fund. Pursuant to this requirement, in May, 2013 the Comptroller transferred $25.3 million (10% of the $253.5 million in fiscal 2013 tobacco settlement proceeds) to the State Retiree Benefits Trust Fund, with the balance deposited in the General Fund. Pursuant to the fiscal 2012 legislation, the amount deposited to the State Retiree Benefits Trust Fund is to increase by 10% increments annually thereafter until 100% of all payments are transferred to that Fund. While the fiscal 2012 legislation required that 20% of fiscal 2014 tobacco settlement proceeds be transferred to the State Retiree Benefits Trust Fund, the fiscal 2014 budget, as approved by the Governor on July 12, 2013, includes provisions that change the funding source for this transfer, for fiscal 2014 only. Those provisions direct that all tobacco settlement proceeds be deposited in the General Fund, but that unspent debt service appropriations be transferred to the State Retiree Benefits Trust Fund, up to 20% of the value of fiscal 2014 tobacco settlement proceeds. In the event that unspent debt service appropriations are less than 20% of tobacco settlement proceeds, the provisions require that the difference between unspent debt service appropriations and 20% of tobacco settlement proceeds be transferred from tobacco settlement proceeds to the State Retiree Benefits Trust Fund. It is projected that approximately $50 million (equal to 20% of tobacco settlement proceeds) will be transferred to the State Retiree Benefits Trust Fund in fiscal 2014 as a result of these provisions. See "PENSION AND OPEB FUNDING – Other Post-Retirement Benefit Obligations (OPEB)."

The following table sets forth the tobacco settlement amounts received by the Commonwealth to date. Since fiscal 2006 certain amounts have been withheld from each year's payments by tobacco manufacturers in relation to ongoing disputes of payment calculations. Those withheld amounts have ranged from $21 million to $35 million and are not included in the table below. The Commonwealth continues to pursue these disputed payments. See "LEGAL MATTERS – Other Revenues."

Payments Received Pursuant to the Tobacco Master Settlement Agreement (in millions) (1)

Fiscal Year	Initial Payments	Annual Payments	Total Payments
2000	$186.6 (2)	$139.6	$326.2(2)
2001	78.2	164.2	242.5
2002	82.8	221.7	304.5
2003	86.4	213.6	300.0
2004	-	253.6	253.6
2005	-	257.4	257.4
2006	-	236.3	236.3
2007	-	245.4	245.4
2008	-	288.5	288.5
2009	-	315.2	315.2
2010	-	263.7	263.7
2011	-	248.7	248.7
2012	-	253.6	253.6
2013	-	253.5	253.5
Total	**$434.00**	**$3,355.0**	**$3,789.1**

SOURCE: Office of the Comptroller.
(1) Amounts are approximate. Totals may not add due to rounding.
(2) Payments received for both 1999 and 2000.

Settlements and Judgments. The fiscal 2012 budget amended state finance law to provide that any one-time settlement or judgment amounting to $10 million or more is to be deposited in the Stabilization Fund rather than used as miscellaneous revenue for the current fiscal year. Upon receiving a joint certification from the Commissioner of Revenue and the Attorney General that a state agency is in receipt of a one-time settlement or judgment for the Commonwealth in excess of $10 million in any one fiscal year, the Comptroller is to transfer the proceeds of the settlement or judgment from the General Fund to the Stabilization Fund. Such transfers are made on a bi-monthly basis. In fiscal 2012, the Comptroller transferred $375.0 million received on account of settlements and judgments. Such settlement and judgment payments totaled $133.8 million during fiscal 2013. In the final supplemental appropriations act for fiscal 2013, the Legislature directed that $101 million of that amount be directed to specified purposes – the Smart Growth Housing Trust Fund ($4 million), to reimburse the General Fund for the costs related to the investigation and response to the breach at the Hinton Drug Testing Laboratory ($30 million), to replace revenue foregone during the August, 2012 sales tax holiday ($21 million) and to fund various end-of-year allocations and programs ($46 million) – rather than be deposited in the Stabilization Fund. There have been $178.1 million settlement or judgment payments during the first four months of fiscal 2014.

Gaming. On November 22, 2011 the Governor approved legislation that authorize the licensing of up to three regional resort casinos (one per region) and one slot facility (up to 1,250 slots) in the Commonwealth. The legislation established an appointed, independent state gaming commission to oversee the implementation of the law and the regulation of the resultant gaming facilities. Licensing fees collected by the commission are to be applied to a variety of one-time state and local purposes, and gaming revenues received by the Commonwealth are to be applied to a variety of ongoing expenses, including local aid and education, with stipulated percentages also to be deposited in the Stabilization Fund and applied to debt reduction. The legislation stipulates that initial licensing fees, which are to be set by the gaming commission, must be at least $85 million per casino (a "Category 1" license) and $25 million for the slot facility (a "Category 2" license).

Under the current published calendar of the Massachusetts Gaming Commission two Category 1 licenses and one Category 2 license are estimated to be awarded by June 30, 2014, generating $195 million in gaming licensing revenue that would be available to support state programs and services in fiscal 2014. However, the first $20 million of any gaming licensing revenue must be used to repay the Stabilization Fund for the "start-up costs" for the Commission. This leaves $175 million in licensing revenues to be distributed via the prescribed allocation under the gaming legislation. Approximately $83 million of that amount would be available for state budgetary purposes and is assumed in the fiscal 2014 budget. The remaining amount would be dedicated to off-budget trust funds and would not be subject to appropriation.

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."

The following table sets forth the Commonwealth's net state tax revenues and allowable state tax revenues, as defined in Chapter 62F, for fiscal 2009 through fiscal year 2013.

	Net State Tax Revenues	Allowable State Tax Revenues	Net State Tax Revenues (under) Allowable State Tax Revenues
2013	$22,397,185,748.50	$26,074,941,365.46	$(3,677,755,616.96)
2012	21,384,338,827.60	25,236,379,380.49	(3,852,040,552.89)
2011	20,776,233,462.11	25,063,267,392.61	(4,287,033,930.50)
2010	18,792,776,938.03	24,948,702,948.67	(6,155,926,010.64)
2009	18,513,036,393.40	24,591,415,515.00	(6,078,379,121.60)

SOURCES: State Auditor's Office.

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. See “Property Tax Limits” below. 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. The Commonwealth’s budget for fiscal 2014 provides $5.22 billion of state-funded local aid to municipalities.

As a result of comprehensive education reform legislation enacted in June, 1993, a large portion of general revenue sharing funds is earmarked for public education and is distributed through a formula specified in Chapter 70 of the General Laws 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. Since fiscal 1994, the Commonwealth has fully funded the requirements imposed by this legislation in each of its annual budgets. Beginning in fiscal 2007, the Legislature implemented a new model for the Chapter 70 program which was adjusted to resolve aspects of the formulas that were perceived to be creating inequities in the aid distribution. The fiscal 2014 budget includes state funding for Chapter 70 education aid of $4.30 billion. This level of funding for Chapter 70 brings all school districts to the foundation level called for by 1993 education reform legislation, ensures that all local educational authorities receive an increase of funding of at least $25 per pupil, and is an increase of $130 million over the fiscal 2013 state-supported amount of $4.17 billion.

The fiscal 2010 budget eliminated lottery local aid and additional assistance and created a new local aid funding source called unrestricted general government aid. This account is now the other major component of direct local aid, providing unrestricted funds for municipal use. The fiscal 2014 budget provided for cities and towns to receive $920 million in unrestricted general government aid, with funding allocated to ensure a 2% increase in funding over the fiscal year 2013 levels to all municipalities.

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 or (ii) 2.5% over the previous year’s levy limit plus any growth in the tax base from certain new construction and parcel subdivisions. The law contains certain voter 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. Between fiscal 1981 and fiscal 2013, the aggregate property tax levy grew from $3.347 billion to $13.4 billion, a compound annual growth rate of 4.25%.

Medicaid and the Health Connector

MassHealth. The Commonwealth’s Medicaid program, called MassHealth, provides health care to 1.4 million low-income children and families, certain low-income adults, disabled individuals and low-income elders. The program, administered by the Office of Medicaid within the Executive Office of Health and Human Services, generally receives 50% in federal reimbursement on most expenditures. Starting from fiscal 1999, payments for some children’s benefits became 65% federally reimbursable under the Children’s Health Insurance Program (CHIP).

The fiscal 2014 budget includes appropriations of $12.097 billion for the MassHealth program; this is approximately 12.0%, or $1.3 billion, higher than fiscal 2013 spending of $10.799 billion. Additionally, approximately $16 million in spending shifted from fiscal 2013 to fiscal 2014 in the final fiscal 2013 supplemental budget that was enacted in October, 2013. MassHealth was able to make certain June, 2013 payments that were previously scheduled to occur in fiscal 2014 as part of an annual cash management strategy. Making the payments in

June instead of July alleviated some of the anticipated budget pressures at MassHealth in fiscal 2014. The fiscal 2014 budget assumes base caseload growth of 2.8% over fiscal 2013.

The growth in MassHealth's fiscal 2014 budget is largely driven by the expansion of the eligible population due to the federal Affordable Care Act (ACA) beginning January 1, 2014. Under the ACA, all Massachusetts residents below 133% of the federal poverty level (FPL) will become eligible MassHealth if they are citizens or qualified aliens, and most will be enrolled in a new program called MassHealth CarePlus. The projected incremental cost of the ACA expansion population in the second half of fiscal 2014 is estimated to be $458 million, with projected revenues of $485 million. Projected revenues are higher than projected spending because some current members, as well as newly eligible members, are expected to be 75% to 100% federally reimbursable under ACA. The Commonwealth's estimates suggest that 325,000 residents will become eligible for the new MassHealth program, including 137,000 MassHealth members currently covered under other programs such as the Basic, Essential, and Insurance Partnership programs. The majority of the remaining 189,000 new members will transition from other state-subsidized health insurance programs including Commonwealth Care (106,000 members), the Health Safety Net (HSN) (36,000 members), and the Medical Security Program (MSP) (2,000 members), while the other 45,000 are new to state-subsidized health insurance. In addition to ACA implementation, the growth in the MassHealth budget is driven by enrollment increases for currently eligible individuals and a variety of investments in base hospital rates, payments to specialty hospitals, rates for managed care organizations (MCOs), partial restoration of dental benefits for adults, and operational capacity. The budget also supports several policies that aim to streamline current programs to promote alignment, access and administrative simplification in a post-ACA coverage environment at minimal cost to the Commonwealth.

The fiscal 2014 budget supports hospital investments of $100.9 million ($50.5 million net) at MassHealth, comprised of $80.9 million ($40.5 million net) in budgetary resources and a transfer of $20 million from the Health Care Payment Reform Trust Fund, which is funded through gaming revenues. These investments include $47.1 million ($23.6 million net) for base hospital rate increases and increases tied to participation in alternative payment methodologies (APMs), $26 million ($13 million net) to increase inpatient and outpatient payment rates for Disproportionate Share Hospitals, and $27.8 million ($13.9 million net) to increase infrastructure capacity building grants for hospitals and community health centers and payments to specialty hospitals. The fiscal 2014 budget includes additional $11.2 million ($5.6 million net) to provide coverage for fillings on all teeth for adults at MassHealth whose benefits were restructured in 2010, beginning in early 2014. Additionally, a transfer of $6.2 million from the Health Care Payment Reform Trust Fund will support increased rates for behavioral health services.

The Executive Office of Health and Human Services is coordinating a statewide effort to implement the federal health reform law and to actively pursue federal health reform grants and demonstration project opportunities to transform how health care is delivered, to expand access to health care and to support healthcare workforce training. To date, the Commonwealth has been awarded more than $385 million in federal grant funds under the Affordable Care Act. Projects include transforming the Health Connector into an ACA-compliant, state-based health insurance exchange, developing and implementing a state-based risk adjustment program to achieve premium stabilization for the Massachusetts small and non-group market, executing a comprehensive outreach and education plan to inform stakeholders of the changes brought on by the ACA, planning for coverage for populations eligible for subsidized coverage through the exchange, working to improve the quality of care in Medicaid, developing an integrated care Dual Demonstration to improve health outcomes for individuals with both Medicare and Medicaid, enhancing the availability of community-based long-term care services and supports that help elders and persons with disabilities of all ages remain in their own homes and continuing work to design and implement a single integrated eligibility system for all individuals to determine their eligibility, in real time, for state and federal subsidies when applying for health insurance coverage. Also, Massachusetts was awarded $44 million in federal funding to support the multi-payer transition away from fee-for-service payments towards alternative payment methodologies to promote better healthcare and better value for Massachusetts residents.

In order to implement the ACA, the Commonwealth identified sections of state law that needed to be amended. These amendments included designation of the Health Connector as the state's certified Exchange; designation of the Health Connector to administer the state's risk adjustment program; designation of the Division of Insurance as the agency to administer the state's reinsurance program; authorization for the Health Connector to offer child-only plans, catastrophic plans and stand-alone dental and vision plans; authorization for the Health

Connector to wrap federal premium and cost-sharing subsidies to keep coverage affordable for low-income individuals; a transition plan for the state's open enrollment program for the non-group market; realignment of state subsidized health insurance programs; and revisions to the state's small and non-group health insurance market laws. Supplementing prior ACA implementation legislation enacted in 2012 and 2013, on July 5, 2013, the Governor signed legislation that aligns the Commonwealth's small and non-group insurance laws with ACA rules, refines MassHealth and Health Connector eligibility statutes in light of the federal law and allows for data sharing to facilitate implementation of the new integrated eligibility system. In addition, the Commonwealth has proposed amendments to over 30 chapters of MassHealth and Health Safety Net regulations to conform with changes to federal and state law under the ACA. The proposed regulations were posted for public comment on October 13, 2013, and comments will be accepted until November 5, 2013. The Commonwealth will then incorporate input from the public and promulgate final amended regulations, which will be effective January 1, 2014.

Medicaid Expenditures and Enrollment (in millions)

	Fiscal 2009	Fiscal 2010 (1)	Fiscal 2011	Fiscal 2012	Fiscal 2013	Fiscal 2014 (2)
Budgeted Medicaid program expenses	$8,535.5	$9,287.6	$10,237.3	$10,431.1	$10,800.0	$12,116.4
Budgeted Medicaid administrative expenses	$143.7	$90.8	$86.5	$86.4	$84.6	$99.1
Total expenditures	$8,679.2	$9,378.4	$10,323.8	$10,517.5	$10,884.6	$12,196.5
Annual percentage growth in total expenditures	5.2%	8.1%	10.1%	1.9%	3.5%	12.0%
Enrollment (in member months)	1,212,730	1,262,516	1,315,208	1,361,302	1,414,698	1,643,683
Annual percentage growth in enrollment	3.8%	4.1%	4.2%	3.5%	3.9%	2.8% (16.2 % including ACA expansion)

SOURCE: Fiscal 2009-2013, Office of the Comptroller; fiscal 2014, Executive Office for Administration and Finance. Enrollment, Executive Office of Health and Human Services.

(1) The Executive Office of Health and Human Services and Medicaid administrative budget for fiscal 2010 was reduced due to the shifting of information technology resources to a new account.

(2) Fiscal 2014 figures include projected spending and enrollment growth (approximately 189,000) due to the implementation of the Affordable Care Act.

Commonwealth Health Insurance Connector Authority. State health care reform legislation enacted in 2006 created the Commonwealth Health Insurance Connector Authority (Health Connector) to, among other things, administer the Commonwealth Care program, a subsidized health insurance coverage program for adults whose income is up to 300% of the federal poverty level and who do not have access to minimally subsidized employer-sponsored insurance or other public coverage. Commonwealth Care began enrolling individuals on October 1, 2006. In addition, the Health Connector administers the Commonwealth Choice program, a non-subsidized program providing health insurance coverage options to individuals ineligible for subsidies and to Massachusetts-based small employers. Most of the funding to support these programs is paid out of the Commonwealth Care Trust Fund (CCTF) which is supported by the General Fund and other dedicated revenue sources,

Fiscal 2013 spending was $823.3 million for both the federally reimbursable and non-reimbursable populations in Commonwealth Care, the Patient Centered Medical Home Initiative, risk sharing, a small business wellness subsidy, and administrative costs. Fiscal 2013 spending includes $106.6 million to provide coverage for approximately 28,000 Commonwealth Care members who are not eligible for federal reimbursement. An additional $694.5 million covered enrollment of approximately 180,000 Commonwealth Care members who are eligible for federal reimbursement. In fiscal 2013 there was a transfer of $30 million from the Commonwealth Care Trust Fund to support the Health Safety Net Trust Fund.

The first half of fiscal 2014 will operate with the current Commonwealth Care and Commonwealth Choice programs. In the second half of fiscal 2014 (January, 2014 and beyond), the Health Connector will administer the Commonwealth's Health Insurance Exchange ("Exchange"). As the Commonwealth's Exchange, the Health Connector will offer qualified health plans (QHPs) to individuals and small businesses. Individuals with incomes under 400% of the federal poverty level (FPL) will be eligible for federal tax credits, and certain small businesses shopping through the Exchange will have access to small business health care tax credits. Individuals with incomes between 133% and 300% FPL, as well as certain Aliens with Special Status (AWSS) with incomes between 0% and 300% FPL will have access to additional state and federal subsidies. The goal is to account for the difference in cost (premium and cost sharing) between that which is currently available to those enrolled in Commonwealth Care and the benefits available under the ACA after factoring in federal tax credits and cost sharing reductions alone. The state will provide additional state subsidies (State Wrap) to ensure that the premiums and point-of-service cost sharing for certain low-income members are equivalent to that which is available to them through the Commonwealth Care program today. An estimated 150,000 individuals with incomes between 0% and 300% of FPL are expected to enroll in health coverage through the Health Connector and participate in the State Wrap program.

Commonwealth Care, the State Wrap and support for the Health Safety Net Trust Fund remain funded through the Commonwealth Care Trust Fund (CCTF) in fiscal 2014. The fiscal 2014 budget provides $340 million from the General Fund for both the current programs and the new State Wrap. The trust fund is supported by transfers from the General Fund and several dedicated revenue sources, including certain cigarette tax revenues and revenues generated as part of Massachusetts health care reform policies. The fiscal 2014 budget adds additional dedicated cigarette tax revenue and revenue assessed from employers that was formerly used for the Medical Security Plan.

The fiscal 2014 cost of the State Wrap is estimated at $118.5 million. The federal Centers for Medicare and Medicaid Services (CMS) approved an amendment to MassHealth's 1115 Demonstration Waiver on October 1, 2013, authorizing a 50% federal match in fiscal 2014 for premium assistance payments for Non-AWSS State Wrap plan members, which will result in an estimated $21 million in revenue for the Commonwealth.

As a result of ACA implementation, Health Connector program spending is expected to decrease by an estimated $249.9 million ($114.9 million net) in fiscal 2014 compared to the prior fiscal year. This reduction incorporates the transfer of an estimated 106,000 former Commonwealth Care members to MassHealth, the addition of an estimated 29,000 new members from the Health Safety Net and the estimated cost of the State Wrap program for members 300% FPL and below.

Federal 1115 MassHealth Demonstration Waiver. The Commonwealth's 1115 waiver was renewed on December 20, 2011 and extends through June 30, 2014. The $26.750 billion agreement, which represents a $5.690 billion increase over the previous waiver, preserves existing eligibility and benefit levels in the Medicaid and Commonwealth Care programs and includes more than $13.3 billion in revenue to the Commonwealth through federal financial participation. The waiver contains provisions for a smooth transition to full implementation of the ACA, and MassHealth submitted a waiver amendment request to CMS on June 4, 2013 to codify required changes to waiver authorities under the ACA. The amendment request also included proposals for federal matching funds to support state health care programs such as the Health Connector's State Wrap and certain programs authorized by legislation enacted in 2012. CMS approved the waiver amendment on October 1, 2013. As approved, the waiver amendment provides the necessary authority for changes to subsidized health care programs under the ACA. It also provides authority for federal matching funds for the premium assistance portion of State Wrap expenditures in fiscal 2014 for Health Connector enrollees who are citizens or qualified aliens.

The waiver also includes spending authority to support alternative payment models and integrated care through various programs such as the multi-payer Patient Centered Medical Home Initiative, a bundled payment pilot program for children with asthma, and Delivery System Transformation Initiative (DSTI) incentive payments to eligible safety net hospitals. The total amount of DSTI payments to these safety net providers over the three-year period is up to $628 million, of which up to $82.2 million is expected to be covered by state resources annually. Legislation approved in 2012 supported the establishment and full funding for the DSTI trust fund for fiscal 2012 and 2013, and MassHealth began implementation of the program at the end of fiscal 2012. These funds will support safety net hospitals' investments to fundamentally change the delivery of care, with the ultimate goal of transitioning away from fee-for-service payments toward alternative payment methodologies that reward high-quality, efficient and integrated care systems. The fiscal 2014 budget supports $94 million in DSTI payments to safety net hospitals with an additional $11 million funded by Cambridge Health Alliance through an Inter-Governmental Transfer (IGT) for a total of $105 million in fiscal 2014. This figure represents only half of the payments for the fiscal year; due to timing requirements, the remaining payments are expected to be made and budgeted in fiscal 2015.

On September 30, 2013, the Commonwealth submitted a request to extend the 1115 waiver for a new five-year term, beginning July 1, 2014 and continuing through June 30, 2019. The extension request includes proposals to continue successful programs that have been established under the waiver, including a bundled payment pilot program for children with high-risk asthma, an Express Lane Eligibility renewal process for parents and caretakers of children receiving Supplemental Nutritional Assistance Program (SNAP) benefits, authority to provide intensive early intervention services to children up to age three who have autism-spectrum disorders, and various payments to providers such as the Delivery System Transformation Initiatives, Infrastructure and Capacity Building grants, the Health Safety Net and supplemental payments to critical safety net providers such as Boston Medical Center and Cambridge Health Alliance. In addition, the proposal seeks support for the Commonwealth's efforts to advance alternative payment and delivery system models, including MassHealth's Primary Care Payment Reform Initiative, a future Accountable Care Organization model in development and a fully integrated care model for disabled Medicaid members. Finally, the proposal seeks to continue all authorities approved as part of the recent 2013 waiver amendment and requests significant federal matching funds for Designated State Health Programs.

Health Safety Net. The Health Safety Net (HSN) makes payments to hospitals and community health centers for providing certain health care services to their low-income patients who are not eligible for health insurance or cannot afford it. In accordance with legislation enacted in 2012, authority to administer the HSN was transferred to the Executive Office of Health and Human Services, effective November 5, 2012. The HSN is funded primarily through assessments on hospitals and health insurance providers. The fiscal 2013 budget provided $420 million in dedicated resources for the HSN, including $320 million from hospital and insurer assessments, $70 million from supplemental payments made by other sources, and a $30 million contribution from the General Fund. The Executive Office of Health and Human Services continues to monitor HSN service volume and costs and to update evolving trends relating to Trust Fund care demand. An HSN funding shortfall of $143 million is anticipated for hospital fiscal 2013.

The fiscal 2014 budget maintains the same funding amounts for HSN. Due to expanded options for affordable health coverage through MassHealth and the Health Connector under the ACA, HSN demand is expected to decline by $36 million (assuming 8% growth rates) to $58 million (assuming 4% growth rates). The reduction in the shortfall from $143 million in fiscal 2013 to at least $107 million represents a 25% decline, with the possibility of a 41% decline to $85 million, which would constitute a major step towards improving the fiscal outlook for Massachusetts hospitals.

Medical Security Program. The Massachusetts Department of Unemployment Assistance provides health insurance assistance through the Medical Security Program (MSP) for low income residents of the Commonwealth who are receiving unemployment insurance benefits. The MSP has projected spending of $26.8 million for the first half of fiscal 2014. Beginning January 1, 2014, MSP members will become eligible for other health insurance programs such as those offered by MassHealth and the Health Connector. In addition, the funding that supported the MSP, known as the Unemployment Health Insurance (UHI) assessment will be reduced and repurposed to support subsidized coverage in MassHealth and the Connector.

The fiscal 2014 budget eliminates the Fair Share Contribution Program, which is the state's quarterly assessment for employers that do not offer a "fair and reasonable" contribution to health insurance for their employees. The Fair Share Contribution policy around "fair and reasonable" was set forth in regulation and was a source of revenue for the CCTF. The fiscal 2014 budget also eliminates the Medical Security Program (MSP) effective January 1, 2014, streamlining the state's subsidized coverage through MassHealth and the Health Connector. Lastly, in order to ensure employers are contributing their share to health care for residents, the budget creates a rebranded "employer responsibility contribution" for employers, starting in 2014, which helps finance the cost of subsidized health insurance for low-income residents at the Health Connector. This funding takes the place of an assessment on businesses for the MSP program known as the Unemployment Health Insurance Assessment or UHI. The employer medical assistance contribution is lower than the current UHI assessment, and it is designed to be more streamlined for both small and large businesses than the current Fair Share Contribution. The fiscal 2014 budget assumes that the new contribution to the Connector will be $94 million in fiscal 2014.

Health Care Cost Containment. On August 6, 2012, the Governor signed legislation designed to improve the quality of health care and to reduce costs through increased transparency, efficiency and innovation. The law moves providers and payers away from fee-for-service payments toward alternative payment structures that are designed to reward integration and coordination of care for patients, reduce costs and improve quality. The legislation extended the presumptive disapproval criteria of the state Division of Insurance for premium rates in the small and non-group market. It also transferred the responsibilities of the Division of Health Care Finance and Policy to MassHealth, the Health Connector, and the newly-created Center for Health Information and Analysis (CHIA). CHIA was created as an independent state agency, funded through an industry assessment, to monitor the Massachusetts health care system through data collection and research and to release reliable information and meaningful analysis to a wide variety of audiences.

The Health Policy Commission (HPC) is an integral component of the implementation of the new legislation. The HPC will set health care cost growth goals, enhance provider transparency, monitor the health care marketplace and establish standards for accountable care organizations, among other responsibilities. It is governed by an 11-person board appointed by the Governor, the Attorney General and the State Auditor. The HPC is funded through a one-time assessment on health care payers and providers as well as a one-time licensing fee for new resort casinos that are expected to be established in Massachusetts. The one-time assessment on health care payers and providers is equal to the $209 million that is expected to be used over four years to support HPC operations, a distressed hospital fund, a public health fund and a health information technology fund. The amount dedicated to HPC operations is equal to 5% of the total assessment (approximately $10.5 million over the four-year period, or approximately $2.6 million each year). Calculations pertaining to the assessment were released on December 31, 2012, and collection of payments began in June, 2013. A portion of the one-time casino licensing money collected in fiscal 2014, expected to be $40 million, is designated for the Health Care Payment Reform Trust Fund to be administered by the HPC. Of that total, $20 million gross ($10 million net) is designated for support of MassHealth's transition to alternative payments and $12.3 million gross ($6.2 million net) is designated for additional MassHealth payments for inpatient and outpatient behavioral and mental health services. The projected Health Care Payment Reform fund balance in fiscal 2014 is approximately $23.3 million. The fund balance is expected to support operational and programmatic costs related to health care payment reform not only in fiscal 2014 but in future years as well.

The 2012 legislation establishes a cost growth target for the Commonwealth based on Potential Gross State Product (PGSP), which is estimated to be 3.6% for calendar year 2013. The growth rate of PGSP is the long-run average growth rate of the Commonwealth's economy, ignoring fluctuations due to business cycles. As part of the consensus revenue process for fiscal 2014, The Secretary of Administration and Finance and the chairs of the House and Senate Ways and Means Committees were required to establish PGSP for calendar year 2014. After consultation with economists, they determined a PGSP number of 3.6% for calendar 2014. The cost growth target equals PGSP for the period from 2013 through 2017, PGSP minus 0.5% for the period from 2018 through 2022 and PGSP from 2023 on. However, the HPC and the Legislature have some ability to change those growth targets after 2018. Insurers and providers with cost growth exceeding the growth target may be required by the HPC to file performance improvement plans describing specific strategies, adjustments and action steps they propose to implement to improve cost performance. If cost growth targets are met, it is estimated that the new law could result in statewide savings of up to $200 billion over the next 15 years.

In February, 2013, the Legislature approved $2.95 million in funding in fiscal 2013 for the Executive Office of Health and Human Services (EOHHS) and the Department of Public Health (DPH) to begin immediate implementation of certain initiatives associated with the 2012 legislation. These initiatives include convening a health planning council to develop a state health plan, modifying existing Determination of Need statutes, administering the Prevention and Wellness Trust Fund and wellness tax credit program for small businesses, and operational funds for the Commonwealth's ongoing development and operation of the Health Information Exchange (HIE) that enables the sharing of health care information across organizations.

The fiscal 2014 budget supports the continued implementation of these fiscal 2013 initiatives, and also includes additional investments, including $20 million for MassHealth rate increases for hospitals that demonstrate use of alternative payment methodologies (APM) and $5.7 million for increased rates for critical access and pediatric specialty hospitals. These investments are offset by 50% FFP; a portion of the investment is supported through a $20 million ($10 million net) transfer from the HPC's Healthcare Payment Reform Trust Fund, the purpose of which is to foster innovation in health care payment and service delivery. In addition, the State Auditor's Office will receive $431,000 to support additional staffing and IT capacity to evaluate implementation of the 2012 legislation and impacts on controlling health care costs.

Other Health and Human Services

Other Health and Human Services—Budgeted Operating Funds (in millions)

Expenditure Category	Fiscal 2009	Fiscal 2010	Fiscal 2011	Fiscal 2012	Fiscal 2013	Projected Fiscal 2014
Office of Health Services						
Department of Mental Health	$623.5	$614.0	$598.2	$613.1	$638.1	$703.8
Department of Public Health	548.5	493.7	488.1	488.3	507.8	554.9
Division of Healthcare and Finance Policy (1)	14.0	13.4	14.8	14.1	3.6	30.6
Sub Total	$1,186.0	$1,121.2	$1,101.1	$1,115.5	$1,149.6	$1,289.3
Office of Children, Youth, and Family Services						
Department of Social Services	$810.0	$772.1	$741.6	$741.6	$748.8	$778.7
Department of Transitional Assistance	859.5	724.5	736.7	733.6	723.3	776
Department of Youth Services	154.7	147.1	142.1	141.2	150.8	160.4
Office for Refugees and Immigrants	1.3	1.0	1.0	0.4	0.4	0.3
Sub Total	$1,823.5	$1,644.8	$1,621.4	$1,616.8	$1,623.2	$1,715.4
Office of Disabilities and Community Services						
Department of Developmental Services	$1,250.6	$1,247.0	$1,278.5	$1,314.6	$1,352.2	$1,463.3
Other	133.6	125.7	124.6	126.8	120.5	121.1
Sub Total	$1,384.2	$1,372.1	$1,403.1	$1,441.4	$1,472.6	$1,584.4
Department of Elder Affairs	$279.7	$257.7	$250.2	$265.8	$248.2	$251.4
Executive Office of Human Services (2)	101.0	192.4 (3)	210.1 (3)	240.5 (3)	242.0 (3)	197.6
Veterans' Services (4)	51.9	28.2	28.9	30.5	33.3	12.7
Sub Total	$432.6	$478.5	$489.2	$536.8	$523.5	$461.7
Budgeted Expenditures and Other Uses	**$4,828.3**	**$4,616.6**	**$4,614.8**	**$4,710.5**	**$4,768.9**	**$5,050.8**

SOURCES: Fiscal 2009-2013 Office of the State Comptroller; fiscal 2014, Executive Office for Administration and Finance.

(1) Cost containment legislation enacted in 2012 dissolved the Division and shifted its responsibilities to EHS, MassHealth and a newly created Center for Health Information and Analysis (CHIA). CHIA is an independent agency funded through an industry assessment beginning in fiscal 2014 and is no longer part of the Office of Health Services.

(2) Includes the Department of Medical Assistance (DMA) which was a separate department through fiscal 2004; but consolidated into the Executive Office of Human Services in fiscal 2005. Fiscal 2011 through 2013 includes Medicaid program administration.

(3) Fiscal 2010 through 2013 spending includes a new IT chargeback account that incorporates IT spending in other departments within the Executive Office of Health and Human Services.

(4) Beginning in fiscal 2010, the Veterans' Benefits account, worth approximately $30.0 million, is included in the Direct Local Aid category.

Office of Health Services. The Office of Health Services encompasses programs and services from the Department of Public Health and the Department of Mental Health. Their goal is to promote healthy people, families, communities and environments through coordinated care. The departments work in unison to determine that individuals and families can live and work in their communities self-sufficiently and safely. The following are a few examples of programs and services provided by this office: substance abuse programs, immunization services, early intervention programs, environmental health services, youth violence programs, supportive housing and residential services for the mentally ill of all ages, and emergency and acute hospital services.

Office of Children, Youth and Family Services. The Office of Children, Youth and Family Services works to provide services to children and their families through a variety of programs and services. The programs and services are offered through the Department of Social Services, the Department of Youth Services, the Department of Transitional Assistance and the Office of Refugees and Immigrants. The collaborative goal of this office is to work to ensure that individuals, children and families are provided with public assistance needed as well as access to programs that will allow for them to be safe and self-sufficient.

Through the Department of Transitional Assistance (DTA), the Commonwealth funds three major programs of public assistance for eligible state residents: Transitional Aid to Families with Dependent Children (TAFDC); Emergency Aid to the Elderly, Disabled and Children (EAEDC); and the State Supplemental Program (SSP) for individuals enrolled in the federal Supplemental Security Income (SSI) program. In addition, DTA is responsible for administering the entirely federally funded Supplemental Nutrition Assistance Program (SNAP, formerly the Food Stamp Program), as well as other smaller programs that assist DTA clients with completing their education, gaining career skills and finding employment.

The SNAP program provides nutritional support to low-income households in the Commonwealth. On average, DTA issues more than $116 million in SNAP benefits each month. The U. S. Department of Agriculture (USDA) estimates that each dollar in SNAP assistance generates nearly $2 in economic activity – for the Commonwealth, this would translate to nearly $2.8 billion per year in local production, sales and jobs.

Since the beginning of fiscal 2002, the SNAP caseload in the Commonwealth has increased by more than 375%, while total DTA staffing levels have decreased by about 30%. Between June, 2009 and March, 2011, due to its inability to timely meet statutory case recertification requirements and in order to avoid placing clients in jeopardy of losing their benefits, DTA did not close SNAP cases for which clients had complied with all recertification requirements, but for which DTA had not completed the recertification process. This resulted in SNAP benefit over-issuances that USDA calculated to total $27.8 million. To prevent such a situation from recurring, DTA has reinstated automatic closure of all SNAP cases with expired recertification periods. Therefore, cases not recertified in a timely manner are being automatically closed. DTA is currently working with USDA to address this matter.

Federal welfare reform legislation enacted on August 22, 1996 eliminated the federal entitlement program of Aid to Families with Dependent Children and replaced it with the Temporary Assistance For Needy Families (TANF) block grant. Since the inception of block grant funding, the Commonwealth has received $459.4 million annually exempt from federal sequestration. In order to be eligible for the full block grant funding, the Commonwealth must meet maintenance-of-effort and work participation requirements.

The federal work participation rate (*i.e.,* the percentage of work-eligible individuals receiving assistance who are participating in work or training-related activities allowed under the program) is 50% for all families and 90% for two-parent families. States can lower their work participation rate requirement by applying credits earned through annual caseload reductions. In order to assist in meeting work participation requirements, in fiscal 2008, the Commonwealth established the state-funded Supplemental Nutrition Assistance (SNA) program. Working families receiving SNAP are enrolled in SNA if they meet the TANF work requirements and are categorically eligible for TANF.

Office of Disabilities and Community Services. The Office of Disabilities and Community Services assists in the welfare of many disadvantaged residents of the Commonwealth through a variety of agencies. Programs and services are provided by the Massachusetts Rehabilitation Commission, the Massachusetts Commission for the Deaf and Hard of Hearing, the Massachusetts Commission for the Blind, the Department of Developmental Services (previously the Department of Mental Retardation) and the Soldiers' Homes in Chelsea and Holyoke. These agencies provide assistance to this population and create public awareness to the citizens of the Commonwealth. Other facets of the Office of Disabilities and Community Services include both oversight and inter-agency collaboration which attend to the needs of the community, disabled and multi-disabled population. This holistic approach is designed to ensure that those of all ages with disabilities are able to lead functionally equivalent lives despite limitations that they may face.

Department of Elder Affairs. The Department of Elder Affairs (Elder Affairs) provides a variety of services and programs to eligible seniors and their families. Elder Affairs administers supportive and congregate housing programs, regulates assisted living residences, provides home care and caregiver support services, and nutrition programs. Eligibility for services is based largely on age, income, and disability status. The Department of Elder Affairs also administers the Prescription Advantage Program.

Department of Veterans' Services. The Department of Veterans' Services provides a variety of services, programs and benefits to eligible veterans and their families. The Department of Veterans' Services provides outreach services to help eligible veterans enroll in a variety of programs, administers supportive housing and homeless services, and provides over 65,000 veterans, veterans' spouses and parents with annuity and benefit payments.

Education

Executive Office of Education. In fiscal 2008, enacted reorganization legislation created an Executive Office of Education encompassing the Department of Early Education and Care, the Department of Elementary and Secondary Education (previously the Department of Education), the Department of Higher Education (previously the Board of Higher Education) and the University of Massachusetts system. The office is, committed to advancing actions and initiatives that will improve achievement for all students, close persistent achievement gaps, and to create a 21st century public education system that prepares students for higher education, work and life in a world economy and global society.

Department of Elementary and Secondary Education. The Department of Elementary and Secondary Education serves the student population from kindergarten through twelfth grade by providing support for students, educators, schools and districts and by providing state leadership. The Department of Elementary and Secondary Education is governed by the Executive Office of Education and by the Board of Education, which will now include 13 members. There are 328 school districts in the Commonwealth, serving over 950,000 students.

Department of Higher Education. The Commonwealth's system of higher education includes the five-campus University of Massachusetts, nine state universities and 15 community colleges. The higher education system is coordinated by the Department of Higher Education which has a governing board, the Board of Higher Education, and each institution of higher education is governed by a separate board of trustees. The Board of Higher Education nominates, and the Secretary of Education appoints, a Commissioner of Higher Education, who is responsible for carrying out the policies established by the board at the Department of Higher Education.

The operating revenues of each institution consist primarily of state appropriations and of student fees that are set by the board of trustees of each institution. Tuition levels are set by the Board of Higher Education. State-supported tuition revenue is required to be remitted to the State Treasurer by each institution; however, the Massachusetts College of Art and Design and the Massachusetts Maritime Academy have the authority to retain tuition indefinitely and all higher education institutions are able to retain tuition received from out-of-state students. The board of trustees of each institution submits annually audited financial statements to the Comptroller and the Board of Higher Education. The Department of Higher Education prepares annual operating budget requests on behalf of all institutions, which are submitted to the Executive Office of Education and subsequently to 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.

Department of Early Education and Care. The Department of Early Education and Care provides support to children and families seeking a foundational education. Additionally, the Department strives to educate current and prospective early education and care providers in a variety of instructive aspects. Included within the Department's programs and services are supportive child care, TANF-related child care, low-income child care, Head Start grants, universal pre-kindergarten, quality enhancement programs, professional development programs, mental health programs, healthy families programs and family support and engagement programs. Two of these programs, the supportive and TANF-related child care, help children receiving or referred services by the Department of Social Services or the Department of Transitional Assistance.

Public Safety

Twelve state agencies fall under the umbrella of the Executive Office of Public Safety and Security. The largest is the Department of Correction, which operates 18 correctional facilities and centers across the Commonwealth. Other public safety agencies include the State Police, Parole Board, the Department of Fire Services, the Military Division, the Office of the Chief Medical Examiner and six other public safety related agencies.

In addition to expenditures for these twelve state public safety agencies, the Commonwealth provides funding for the departments of the 14 independently elected Sheriffs that operate 23 jails and correctional facilities. In fiscal 2010, all 14 Massachusetts state and county sheriffs were aligned under the state budgeting and finance laws. Prior to the transfer, the Commonwealth had seven sheriffs operating as state agencies under the state accounting and budgeting system and seven sheriffs operating as county entities. The sheriff departments have successfully transitioned onto the state budgeting and accounting system, and all sheriff employees have been placed on the state payroll. Appropriations have been established to support sheriff department operations for the balance of this fiscal year. Thus, all 14 sheriff departments are now functioning as independent state agencies within the Executive Branch.

Energy and Environmental Affairs

In fiscal 2008, the Executive Office of Environmental Affairs was reorganized into the Executive Office of Energy and Environmental Affairs. This reorganization included the transfer of the Department of Energy Resources and Department of Public Utilities from the Executive Office of Economic Development to the new secretariat. The Executive Office of Energy and Environmental Affairs is responsible for policy development, environmental law enforcements services and oversight of agencies and programs. Six state agencies and numerous boards fall under the umbrella of the Executive Office of Energy and Environmental Affairs. The largest is the Department of Conservation and Recreation, which operates over 600,000 acres of public parkland, recreational facilities, watersheds and forests across the Commonwealth. Other environmental agencies include the Department of Agricultural Resources, responsible for the state's agricultural and food safety programs, the Department of Environmental Protection, responsible for clean air, water, recycling and environmental remediation programs, and the Department of Fish and Game, responsible for the management and protection of endangered species, fisheries and habitat. Additional agencies include the Department of Public Utilities, responsible for oversight of electric, gas, water and transportation utilities and the Department of Energy Resources, responsible for energy planning, management and oversight.

Debt Service

Debt service expenditures relate to general obligation bonds and notes, special obligation bonds and federal grant anticipation notes issued by the Commonwealth. See "LONG-TERM LIABILITIES."

Other Program Expenditures

The remaining expenditures on other programs and services for state government include the judiciary district attorneys, the Attorney General, the Executive Office for Administration and Finance, the Executive Office for Housing and Economic Development, the Executive Office of Labor and Workforce Development and various other programs.

Employee Benefits

Group Insurance. The Group Insurance Commission (GIC) provides health insurance benefits to more than 400,000 people, including active and retired state employees and dependents, participating municipalities and certain retired municipal teachers. State employee contributions are based on date of hire; employees hired on or before June 30, 2003 contribute 20% of total premium costs, and employees hired after June 30, 2003 pay 25% of premium costs. Similarly, state retiree contributions are based on retirement date, and are either 10%, 15% or 20%. Fiscal 2013 spending at the GIC was $1.721 billion including active and retired state and municipal employees. During fiscal 2013 the GIC brought eleven municipalities into the program, adding 14,000 enrollees. The GIC provides the health insurance benefits for participating municipalities; the municipalities reimburse the state for their enrollees' premium costs. The contribution ratio(s) for municipal enrollees is set through a collective bargaining process. Two additional municipalities are expected to join the GIC in fiscal 2014, adding approximately 2,000 GIC enrollees. As of July 1, 2014, the GIC is expected to provide health insurance to employees and retirees of 48 municipalities: 12 cities, 26 towns, seven regional school districts, four planning councils and one regional dispatch district.

The fiscal 2014 budget is consistent with Government Accounting Standards Board (GASB) Statement No. 45 and the state's intent to account separately for spending for current retirees with deposits towards the Commonwealth's non-pension retiree liability. See "*Other Post-Retirement Benefit Obligations (OPEB)*" below. The fiscal 2014 budget for the GIC, to fund health coverage for active employees, their dependents and municipal employees, both active and retired, that have joined the GIC for fiscal 2014 is $1.272 billion. The fiscal 2014 budget authorizes transfers of up to $420 million to the State Retiree Benefits Trust Fund for the purpose of making expenditures for current retirees and their dependents.

The Group Insurance Commission (GIC) has begun implementation of the 2012 health care cost containment legislation, which is expected to accelerate changes to the way doctors, hospitals and other health care providers are paid for their services. Through this process the GIC aims to limit growth in premiums, avoid higher co-pays and deductibles and improve patient health. The GIC estimates it will save taxpayers hundreds of millions of dollars over five years with improved quality of care.

Pensions. 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 Massachusetts 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). See "PENSION AND OPEB FUNDING."

Other Post-Retirement Benefit Obligations (OPEB). In addition to providing pension benefits, under Chapter 32A of the Massachusetts General Laws, the Commonwealth is required to provide certain health care and life insurance benefits for retired employees of the Commonwealth, housing authorities, redevelopment authorities and certain other governmental agencies. Substantially all of the Commonwealth's employees may become eligible for these benefits if they reach retirement age while working for the Commonwealth. Eligible retirees are required to contribute a specified percentage of the health care / benefit costs which are comparable to contributions required from employees. The Commonwealth is reimbursed for the cost of benefits to retirees of the eligible authorities and non-state agencies. See "PENSION AND OPEB FUNDING – Other Post-Retirement Benefit Obligations (OPEB)."

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PENSION AND OPEB FUNDING

Retirement Systems

Almost all non-federal public employees in the Commonwealth participate in defined-benefit pension plans administered pursuant to state law by 105 public retirement systems. 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 Massachusetts 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). The members of the retirement system do not participate in the Social Security System. 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 103 separate retirement systems and the Commonwealth is not responsible for making contributions towards the funding of these retirement systems. 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 Massachusetts teachers' retirement systems is managed by the Pension Reserves Investment Management (PRIM) Board. In the case of all other retirement systems, the retirement board for the system administers pension benefits and manages investment of assets. Retirement board members are required to complete 18 hours of training and to file annual statements of financial interest with the Public Employee Retirement Administration Commission. Many such retirement boards invest their assets with the PRIM Board, and legislation approved in 2007 allows the PRIM Board to take over the assets of local retirement systems that are less than 65% funded and have failed to come within 2% of the PRIM Board's performance over a ten-year period. With a very small number of exceptions, the members of these state and local retirement systems do not participate in the federal Social Security System.

The Massachusetts State Employees' Retirement System (MSERS) and the Massachusetts Teachers' Retirement System (MTRS) are the two largest plans of the public contributory retirement systems operated in the Commonwealth. Membership in MSERS and MTRS as of January 1, 2013, the date of the most recent valuations, is as follows:

Retirement Systems Membership

	MSERS	MTRS
Retirees and beneficiaries currently receiving benefits	55,383	59,019
Terminated employees entitled to benefits but not yet receiving them	4,067	N/A
Subtotal	59,450	59,019
Current Members	87,175	87,765
Total	146,625	146,784

SOURCE: Public Employee Retirement Administration Commission

The MSERS is a single-employer defined-benefit public employee retirement system. The MTRS is a defined-benefit public employee retirement system managed by the Commonwealth on behalf of municipal teachers and municipal teacher retirees. The Commonwealth is a non-employer contributor and is responsible for all contributions and future benefits of the MTRS. Members become vested after ten years of creditable service. For members who joined the system prior to April 2, 2012 superannuation retirement allowance may be received upon the completion of 20 years of service or upon reaching the age of 55 with ten years of service. Normal retirement for those employees who were system members before April 2, 2012 occurs at age 65; for certain hazardous duty and public safety positions, normal retirement is at age 55. Most members who joined the system after April 1, 2012 cannot retire prior to age 60.

The retirement systems' funding policies have been established by Chapter 32 of the Massachusetts General Laws. The Legislature has the authority to amend these policies. The annuity portion of the MSERS and the MTRS retirement allowance is funded by employees, who contribute a percentage of their regular compensation. Costs of administering the plan are funded out of plan assets. The policies provide for uniform benefit and contribution requirements for all contributory public employee retirement systems. These requirements generally provide for superannuation retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation. For employees hired after April 1, 2012, retirement allowances are calculated on the basis of the last five years or any five consecutive years, whichever is greater in terms of compensation. Benefit payments are based upon a member's age, length of creditable service and group creditable service, and group classification.

Boston teachers are not included in the membership data shown above for the MTRS. Legislation approved in May, 2010 changed the methodology for the Commonwealth's funding of pension benefits paid to Boston teachers. Prior to this change, the Commonwealth reimbursed the City of Boston for pension benefits paid to Boston teachers as certified by the State Boston Retirement System (SBRS). Those costs were funded one fiscal year in arrears. The cost of pension benefits of the other participants of the SBRS is the responsibility of the City of Boston. The SBRS is a cost-sharing multiple-employer pension system that is not administered by the Commonwealth and is not part of the reporting entity of the Commonwealth for accounting purposes. The 2010 legislation clarified that the Commonwealth is responsible for all employer contributions and future benefit requirements for Boston teachers that are members of the SBRS. The Commonwealth's actuarially required contribution to the SBRS was $90.4 million for fiscal 2012.

Subject to legislative approval, annual increases in cost-of-living allowances are provided in an amount equal to the lesser of 3% or the previous year's percentage increase in the United States consumer price index on the first $13,000 of benefits for members of the MSERS and MTRS. The Commonwealth pension funding schedule (discussed below) assumes that annual increases of 3% will be approved for its retirees. 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. Legislation approved in 1999 allows local retirement systems to increase the cost-of-living allowance up to 3% during years that the previous year's percentage increase in the United States consumer price index is less than 3%.

Employee Contributions

The MSERS and MTRS are partially funded by employee contributions of regular compensation. The following tables indicate current employee contribution rates (figures are approximate):

Employee Contribution Rates

MTRS (1)

Hire Date	% of Compensation (1)	Active Members	% of Total Active
Pre-1975	5%	510	0.6%
1975-1983	7	1,054	1.2
1984-June 30, 1996	8	9,111	10.4
July 1, 1996-Present	9	11,958	13.6
July 1, 2001-Present	11	65,132	74.2
Totals		**87,765**	**100.0%**

SOURCE: Public Employee Retirement Administration Commission. Membership data from Teachers' Retirement System January 1, 2013 Actuarial Valuation.

(1) Employees hired after January 1, 1979 (except those contributing 11%) contribute an additional 2% of any regular compensation in excess of $30,000 annually. Legislation enacted in fiscal 2000 established an alternative superannuation retirement benefit program for teachers hired on or after July 1, 2001 (and others who opt in) with an 11% contribution requirement for a minimum of five years. The contribution rate for most employees hired after April 1, 2012 will be reduced to 6% after 30 years of creditable service.

MSERS (1)

Hire Date	% of Compensation (1)	Active Members	% of Total Active
Pre-1975	5%	1,392	1.6%
1975-1983	7	7,399	8.5
1984-June 30, 1996	8	22,412	25.7
July 1, 1996-Present	9	55,456	63.6
State Police 1996-Present	12	516	0.6
Totals		**87,175**	**100.0%**

SOURCE: Public Employee Retirement Administration Commission. Membership data from State Board of Retirement January 1, 2013 Actuarial Valuation.

(1) Employees hired after January 1, 1979 contribute an additional 2% of any regular compensation in excess of $30,000 annually.

Funding Schedule

The retirement 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 1988, the Commonwealth began to address the unfunded liabilities of the two state systems by making appropriations to pension reserves. Under current law such unfunded liability is required to be amortized to zero by June 30, 2040. The law also requires that the Secretary of Administration and Finance file a proposed funding schedule with the legislature every three years identifying the appropriations or transfers required to amortize the unfunded liability to zero, to meet the normal cost of all future benefits for which the Commonwealth is obligated and to meet any other component of the Commonwealth's pension liability. Previously designated amounts can be adjusted based on a new funding schedule so long as the adjustments represent an increase in the scheduled amounts for those years. The law requires the funding schedule submitted by the Secretary to be based on actuarial valuation reports and requires the Secretary to provide the actuarial, economic and demographic assumptions upon which the reports are based. The funding schedule is filed with the House Committee on Ways and Means and is deemed approved if no action is taken by the committee within 45 days.

The most recently approved pension funding schedule for payments into the Commonwealth's Pension Liability Fund was filed by the Secretary of Administration and Finance on January 18, 2011. The Legislature adopted the specific funding amounts for fiscal 2012 to 2017 in an amendment to the General Laws enacted in 2011. The schedule is based on the valuation of assets and liabilities as of January 1, 2010, an annual rate of return on assets of 8.25%, and an increase in the appropriation level of 5% per year in fiscal years 2013 and 2014 and 6% per year during fiscal years 2015 to 2017. The fiscal 2012 budget required that the pension funding amounts for fiscal 2012 through fiscal 2017 must be equal to or greater than the amounts for those years specified in the funding schedule filed in January, 2011. The next triennial funding schedule is due to be filed by the Secretary of Administration and Finance on January 15, 2014 and will be informed by the January 1, 2013 valuation.

Current Funding Schedule for Pension Obligations (in thousands)

Fiscal Year	Payments	Fiscal Year	Payments
2011	$1,442,000	2026	$2,955,572
2012	1,478,000	2027	3,084,218
2013	1,552,000	2028	3,218,582
2014	1,630,000	2029	3,358,926
2015	1,728,000	2030	3,505,522
2016	1,831,000	2031	3,658,655
2017	1,941,000	2032	3,818,623
2018	2,104,651	2033	3,985,740
2019	2,195,628	2034	4,160,331
2020	2,290,619	2035	4,342,740
2021	2,389,802	2036	4,533,325
2022	2,493,369	2037	4,732,461
2023	2,601,517	2038	4,940,543
2024	2,714,454	2039	5,157,980
2025	2,832,397	2040	5,385,205

SOURCE: Executive Office for Administration and Finance

Actuarial Valuations

On September 25, 2013, the Public Employee Retirement Administration Commission (PERAC) released its actuarial valuation of the Commonwealth's total pension obligation as of January 1, 2013. This valuation was based on the plan provisions in effect at the time and on member data and asset information as of December 31, 2012.

The unfunded actuarial accrued liability as of that date for the total obligation was approximately $28.348 billion, including approximately $9.068 billion for the Massachusetts State Employees' Retirement System (MSERS), $17.348 billion for the Massachusetts Teachers' Retirement System (MTRS), $1.688 billion for Boston Teachers and $244.1 million for cost-of-living increases reimbursable to local systems. The valuation study estimated the total actuarial accrued liability as of January 1, 2013 to be approximately $71.866 billion (comprised of $29.385 billion for MSERS, $39.135 billion for MTRS, $3.101 billion for Boston Teachers and $244.1 million for cost-of-living increases reimbursable to local systems). Total assets were valued on an actuarial basis at approximately $43.517 billion based on a five-year average valuation method, which equaled 99.4% of the January 1, 2013 total asset market value.

Actuarial valuations during the 15 years prior to the January 1, 2013 valuation have used an investment return assumption of 8.25%. In keeping with PERAC's recommendation in its 2012 report, the investment return assumption in the 2013 report was reduced to 8.00%. This change by itself increased plan liabilities by approximately $1.660 billion. Other assumptions (relating to salary increases, rates of retirement, disability, turnover and mortality) were also revised, based on an experience study of the years 2006 through 2011. These revised assumptions (most notably lowered salary increase assumptions) decreased the active actuarial liability by approximately $23 million. The completed experience study will be released early next year.

The impact of the change in assumptions was more significant for MTRS than MSERS. For MSERS, the increase in liability due to the change in assumptions was approximately $162 million. This reflects an increase of $703 million due to the change in the investment return assumption and a decrease of $541 million due to all changes in other assumptions. For MTRS, the increase in liability due to the change in assumptions was approximately $1.38 billion. This reflects an increase of $900 million due to the change in the investment return assumption, $1.0 billion due to a change in the mortality assumption to reflect greater life expectancy and a decrease of $520 million due to all changes in other assumptions.

Salary increase assumptions are based on Group and years of service. The ultimate salary increase rate in the pre-2013 valuations is 4.5% for Groups 1 and 2, 5.0% for Groups 3 and 4, and 4.75% for teachers. The ultimate salary increase rate in the 2013 MSERS valuation is 4.0% for Groups 1 and 2 and 4.5% for Groups 3 and 4. For MTRS the revised ultimate rate effective in the 2013 valuation is 4.0%. The assumption is higher in early years of employment and grades down to the ultimate rate. The pre-2013 assumptions are based on PERAC's Experience Study Analysis for the State Retirement System (published in 2007) and the Massachusetts Teachers' Retirement System (published in 2008).

A revision to the actuarial standards of practice in 2010 required that future mortality improvements (longer life expectancy) be considered in valuations performed after July 1, 2011. PERAC's review of the MSERS mortality assumption was completed prior to PERAC's January 1, 2012 valuation and the revised assumption was included in that valuation (see PERAC 2012 report for additional detail). The mortality assumption projected mortality improvement to 2015 for retirees and 2020 for active members and increased the actuarial liability by approximately .75%. In the 2012 valuation, PERAC estimated MTRS mortality by making modest life expectancy increases to the MSERS mortality results and increased the actuarial liability by 1.25%. PERAC'S final MTRS experience analysis results determined that mortality was more favorable than anticipated. As with the MSERS, the assumption projected mortality improvement to 2015 for retirees and 2020 for active members, but the base table reflects longer life expectancy than for MSERS and the actuarial liability increased by approximately 2.6%.

The 2012 valuation also reflects the $1,000 increase in the level of pension income that is protected by cost-of-living adjustments (from $12,000 to $13,000) which was included in pension reform legislation passed in 2011. This change increased the actuarial liability by 0.4%.

The Actuarial Cost Method which was used to determine pension liabilities in this valuation is known as the Entry Age Normal Cost Method. Under this method, the Normal Cost for each active member on the valuation date is determined as the level percent of salary, which, if paid annually from the date the employee first became a retirement system member, would fully fund by retirement, death, disability or termination, the projected benefits which the member is expected to receive. The Actuarial Liability for each member is determined as the present value as of the valuation date of all projected benefits which the member is expected to receive, minus the present value of future annual Normal Cost payments expected to be made to the fund. Since only active members have a Normal Cost, the Actuarial Liability for inactive members, retirees and survivors is simply equal to the present value of all projected benefits. The Unfunded Actuarial Liability is the Actuarial Liability less current assets.

The Normal Cost for a member will remain a level percent of salary for each year of membership, except for changes in provisions of the plan or the actuarial assumptions employed in projection of benefits and present value determinations. The Normal Cost for the entire system will also be changed by the addition of new members or the retirement, death, disability, or termination of members. The Actuarial Liability for a member will increase each year to reflect the additional accrual of Normal Cost. It will also change if the plan provisions or actuarial assumptions change.

Differences each year between the actual experience of the plan and the experience projected by the actuarial assumptions are reflected by adjustments to the Unfunded Actuarial Liability. An experience difference which increases the Unfunded Actuarial Liability is an Actuarial Loss and one which decreases the Unfunded Actuarial Liability is an Actuarial Gain.

The Actuarial Value of Assets is determined in accordance with the deferred recognition method under which 20% of the gains or losses occurring in the prior year are recognized, 40% of those occurring two years prior are recognized, etc., so that 100% of gains and losses occurring five years ago are recognized. This has the effect of smoothing the short-term volatility of market values over a five-year period. The actuarial value of assets will be adjusted, if necessary, in order to remain between 90% and 110% of market value. In valuations prior to 1998, plan assets were determined at market value. As part of the 1998 valuation, this methodology was adjusted to reduce the potential volatility in the market value approach from year to year. The actuarial value of assets as of January 1, 2013 is 99.4% of the market value. The unfunded actuarial liability increased from $23.605 billion on January 1, 2012 to $28.348 billion on January 1, 2013, due to the final recognition of investment losses in 2008 and the revised actuarial assumptions.

The following table shows, with respect to the Commonwealth's aggregate pension obligations, a ten-year comparison of the actuarial value of assets to the market values, the ratio of the actuarial value to market value, and the funded ratio based on actuarial value compared to the funded ratio based on the market value of assets:

Ten Year Comparison of Actuarial and Market Values of Pension Assets (in millions)

Valuation Date (Jan. 1)	Actuarial Value of Assets (1)	Market Value of Assets	% of Actuarial Value to Market Value	Funded Ratio (Actuarial Value)	Funded Ratio (Market Value)
2004	34,045	31,709	107.4	73.9	84.0
2005	34,939	35,497	98.4	72.3	82.8
2006	36,377	39,020	93.2	71.5	81.5
2007	40,412	44,902	90.0	75.2	83.5
2008	44,532	49,235	90.4	78.6	86.9
2009	37,058	33,689	110.0	62.7	57.0
2010	41,589	37,809	110.0	67.5	61.4
2011	45,631	41,482	110.0	71.1	64.6
2012	43,942	39,947	110.0	65.1	59.1
2013	43,517	43,760	99.4	60.6	60.9

SOURCE: Public Employee Retirement Administration Commission.
(1) Based on five-year average smoothing methodology.

The following tables show, for each of the MSERS and the MTRS and for Commonwealth obligations in the aggregate (including Boston Teachers and cost-of-living allowances as well as MSERS and MTRS), the historical funded status for the most recent ten years, based on actuarial values and market values of assets:

Historical Pension Funding Progress for the Last Ten Fiscal Years- Actuarial Value

(Amounts in thousands except for percentages)

	Actuarial Value of Plan Assets	Actuarial Accrued Liability	Unfunded Actuarial Liability (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as % of Covered Payroll
State Employees' Retirement System						
Actuarial Valuation as of Jan. 1						
2013	$20,317,389	$29,385,442	$9,068,053	69.1%	$5,183,195	175.0%
2012	20,507,604	27,784,731	7,277,127	73.8	4,922,388	185.7
2011	21,244,900	26,242,776	4,997,876	81.0	4,808,250	103.9
2010	19,019,062	24,862,421	5,843,359	76.5	4,711,563	124.0
2009	16,992,214	23,723,240	6,731,026	71.6	4,712,655	142.8
2008	20,400,656	22,820,502	2,419,846	89.4	4,574,233	52.9
2007	18,445,225	21,670,810	3,225,585	85.1	4,391,891	73.4
2006	16,638,043	20,406,926	3,768,883	81.5	4,200,577	89.7
2005	16,211,000	19,575,000	3,364,000	82.8	3,967,000	84.8
2004	15,931,000	18,996,000	3,065,000	83.9	3,842,000	79.8
Teachers' Retirement System						
Actuarial Valuation as of Jan. 1						
2013	$21,787,470	$39,135,218	$17,347,748	55.7%	$5,783,294	300.0%
2012	22,141,475	36,483,027	14,341,552	60.7	5,655,353	253.6
2011	23,117,952	34,890,991	11,773,039	66.3	5,558.311	211.8
2010	21,262,462	33,738,966	12,476,504	63.0	5,509,698	226.4
2009	18,927,731	32,543,782	13,616,051	58.2	5,389,895	252.6
2008	22,883,553	30,955,504	8,071,951	73.9	5,163,498	156.3
2007	20,820,392	29,320,714	8,500,322	71.0	4,969,092	171.1
2006	18,683,295	27,787,716	9,104,421	67.2	4,819,325	188.9
2005	17,684,000	26,167,000	8,483,000	67.6	4,643,000	182.7
2004	17,075,000	24,519,000	7,444,000	69.6	4,556,000	163.4
Aggregate Commonwealth Pension Obligations						
Actuarial Valuation as of Jan. 1						
2013	$43,517,498	$71,865,832	$28,348,334	60.6%	$11,408,407	248.5%
2012	43,941,682	67,546,587	23,604,905	65.1	11,011,466	214.4
2011	45,630,507	64,219,135	18,588,628	71.1	10,811,975	171.9
2010	41,589,706	61,575,676	19,985,970	67.5	10,655,881	187.6
2009	37,057,703	59,142,155	22,084,452	62.7	10,537,212	209.6
2008	44,531,652	56,636,710	12,105,058	78.6	10,156,252	119.2
2007	40,411,920	53,761,095	13,349,175	75.2	9,766,122	136.7
2006	36,376,773	50,864,974	14,488,201	71.5	9,406,336	154.0
2005	34,938,529	48,357,694	13,419,165	72.3	8,989,134	149.3
2004	34,045,177	46,059,209	12,014,032	73.9	8,765,592	137.1

SOURCE: Public Employee Retirement Administration Commission.

Historical Pension Funding Progress for the Last Ten Fiscal Years- Market Value

(Amounts in thousands except for percentages)

	Market Value of Plan Assets	Actuarial Accrued Liability	Unfunded Actuarial Liability (UAAL)- Market Value	Funded Ratio	Annual Covered Payroll	UAAL as % of Covered Payroll
State Employees' Retirement System						
Actuarial Valuation as of Jan. 1						
2013	$20,405,004	$29,385,442	$8,980,438	69.4%	$5,183,195	173.3%
2012	18,643,313	27,784,731	9,141,418	67.1	4,922,388	147.8
2011	19,313,545	26,242,776	6,929,231	73.6	4,808,250	144.1
2010	17,290,056	24,862,421	7,572,365	69.5	4,711,563	160.7
2009	15,447,467	23,723,240	8,275,773	65.1	4,712,655	175.6
2008	22,538,610	22,820,502	281,892	98.8	4,574,233	6.2
2007	20,494,694	21,670,810	1,176,116	94.6	4,391,891	26.8
2006	17,875,032	20,406,926	2,531,894	81.5	4,200,577	89.7
2005	16,489,000	19,575,000	3,086,000	82.8	3,967,000	84.8
2004	14,834,000	18,996,000	4,162,000	84.0	3,842,000	79.8
Teachers' Retirement System						
Actuarial Valuation as of Jan. 1						
2013	$21,934,211	$39,135,218	$17,201,007	56.0%	$5,783,294	297.4%
2012	20,128,614	36,483,027	16,354,413	55.2	5,655,353	289.2
2011	21,016,320	34,890,991	13,874,671	60.2	5,558.311	249.6
2010	19,329,511	33,738,966	14,409,455	57.3	5,509,698	261.5
2009	17,207,028	32,543,782	15,336,754	52.9	5,389,895	284.5
2008	25,316,044	30,955,504	5,639,460	81.8	5,163,498	109.2
2007	23,133,769	29,320,714	6,186,945	78.9	4,969,092	124.5
2006	20,013,412	27,787,716	7,774,304	67.2	4,819,325	188.9
2005	17,946,000	26,167,000	8,221,000	67.6	4,643,000	182.7
2004	15,907,000	24,519,000	8,612,000	69.6	4,556,000	163.4
Aggregate Commonwealth Pension Obligations						
Actuarial Valuation as of Jan. 1						
2013	$43,760,381	$71,865,832	$28,105,451	60.9%	$11,408,407	246.4%
2012	39,946,984	67,546,587	27,599,603	59.1	11,011,466	250.6
2011	41,482,279	64,219,135	22,736,856	64.6	10,811,975	210.3
2010	37,808,823	61,575,676	23,766,853	61.4	10,655,881	223.0
2009	33,688,821	59,142,155	25,453,334	57.0	10,537,212	241.3
2008	49,234,569	56,636,710	7,402,141	86.9	10,156,252	72.9
2007	44,902,133	53,761,095	8,858,962	83.5	9,766,122	90.7
2006	39,020,885	50,864,974	11,844,089	76.7	9,406,336	125.9
2005	35,496,704	48,357,694	12,860,990	73.4	8,989,134	143.1
2004	31,709,129	46,059,209	14,350,080	68.8	8,765,592	163.7

SOURCE: Public Employee Retirement Administration Commission.

Annual Required Contributions

The following table sets forth the annual required contribution (ARC) by the Commonwealth under generally accepted accounting principles, its reimbursement to Boston for its payments to SBRS (the fiscal 2010 payment includes both the final payment in arrears and the first annual contribution under the 2010 legislation described above) and payments for municipal COLAs for each of the fiscal years indicated. The ARC is determined annually based on the most recent Commonwealth valuation. Valuations have been performed annually since January 1, 2000. As noted above, the Commonwealth also develops a revised funding schedule by statute at least every three years, and the Commonwealth made the full contribution required, under the then-current funding schedule, for each year displayed in the table. Since the funding schedule can be several years old when the ARC is determined, the funding schedule information lags the more current ARC information except in the year in which the funding schedule is developed. Accordingly, in some years the ARC will exceed the contribution made and in other years the contribution made will exceed the ARC. Due to significant investment losses in 2008, the unfunded liability (and therefore the ARC) increased significantly for fiscal 2009. However, the funding schedule was based on the 2008 valuation before the market downturn. This accounts for the discrepancy between the ARC and contributions made in fiscal 2009. In fiscal 2010 the discrepancy is accounted for by the market downturn and the double payment to SBRS described above. As noted above, in January, 2011 a revised Commonwealth schedule was filed that extended the amortization period to 2040.

Annual Required Contributions and Other Pension Contributions

(amounts in thousands)

	SERS	MTRS	Total	COLA(1)	BTRS(1)
2013					
Annual required contribution (ARC)…………………………………………………………	$699,962	$1,104,486	$1,804,448	n/a	n/a
Contributions made, excluding COLAs……………………………………………….	545,453	891,580	1,437,033	20,121	94,846
% Funded for the fiscal year……………………………………………….	78%	81%	80%		
ARC as ratio of total government expenditures (2)	2.1%	3.3%	5.3%	n/a	n/a
2012					
Annual required contribution (ARC)…………………………………………………………	$620,274	$941,918	$1,562,192	n/a	n/a
Contributions made, excluding COLAs……………………………………………….	518,918	849,496	1,368,414	19,187	90,399
% Funded for the fiscal year……………………………………………….	84%	90%	88%		
ARC as ratio of total government expenditures (2)	1.6%	2.6%	4.2%	n/a	n/a
2011					
Annual required contribution (ARC)…………………………………………………………	$471,096	$767,960	$1,239,056	n/a	n/a
Contributions made, excluding COLAs……………………………………………….	431,166	855,201	1,286,367	34,153	121,290
% Funded for the fiscal year……………………………………………….	92%	111%	104%		
ARC as ratio of total government expenditures (2)	1.5%	2.4%	3.9%	n/a	n/a
2010					
Annual required contribution (ARC)…………………………………………………………	$646,932	$1,106,052	$1,752,984	n/a	n/a
Contributions made, excluding COLAs……………………………………………….	410,682	690,397	1,101,079	32,683	242,857
% Funded for the fiscal year……………………………………………….	63%	62%	63%		
ARC as ratio of total government expenditures (2)	2.1%	3.6%	5.8%	n/a	n/a
2009					
Annual required contribution…………………………………………………………	697,340	1,149,629	1,846,969	n/a	n/a
Contributions made, excluding COLAs……………………………………………….	397,482	781,026	1,178,508	34,696	122,216
% Funded for the fiscal year……………………………………………….	57%	68%	64%		
ARC as ratio of total government expenditures (2)	2.3%	3.8%	6.0%	n/a	n/a

SOURCE: Office of the Comptroller.

(1) COLA and BTRS contributions are additional amounts funded by the Commonwealth, but are not part of the Commonwealth's funding of ARC.

(2) Based on total budgeted fund expenditures and other uses.

On June 25, 2012, the Governmental Accounting Standards Board (GASB) voted to approve new standards that will modify the accounting and financial reporting of the Commonwealth's pension obligations. The new standard for governments that provide employee pension benefits will require the Commonwealth to report in its statement of net position a net pension liability, defined as the difference between the total pension liability (the present value of projected benefit payments to employees based on their past service) and the assets (mostly investments reported at fair value) set aside in a trust and restricted to paying benefits to current employees, retirees and their beneficiaries. The new standard will require immediate recognition of more pension expense than is currently required. The rate used to discount projected benefit payments to their present value will be based on a single rate that reflects (a) the long-term expected rate of return on plan investments as long as the plan net position is projected under specified conditions to be sufficient to pay pensions of current employees and retirees and the pension plan assets are expected to be invested using a strategy to achieve that return and (b) a yield or index rate on tax-exempt 20-year AA-or-higher rated municipal bonds to the extent that the conditions for use of the long-term expected rate of return are not met. The new standard will be effective for the Commonwealth's fiscal 2015 Comprehensive Annual Financial Report (CAFR).

PRIT Fund Investments

The PRIM Board's overall investment performance goal is to achieve an annual rate of return that exceeds the targeted actuarial rate of return used in determining the Commonwealth's pension obligations. The investment policy statement adopted by the PRIM Board requires a comprehensive review of the PRIM Board's asset allocation plan and its underlying assumptions at reasonable intervals of not more than three to five years. In addition, the investment policy statement requires that the PRIM Board conduct an annual evaluation of the PRIT Fund's asset allocation. The PRIM Board's last comprehensive review of the PRIT Fund asset allocation was conducted in the beginning of fiscal 2011.

In August, 2011, the PRIM Board approved several asset allocation changes in an effort to improve the PRIT Fund's expected rate of return per unit of risk (standard deviation). These asset allocation changes included a 6% reduction to Global Equities (comprised of a 2% reduction to Domestic Equities and a 4% reduction to International Equities), a 4% increase to Value-Added Fixed Income (comprised of a 1% increase to High Yield/Bank Loans, a 1% increase to Private Debt and a 2% allocation to Emerging Markets Debt – Local Currency) and a 2% increase to Hedge Funds.

In addition to asset allocation diversification, the PRIM Board seeks to diversify the PRIT Fund by choosing complementary investment styles and strategies within asset classes. The PRIM Board also develops detailed investment guidelines for each investment manager to ensure that portfolios are adequately diversified at the individual manager level.

The PRIT Fund's asset allocation plan currently uses the following categories of investments (the description is as of June 30, 2013):

Domestic Equity. Domestic Equity constitutes 20.9% of the PRIT Fund portfolio, approximately 78% of which is invested using a large-capitalization stock strategy (two active managers and one passive manager), with the remaining 22% invested under a small-capitalization strategy (one passive manager and five active managers). The portfolio is style-neutral between growth- and value-oriented stocks.

International Equity. International Equity constitutes 17.9% of the PRIT Fund portfolio which is allocated to one passively managed account (which comprises 48% of the portfolio) and three actively managed accounts (52% of the portfolio). The PRIM Board maintains a target weighting of 50% passive and 50% active for the international equity portfolio. The primary strategy for this portfolio is investing in companies in developed market, industrialized nations outside of the United States.

Emerging Markets. Emerging Markets constitutes 6.5% of the PRIT Fund portfolio, which is allocated to three active core managers (which comprise about 45% of the emerging market portfolio), one passive manager (49%) and two active small CAP managers (6%). The PRIM Board has targeted a weighting of 50% active and 50% passive for this portfolio.

Core Fixed Income. Core Fixed Income constitutes 12.6% of the PRIT Fund portfolio, 74% of which is invested in corporate, government and mortgage-backed securities in the investment grade bond market (49% active, 51% passive). Approximately 15% is invested in global inflation linked bonds, and approximately 7% in U. S. Treasury Inflation Protected Securities. The balance of the portfolio (4%) contains investments under the PRIM Board's economically targeted investment (ETI) program.

Value-Added Fixed Income. Value Added Fixed Income constitutes 8.9% of the PRIT Fund portfolio, which is invested in distressed debt (27%), high-yield bonds (18%), emerging markets debt (16%), bank loans (18%), and emerging markets debt - local currency (21%).

Private Equity. Private Equity constitutes 11.7 % of the PRIT Fund portfolio. Two components comprise the private equity portfolio: venture capital (early-stage and multi-stage, 20%) and special equity partnerships (large market buyout, middle market buyout, and growth equity, 80%). These private market investments are illiquid and typically have 10- to 15-year life cycles. The portfolio is highly diversified at the underlying portfolio company level.

Real Estate. Real estate holdings constitute 8.2% of the PRIT Fund portfolio, which consists of directly owned properties (65%), real estate investment trusts (30%), and non-core real estate limited partnerships (5%).

Timber/Natural Resources. Timber/Natural Resources constitutes 4.0% of the PRIT Fund portfolio, which is invested in both timberland investments (65%), and natural resource-oriented companies (35%) such as petrochemical, mining and energy companies.

Hedge Funds. Hedge Funds constitute 9.2% of the PRIT Fund portfolio. This portfolio has investments in twenty direct hedge fund managers, one active hedge fund of funds manager, and one residual liquidating portfolio.

PRIT Fund Asset Allocation

(As of June 30)

	2013	2012	2011	2010	2009
Domestic Equity	20.9%	19.3%	22.0%	19.9%	24.4%
International Equity	17.9	16.7	21.7	20.0	19.0
Emerging Markets	6.5	6.7	6.6	5.7	5.0
Fixed Income	12.6	13.0	13.2	14.0	13.0
Value-Added Fixed Income	8.9	8.6	6.0	7.0	7.7
Private Equity	11.7	12.1	10.7	10.6	9.6
Real Estate	8.2	9.7	8.2	9.1	10.9
Timber/Natural Resources	4.0	3.9	4.0	4.1	4.7
Hedge Funds	9.2	9.9	7.2	7.7	5.7
Portable Alpha Wind Down(1)	0.1	0.1	0.4	1.9	0.0

SOURCE: Pension Reserves Investment Management Board.
(1) Prior to January 1, 2010, Portable Alpha Assets were reflected in the Domestic Equity portfolio.

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The following table sets forth the gross investment rates of return for the assets in the PRIT Fund for the last ten fiscal years:

PRIT Fund Rates of Return

Fiscal Year	Rate of Return	Fiscal Year	Rate of Return
2013 (1)	12.69%	**2008**	(1.81)%
2012	(0.08)	**2007**	19.92
2011	22.30	**2006**	15.47
2010	12.82	**2005**	13.39
2009	(23.87)	**2004**	19.43

3yr average	11.26%
5yr average	3.41%
10yr average	8.10%
Assumed Rate (2)	8.25%

SOURCE: Pension Reserves Investment Management Board.
(1) Fiscal 2013 rate is preliminary and unaudited.
(2) Assumed rate changed to 8% as of January 1, 2013.

Other Post-Retirement Benefit Obligations (OPEB)

In addition to providing pension benefits, under Chapter 32A of the Massachusetts General Laws, the Commonwealth is required to provide certain health care and life insurance benefits ("other post-employment benefits" or "OPEB") for retired employees of the Commonwealth, housing authorities, redevelopment authorities and certain other governmental agencies. Substantially all of the Commonwealth's employees may become eligible for these benefits if they reach retirement age while working for the Commonwealth. Eligible retirees are required to contribute a specified percentage of the health care / benefit costs which are comparable to contributions required from employees. The Commonwealth is reimbursed for the cost of benefits to retirees of the eligible authorities and non-state agencies. (Although, as noted above, the Commonwealth is required to pay pensions to retired municipal teachers, the Commonwealth has no OPEB obligations with respect to retired municipal teachers.)

The Group Insurance Commission (GIC) of the Commonwealth manages the Commonwealth's defined benefit OPEB plan as an agent multiple employer program including the Commonwealth and 370 municipalities and other non-Commonwealth governmental entities. These entities that participate in the GIC are responsible for paying premiums at the same rate to the GIC and therefore benefit from the Commonwealth's premium rates. The GIC has representation on the Board of Trustees of the State Retiree Benefits Trust Fund (SRBTF). The SRBTF is set up solely to pay for OPEB benefits and the cost to administer those benefits and can only be dissolved when all such health care and other non-pension benefits, current and future, have been paid or defeased. The GIC administers benefit payments, while the Trustees are responsible for investment decisions.

Employer and employee contribution rates are set by statute. The Commonwealth recognizes its share of the costs on an actuarial basis. As of June 30, 2009, Commonwealth participants contributed 0% to 20% of premium costs, depending on the date of hire and whether the participant is active, retiree or survivor status. As of July 1, 2009, all active employees were required to pay an additional 5% of premium costs. The GIC had 156,160 state enrollees as of the end of fiscal 2013.

Accounting standards promulgated in 2004 by the Governmental Accounting Standards Board (GASB) required the Commonwealth to begin disclosing its OPEB liability in its fiscal 2008 financial reports. In 2006, the Comptroller of the Commonwealth contracted with a consulting firm to produce an actuarial valuation that calculated the liability of the present value of benefits if the Commonwealth chose to continue to fund that liability on a pay-as-you-go basis and what the liability would be should the Commonwealth choose to fully fund the liability over 30 years.

The January 1, 2013 actuarial valuation is expected to be issued in November, 2013. The actuarial valuations shown in the State Retiree Benefits Trust table below are based on a draft of this valuation report. According to this draft report, the Commonwealth's actuarial accrued OPEB liability, assuming no pre-funding and using a discount rate of 4.5%, was approximately $15.784 billion as of January 1, 2013. The 4.5% discount rate (which is the approximate rate of return since its inception of the Massachusetts Municipal Depository Trust) is intended to approximate the Commonwealth's rate of return on non-pension (liquid) investments over the long term. Assuming pre-funding, the study estimated the Commonwealth's liability to be approximately $9.530 billion using a discount rate of 8.00%. In order to qualify its OPEB liabilities as pre-funded, the Commonwealth must deposit annual contributions in a qualifying trust in accordance with the requirements of GASB Statement No. 45 (and similar to the program for funding the Commonwealth's unfunded actuarial liability for pensions).

As the Commonwealth is not fully funding the amortization of the actuarial liability, a liability for the difference between the amount funded and the actuarially required contribution is reflected on the Commonwealth's statement of net assets, as presented on a GAAP basis. The liability increases or decreases each year depending on the amount funded, investment return and changes in amortization and assumptions. This change in liability is reflected either as a revenue or expense item in the Commonwealth's statement of activities as presented on a GAAP basis, dependent on these factors. As of June 30, 2012, this net OPEB obligation as reflected on the Commonwealth's statement of net assets is $3.446 billion.

The independent actuarial report covers only the Commonwealth's OPEB obligations for Commonwealth employees and their survivors. Municipalities and authorities of the Commonwealth, even if their health care coverage is administered by the Group Insurance Commission, perform their own valuations, as the Commonwealth acts only as an agent for these entities with respect to OPEB and does not assume the risk or financial burden of their health care costs.

GASB Statement No. 45 requires that OPEB obligations be recalculated at two-year intervals. Such calculations may be affected by many factors, including changing experience and assumptions regarding future health care claims, by whether or not the Commonwealth enacts legislation that qualifies its OPEB obligations to be calculated on a pre-funded basis, by changes in the Commonwealth's employee profile and possibly by changes in OPEB coverage levels and retiree contribution requirements. Accordingly, it should be anticipated that the actuarial accrued liability of the Commonwealth for OPEB liabilities may fluctuate.

The executive and legislative branches have been working to develop a short- and long- term strategy for addressing the Commonwealth's OPEB liability. The State Retiree Benefits Trust Fund was created, and in fiscal 2008 spending for current retirees' healthcare occurred from the fund, helping to consolidate the state's retiree funding efforts and better project future liabilities. In fiscal 2008, the fund benefited from a one-time transfer of approximately $329 million from the Health Care Security Trust. The actuarial value of plan assets as of January 1, 2013 was approximately $406.7 million.

State Retiree Benefits Trust
(amounts in thousands)

	Actuarial Value of Plan Assets	Actuarial Liability	Accrued Unfunded Liability (UAAL)	Actuarial Ratio Covered	Funded Payroll	Annual Covered Payroll as % of UAAL
Actuarial Valuation as of Jan. 1, 2013	$406,700	$15,784,100	$15,377,400	2.64%	$5,183,195	296.7%
Actuarial Valuation as of Jan. 1, 2012	360,500	16,559,400	16,298,900	2.16	4,922,388	331.1
Actuarial Valuation as of Jan. 1, 2011	350,500	16,568,600	16,218,100	2.12	4,808,250	337.3
Actuarial Valuation as of Jan. 1, 2010	309,800	15,166,300	14,856,500	2.00	4,711,563	315.3
Actuarial Valuation as of Jan. 1, 2009	273,500	15,305,100	15,031,600	1.80	4,712,655	319.0
Actuarial Valuation as of Jan. 1, 2008	-	9,812,000	9,812,000	0.0	4,574,233	214.5

SOURCE: Office of the Comptroller and Public Employee Retirement Administration Commission.

A special commission to study retiree health care benefits for public employees in Massachusetts was mandated as part of the pension reform act passed in November, 2011. The commission held regular meetings between April and December, 2012 and filed a report on January 11, 2013. The report's recommendations include phasing in a higher minimum eligibility age to receive retiree health benefits and pro-rating the level of benefits received based on years of service. The commission's recommendations, if adopted, would generate savings of over $20 billion for state and local governments in the Commonwealth over the next 30 years, according to outside actuaries. On February 12, 2013, the Governor filed legislation to implement the Commission's recommendations. The bill has been referred to the Legislature's Joint Committee on Public Service. The committee held a hearing on the bill on October 31, 2013.

State finance law was amended in 2010 to require deposits, on an annual basis, to the State Retiree Benefits Trust Fund in the amount of 5% of any capital gains tax revenues transferred to the Stabilization Fund because they are in excess of the statutory capital gains threshold.

The fiscal 2012 budget included a requirement that, beginning in fiscal 2013, 10% of annual tobacco settlement payments received by the Commonwealth are to be transferred to the State Retiree Benefits Trust Fund, with the amount to be deposited to the State Retiree Benefits Trust Fund to increase by 10% increments annually thereafter until 100% of all payments are transferred to that Fund. The fiscal 2013 and fiscal 2014 budgets have adhered to this requirement, although the fiscal 2014 budget altered the funding sources. The projected fiscal 2013 and 2014 amounts to be deposited to the State Retiree Benefits Trust Fund as a result of this provision are $25 million and $50 million, respectively. See "COMMONWEALTH REVENUES AND EXPENDITURES – Federal and Other Non-Tax Revenues; *Tobacco Settlement*."

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STATE WORKFORCE

The following table sets forth information regarding the Commonwealth's workforce as of the end of the last five fiscal years.

State Workforce

	June 2009	June 2010	June 2011	June 2012	June 2013
Executive Office	72	69	76	69	68
Office of the Comptroller	115	115	113	109	111
Executive Departments					
Administration and Finance (2)	2,861	2,768	2,679	2,784	2,823
Energy and Environmental Affairs (1)	2,208	2,020	1,960	1,949	1,915
Housing and Community Development (1)	-	-	-	-	-
Early Education and Care (3)	-	-	-	-	-
Health and Human Services	20,895	19,763	19,435	19,397	19,379
Transportation and Public Works (4)	1,200	-	-	-	-
Board of Library Commissioners	13	10	10	10	10
Economic Development (1)	-	-	-	-	
Housing and Economic Development (1)	616	693	673	677	684
Labor and Workforce Development (1)	316	285	269	262	236
Executive Office of Education (3)	570	336	318	322	359
Department of Education (3)	-	-	-	-	-
Board of Higher Education (3)	-	-	-	-	-
Public Safety and Security	8,483	8,444	8,259	8,534	8,626
Elder Affairs	50	38	39	37	38
Subtotal under Governor's Authority	37,398	34,541	33,831	34,150	34,249
Judiciary	7,821	7,387	7,109	7,085	7,217
Higher Education	13,409	12,048	12,940	12,539	12,957
Other (5)	8,044	10,320	10,111	10,084	10,356
Subtotal funded by the Operating Budget	66,672	64,297	63,991	63,858	64,779
Federal Grant, Trust and Capital Funded	16,381	20,551	20,078	20,654	20,650
Total	**83,053**	**84,848**	**84,069**	**84,512**	**85,429**

SOURCE: Executive Office for Administration and Finance.

(1) Effective April 11, 2007, the Executive Office of Economic Development was divided into the Executive Office of Housing and Economic Development, incorporating the former Department of Housing and Community Development, and the Executive Office of Labor and Workforce Development. The Department of Public Utilities and the Department of Energy Resources were transferred to the renamed Executive Office of Energy and Environmental Affairs from the Executive Office of Economic Development, a net shift of 100 FTEs.

(2) Effective April 10, 2007, the Massachusetts Commission Against Discrimination became an independent agency, separating from the Executive Office for Administration and Finance, a new shift of 61 FTEs.

(3) Effective March 10, 2008, the Department of Early Education and Care, Department of Education and Board of Higher Education were consolidated under the Executive Office of Education.

(4) Effective November 1, 2009, the Executive Office of Transportation and Public Works, which included the Massachusetts Highway Department, Registry of Motor Vehicles and Massachusetts Aeronautics Commission, was abolished and in its place was established the Massachusetts Department of Transportation. A net shift of 1,269 occurred as these employees were transferred to the Massachusetts Department of Transportation's non-appropriated fund, the Massachusetts Transportation Trust Fund.

(5) Other includes members of the Legislature and their staff, the offices of the State Treasurer, Secretary, Auditor and Attorney General, the eleven District Attorneys, the seven former county sheriffs that have become state agencies, and other agencies independent from the Governor.

Unions and Labor Negotiations

Under Chapter 150E of the General Laws, all employees of the Commonwealth, with the exception of managerial and confidential employees and employees of the Legislature, have the right to bargain collectively with the Commonwealth through certified employee organizations recognized as exclusive bargaining representatives for appropriate bargaining units. The Human Resources Division of the Executive Office for Administration and Finance conducts the collective bargaining negotiations with all employees of the Commonwealth (except those noted below). 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 often funded by supplemental appropriations.

The Trial Court, the Lottery Commission, state sheriffs, the Registries of Deeds under the control of the Secretary of the Commonwealth, public higher education management and the PCA Council negotiate directly with their respective employee representatives, but all wage increases and other economic provisions contained in such agreements are subject to the review of the Governor and to funding approval by the Legislature. If the Governor does not recommend the requested appropriation to fund contractual increases, he may refer the contracts back to the parties for further negotiation.

Approximately 29,899 executive branch full-time-equivalent state employees are organized in 10 bargaining units, the employees of the Commonwealth's colleges and universities are organized in 24 bargaining units, and the employees of the judicial branch, the Lottery Commission, the Registries of Deeds, sheriffs and the PCAs are organized in 83 bargaining units. Public employees of the Commonwealth do not have a legal right to strike or otherwise withhold services.

The following is a description of certain terms of the most recent agreements with the collective bargaining units within the responsibility of the Human Resources Division. Negotiations have either concluded or are underway to extend the terms of current contracts.

(1) The contract with the National Association of Government Employees, representing Units 1, 3 and 6, ran from July, 2009 to June, 2012 and provided increases of 1%, 3% and 3% in June, 2010, 2011 and 2012, respectively. The contract has been extended by two years to June, 2014, with semiannual increases of 1.5%, and has received legislative approval. The total estimated cost of the contract is $43.5 million.

(2) The contract with the Service Employees International Union, representing employees in units 8 and 10, ran from January 1, 2009 through December 31, 2011 and provided salary increases of 1%, 3% and 3% in December, 2009, 2010 and 2011, respectively. The contract has been extended by two years to December 31, 2013, with semiannual increases of 1.5%, and has received legislative approval. The total estimated cost of the contract is $55.1 million.

(3) The contract with the American Federation of State, Country and Municipal Employees, representing unit 2, runs from July, 2009 through June, 2012 and provides increases of 1%, 3% and 3% in June, 2010, 2011 and 2012, respectively. The contract has been extended by two years to June, 2014, with semiannual increases of 1.5%, and has received legislative approval. The total estimated cost of the contract is $31.6 million.

(4) The contract with the Massachusetts Organization of State Engineers and Scientists, representing unit 9, runs from July, 2009 through June, 2012 and provides increase of 1%, 3% and 3% in June, 2010, 2011 and 2012, respectively. The contract has been extended by two years to June, 2014, with semiannual increases of 1.25%, and is awaiting legislative approval. The total estimated cost of the contract is $7.27 million.

(5) The contract with the New England Police Benevolent Association, representing unit 4A, runs from July 1, 2009 through June 30, 2012 and provides a 1% salary increase effective November 2010 and 3% increases on June 30, 2011 and 2012. The contract has been extended by two years to June, 2014, with semiannual increases of 1.5%, and has received legislative approval. The total estimated cost of the contract is $0.9 million.

(6) The contract with the Massachusetts Nurses Association runs from January 1, 2013 through December 31, 2014 and provides increases of 1.5%, 1.5% and 1.5% effective July 13, 2013, January 12, 2014 and July 13, 2014, respectively. The total estimated cost of the contract is $8.9 million.

(7) The contract with the State Police Association of Massachusetts runs from January 1, 2010 through December 31, 2012 and provides increases of 1%, 3% and 3% effective December 31 2010, 2011 and 2012, respectively. The total estimated cost of the contract is $5.8 million.

(8) The contract with the Massachusetts Correction Officers Federated Union runs from July 1, 2010 through June 30, 2013 and provides increases of 1%, 3% and 3% effective June 30, 2011, 2012 and 2013, respectively. The total estimated cost of the contract is $16.6 million. The contract has been extended by two years to June, 2015, with semiannual increases of 1.5%. The total estimated cost of the contract is $11.4 million.

(9) The contract with the Coalition of Public Safety runs from July 1, 2013 through June 30, 2015 and provides increases of 3% and 3% effective June 30, 2014 and 2015, respectively. The total estimated cost of the contract is $0.8 million.

(10) The contract with the International Association of Fire Fighters runs from January 1, 2013 through December 31, 2014 and provides increases of 3% effective December 31, 2013 and 2014. The total estimated cost of the contract is $0.1 million.

The following table sets forth information regarding the 12 bargaining units that are within the responsibility of the Human Resources Division.

Human Resources Division Bargaining Units (1)

Contract Unit	Bargaining Union	Type of Employee	FTEs	Contract Expiration Dates
1, 3, 6	National Association of Government Employees	Clerical, Skilled Trades, Administrative Professionals	9,145	6/30/14
2	Alliance/American Federation of State, County & Municipal Employees and Service Employees International Union	Institutional services	8,224	6/30/14
4	Massachusetts Correction Officers Federated Union	Corrections	3,882	6/30/15
4A	New England Police Benevolent Association	Corrections	88	6/30/14
5	Coalition of Public Safety	Law enforcement	204	6/30/15
5A, C22	State Police Association of Massachusetts	State Police	2,091	12/31/12
7	Massachusetts Nurses Association	Health professionals	1,550	12/31/14
8, 10	Alliance/Service Employees International Union	Social workers, Secondary Education	7,675	12/31/13
9	Massachusetts Organization of State Engineers and Scientists	Engineers/scientists	1,695	6/30/14
11	International Association of Fire Fighters	Fire fighters	32	12/31/14
		Total	**34,585**	

SOURCE: Executive Office for Administration and Finance.

(1) Numbers represent full-time equivalent filled positions (FTEs) in the standard workforce as of June 16, 2012 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).

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SELECTED FINANCIAL DATA

Stabilization Fund

The Stabilization Fund is established by state finance law as a reserve of surplus revenues to be used for the purposes of covering revenue shortfalls, covering state or local losses of federal funds or for any event which threatens the health, safety or welfare of the people or the fiscal stability of the Commonwealth or any of its political subdivisions. The fund is sometimes referred to as the state's "rainy day fund," serving as a source of financial support for the state budget in times of slow or declining revenue growth and as the primary source of protection against having to make drastic cuts in state services in periods of economic downturns. See "FISCAL 2013 AND FISCAL 2014" for a description of fiscal 2013 and 2014 activity in the Stabilization Fund.

Required Deposits and Allowable Stabilization Fund Balance. Beginning July 1, 2004, state finance law provided that (i) 0.5% of current year net tax revenues from each fiscal year be deposited into the Stabilization Fund at fiscal year-end, (ii) 0.5% of current-year net tax revenues be made available for the next fiscal year and (iii) any remaining amount of the year-end surplus be transferred to the Stabilization Fund. State finance law was amended in July, 2010 to provide that any tax revenue from capital gains that exceeds $1 billion in a fiscal year (adjusted annually, beginning in fiscal 2014, for U. S. gross domestic product growth) is to be deposited into the Stabilization Fund, with 5% of the amount so deposited then transferred to the State Retiree Benefits Trust Fund. Legislation approved by the Governor on July 27, 2012 provides that 5% of the amount deposited to the Stabilization Fund from capital gains must be transferred to the Commonwealth's Pension Liability Fund, in addition to the 5% transferred to the State Retiree Benefits Trust Fund. Prior to fiscal 2004, the allowable Stabilization Fund balance at fiscal year-end could not exceed 10% of the total revenues for that year. Since fiscal 2004, the allowable Stabilization Fund balance has been 15% of total current-year revenues. If the Stabilization Fund balance exceeds the allowable limit, the excess amounts are to be transferred to the Tax Reduction Fund. State finance law was further amended in July, 2013 to eliminate the requirement that at year end 0.5% of current year net tax revenue be deposited in the Stabilization fund and that 0.5% of current year net tax revenue be made available for the next fiscal year. Therefore, effective for fiscal years beginning with 2014, the entire year end surplus is required to be transferred to the Stabilization Fund.

The following chart shows the Stabilization Fund balance from fiscal 1987 through fiscal 2013 (actual) and fiscal 2014 (projected).

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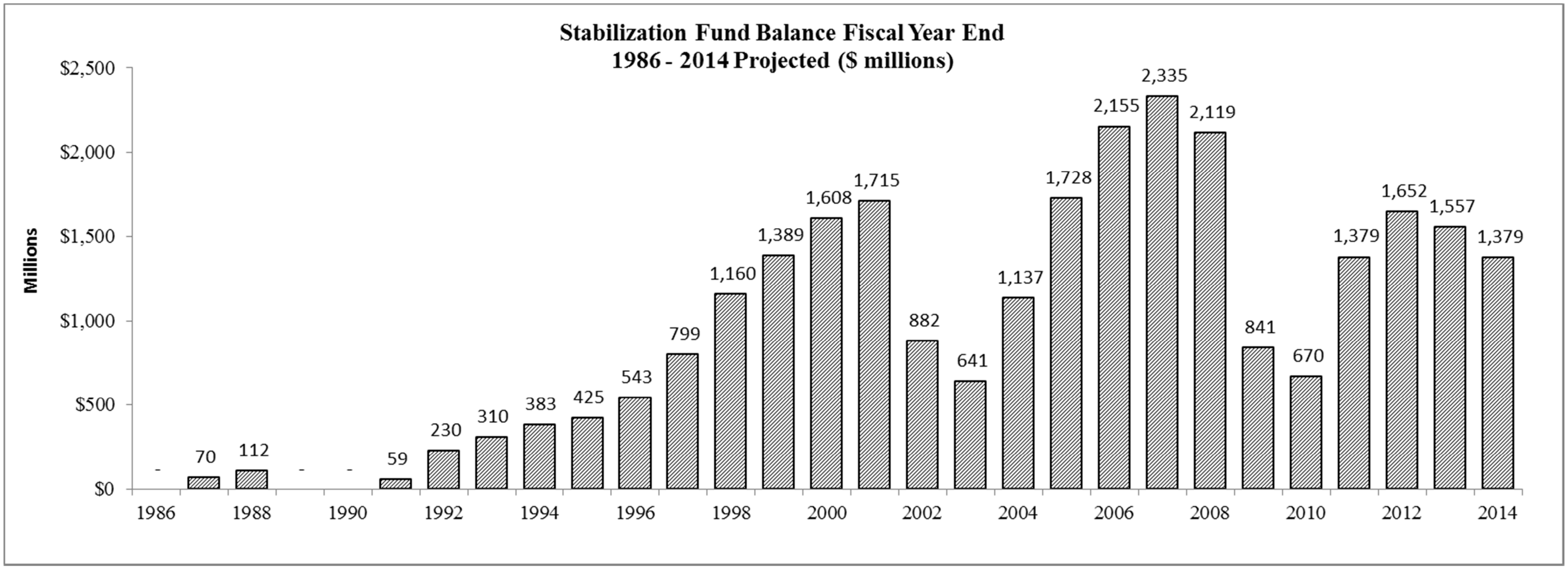

SOURCE: Fiscal 1986-Fiscal 2013, Office of the Comptroller; Fiscal 2014 (projected), Executive Office for Administration and Finance.

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The following table shows the sources and uses of the Stabilization Fund during fiscal 2009 through fiscal 2013:

Stabilization Fund Sources and Uses (in thousands)

	Fiscal 2009	**Fiscal 2010**	**Fiscal 2011**	**Fiscal 2012**	**Fiscal 2013**
Beginning fund balances	$2,119,194	$841,344	$669,803	$1,379,071	$1,652,118
Revenues and Other Sources					
Consolidated net surplus	64,747	11,269	348,605	116,673	-
Deposits made directly during fiscal year	-	-	350,000	-	-
Capital gains tax transfers in excess of $1 billion	-	-	-	-	467,500
Deposits due to judgments and settlements in excess of $10 million	-	-	-	375,021	32,498
Lottery transfer taxes	2,436	1,982	1,619	1,353	1,291
Investment income	43,967	21,782	9,044	10,408	5,322
Excess permissible tax revenue	-	-	9,044	-	-
Total Revenues and Other Sources	111,150	35,033	718,312	503,455	506,611
Total Expenditures and Other Uses	1,389,000	206,574	9,044	230,408	602,072
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	(1,277,850)	(171,541)	709,268	273,047	(95,461)
Ending fund balances	**$841,344**	**$669,803**	**$1,379,071**	**$1,652,118**	**$1,556,657**
Allowable Stabilization Fund Balance	**$4,382,687**	**$4,546,502**	**$4,961,300**	**$4,881,982**	**$5,066,844**

SOURCE: Office of the Comptroller.

GAAP Basis

The Commonwealth's GAAP financial statements for the year ended June 30, 2012, incorporated herein by reference as Exhibit C, are prepared in accordance with reporting standards first established by GASB Statements 34 and 35, as amended. See "COMMONWEALTH BUDGET AND FINANCIAL MANAGEMENT CONTROLS - Fiscal Control, Accounting and Reporting Practices of Comptroller." The GAAP financial statements present a government-wide perspective, including debt, fixed assets and accrual activity on a comprehensive statement of net assets. 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, are part of the statements. The Commonwealth's statement of revenues, expenditures and changes in fund balances are presented as a statement of activities.

The table below presents the transition from the Commonwealth's statutory basis budgetary fund balance to the "fund perspective" balance, as depicted in the fund financial statements, and then to the Commonwealth's "entity-wide" governmental financial position. Differences between statutory and GAAP basis can be summarized in five major adjustments. Those adjustments are for Medicaid (as well as the somewhat related liability for uncompensated care), taxes, projected amounts due to the Commonwealth in the next fiscal year under the master tobacco settlement agreement, claims and judgments and amounts due to authorities. As evidenced in the trend line of fund balance (deficit) over time, however, these adjustments connect the GAAP basis measurement when viewed using a fund perspective under GAAP and the statutory basis measurement. While the difference in fund balances may vary in a given fiscal year, both balances generally trend in the same direction. To convert to a full accrual basis, major adjustments are made for the net book value of the Commonwealth's assets, inclusive of infrastructure, the realizable value of long-term deferred revenues (largely from tax payment plans) and the amount of the Commonwealth's outstanding long-term debt and other liabilities.

Governmental Funds-Statutory to GAAP-Fund Perspective and to Governmental Net Assets

(Amounts in Millions of Dollars)

Governmental Funds-Statutory Basis, June 30, 2012	
Budgeted Fund Balance	$1,989.7
Non-budgeted special revenue fund balance	2,059.5
Capital Projects Fund Balance	(190.6)
Governmental Fund Balance-Statutory Basis, June 30, 2012	**$3,858.6**
Plus: Expendable Trust and similar fund statutory balances that are considered governmental fund for GAAP reporting purposes	545.4
Less: Massachusetts Department of Transportation Funds	(1,270.2)
Adjusted Statutory Governmental Fund Balance	**$3,133.8**
Short term accruals, net of allowances and deferrals for increases/(decreases)	
Taxes, net of refunds and abatements	1,893.2
Tobacco settlement agreement receivable	126.8
Medicaid	(247.1)
Assessments and other receivables	216.4
Amounts due to authorities and municipalities, net	(508.8)
Amounts due to healthcare providers and insurers	(106.6)
Workers' compensation and group insurance	(128.4)
Other accruals, net	175.0
Net increase to governmental funds balances	**$1,420.5**
Massachusetts School Building Authority fund balance	1,767.7
Total changes to governmental funds	**$3,185.2**
Governmental fund balance (fund perspective)	6,319.0
Plus: Capital assets including infrastructure, net of accumulated depreciation	4,259.9
Deferred revenue, net of other eliminations	889.4
Long term accruals:	
Pension benefits cumulative over/(under) funding	(1,418.9)
Post employment benefits other than pensions cumulative over/(under) funding	(3,446.0)
Environmental remediation liability	(240.8)
Massachusetts School Building Authority debt and school construction payables	(7,574.7)
Long term debt, unamortized premiums and deferred losses on debt refundings	(21,870.6)
Compensated Absences	(504.0)
Capital leases	(60.5)
Accrued interest on bonds	(363.6)
Other long term liabilities	(287.0)
Total governmental net assets (government-wide perspective)	**($24,297.8)**

SOURCE: Office of the Comptroller

The deficit of $24.3 billion in government-wide net assets can be largely attributed to the Commonwealth's policy decision to finance the construction of assets owned by other government entities, particularly transportation assets. Transportation reform legislation implemented during fiscal 2010 shifted these assets from the books of the Commonwealth to the newly formed Massachusetts Department of Transportation (MassDOT), a component unit of the Commonwealth. At the end of fiscal 2012, MassDOT held over $22.1 billion in road, bridge and other transportation-related assets (excluding assets of the Massachusetts Bay Transportation Authority), net of related depreciation, the vast majority of which were formerly held by the Commonwealth. Those assets were financed by the Commonwealth, and the debt remains a long-term obligation of the Commonwealth. In addition, the Commonwealth holds $5.9 billion in debt and grant obligations for the school building assistance program administered by the Massachusetts School Building Authority that finances construction of schools for the Commonwealth's cities and towns.

Change in Statement of Net Assets

(amounts in thousands of dollars)

	Governmental Activities	**Business Type Activities**	**Government Wide**
Total net assets:			
Fiscal Year 2011	($22,832,865)	$4,355,428	($18,463,953)
Fiscal Year 2012	(24,297,788)	4,912,212	(19,385,576)
Change in net assets	($1,464,923)	$556,784	($908,139)

SOURCE: Office of the Comptroller

During the fiscal year, approximately $830 million in restricted net asset balances were set aside for unemployment benefits and an additional approximate $1.086 billion were restricted for debt retirement.

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 2012:

Comparison of Fiscal 2012 Governmental Revenues (in millions)

	Governmental Funds	**GAAP Basis – Governmental**	
	Statutory Basis	Fund Perspective	Entity-wide Perspective
Taxes	$21,383	$21,533	$21,403
Federal Revenue	11,516	12,985	12,990
Departmental and Miscellaneous Revenue	17,369	19,851	9,943
Total	**$50,268**	**$54,369**	**$44,336**

SOURCE: Office of the Comptroller.

The following table provides financial results on a GAAP basis for all governmental operating funds of the Commonwealth for fiscal 2008 through fiscal 2012.

Governmental Fund Operations – GAAP Basis – Fund Perspective (in millions)

	Fiscal 2008	**Fiscal 2009**	**Fiscal 2010**	**Fiscal 2011**	**Fiscal 2012**
Beginning fund balances	$7,735.9	$7,062.7	$5,061.3	$4,585.7	$5,267.6
Revenues and Financing Sources	50,136.8	49,787.9	49,853.1	53,898.4	54,370.1
Expenditures and Financing Uses	50,810.0	51,789.3	50,328.7	53,216.5	53,318.8
Excess (deficit)	(673.2)	(2,001.4)	(475.6)	681.9	1,051.3
Ending fund balances—GAAP fund perspective	**$7,062.7**	**$5,061.3**	**$4,585.7**	**$5,267.6**	**$6,318.9**

SOURCE: Office of the Comptroller.

Financial Reports. The Commonwealth issues annual reports, including financial statements on the statutory basis of accounting (reviewed not audited) and the GAAP basis audited financial statements. These financial statements are issued as two separate reports, the Statutory Basis Financial Report (SBFR) and the Comprehensive Annual Financial Report (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, 2013 and the CAFR for the year ended June 30, 2012 are included herein by reference as Exhibits B and C, respectively. Copies of these financial reports are available at the address provided under "CONTINUING DISCLOSURE." The SBFR for fiscal 1997 through fiscal 2013 and the CAFR for fiscal 1994 through fiscal 2012 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" under the "Publications and Reports" tab.

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. For fiscal 1991 through 2012 the independent auditors' opinions were unqualified.

For each year beginning in fiscal 1991, the Commonwealth CAFRs, from which certain information contained in this Information Statement has been derived, have been 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 2011 marked the 21st consecutive year that the Commonwealth has received this award. The fiscal year 2012 CAFR has been submitted to the GFOA for the award.

Discussion of Financial Condition

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, 2013 is included herein by reference as Exhibit B. The CAFR for the year ended June 30, 2012 is included herein by reference as Exhibit C. Without limiting the generality of the references to the SBFR for the year ended June 30, 2013 and the CAFR for the year ended June 30, 2012, attention is called in particular to the portion of the CAFR under the heading "Management's Discussion and Analysis."

Auditors' Report on Fiscal 2012 CAFR

The basic financial statements included in the CAFR of the Commonwealth for the year ended June 30, 2012 were audited by KPMG LLP (KPMG). The KPMG audit report dated December 19, 2012 on the general purpose financial statements included in the CAFR for the year ended June 30, 2012 contained an unqualified opinion. A copy of the audit report of KPMG dated December 19, 2012 has been filed with EMMA 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, 2012. KPMG has not been engaged to perform, and has not performed, since the respective dates of its reports included herein, any procedures on the financial statements addressed in such reports, nor has said independent auditor performed any procedures relating to any official statement of which this Information Statement may be a part.

FISCAL 2013 AND FISCAL 2014

Fiscal 2013

The fiscal 2013 budget as originally approved authorized approximately $32.002 billion in spending, exclusive of approximately $1.552 billion in required pension contributions and $163 million in fiscal 2012 spending authorized to be continued into fiscal 2013 as part of fiscal 2012 end-of-year supplemental budgets. Approximately $266 million in supplemental appropriations were authorized during fiscal 2013 prior to June 30, 2013. Subsequent to year-end, an additional supplemental budget was enacted totaling approximately $175 million in new fiscal 2013 appropriations, all of which were continued to fiscal 2014 and re-appropriated.

On November 1, 2013, the Comptroller issued the fiscal 2013 Statutory Basis Financial Report (SBFR), which closed the books on fiscal 2013. As reported in the SBFR, fiscal 2013 budgeted fund total expenditures and other uses exceeded fiscal 2013 budgeted fund total revenues and other financing sources by $115 million, and fiscal 2013 ended with a budgeted fund balance of $1.874 billion. Of that amount, $1.557 billion was reserved in the Stabilization Fund, $297 million was reserved for continuing appropriations and debt service, and $21 million was undesignated.

The Stabilization Fund balance of $1.557 billion at the end of fiscal 2013 represents a $95 million decrease from the close of fiscal 2012. The Commonwealth withdrew $550 million from the Stabilization Fund to help maintain budgetary balance in fiscal 2013. In addition, $5 million of investment income was transferred from the Stabilization Fund to the General Fund, and a total of $47 million in capital gains tax revenue was deposited to the Stabilization Fund and then transferred from the Stabilization Fund to the State Retiree Benefits Trust Fund (SRBTF) ($23.4 million) and the Commonwealth's Pension Liability Fund ($23.4 million) in accordance with state finance law, which requires 10% of all capital gains taxes over $1 billion be transferred in equal 5% amounts to the SRBTF and the Commonwealth's Pension Liability Fund. The fiscal 2013 withdrawals from the Stabilization Fund were offset by $500 million in transfers to the Stabilization Fund from the General Fund in accordance with two recent statutory requirements, which mandated that capital gains tax collections in excess of $1 billion in any fiscal year and judgments and settlements in excess of $10 million (except as otherwise directed by the Legislature) be deposited directly to the Stabilization Fund.

Fiscal 2014

The fiscal 2014 budget was enacted by the Legislature on July 1, 2013 and approved by the Governor on July 12, 2013. A $4.075 billion interim budget for the first 30 days of fiscal 2014 had been enacted by the Legislature and approved by the Governor on June 21, 2013. Total spending in the fiscal 2014 budget approved by the Governor amounts to approximately $34.063 billion, after accounting for $435.4 million in veto overrides. The fiscal 2014 budget also provides that $85 million of the fiscal 2013 budgetary surplus is to go to the Massachusetts Community Preservation Trust Fund ($25 million), to the Massachusetts Life Sciences Investment Fund ($19.5 million), to the Housing Stabilization Trust Fund ($10 million), to the Department of Early Education and Care ($11.5 million), to private human and social services providing for a one-time rate reserve payment ($11.5 million) and to the Social Innovation Financing Trust Fund ($7.5 million). Subsequently, the fiscal 2013 final supplemental appropriation bill signed by the Governor on October 29, 2013 provided that $21.8 million of the fiscal budgetary surplus would fund core information technology costs to support services provided to residents and business.

The fiscal budget assumes tax revenues of $22.797 billion, reflecting the consensus tax estimate of $22.334 billion, adjusted for the impact of revenue initiatives enacted as part of the budget, most notably a one-year delay of the FAS 109 deductions (additional $45.9 million), enhanced tax enforcement initiatives (additional $35 million) and an Amazon agreement (additional $36.7 million), as well as approximately $370.0 million in tax revenues included in the transportation finance legislation enacted on July 24, 2013. The tax estimate also reflects the estimated cost of the subsequently enacted two-day sales tax holiday held on August 10-11, 2013 ($24.3 million). (The enacting legislation for the sales tax holiday required that proceeds of one-time settlements and judgments that otherwise would have been transferred to the Commonwealth Stabilization Fund, be used to reimburse the General Fund for foregone tax revenue as a result of the holiday.) Approximately $1.060 billion of the $22.797 billion tax estimate is assumed to be generated from taxes on capital gains. Approximately $37 million of that amount will be deposited into the Stabilization Fund and will not be available for budgetary purposes pursuant to the certification released by the Department of Revenue on December 28, 2012, that established a fiscal 2014 capital gains threshold of $1.023 billion.

On September 27, 2013, the Governor signed a bill that repealed the expansion of the sales tax to computer systems design services that had been enacted by the Legislature on July 24, 2013, retroactive to its effective date. The tax had been expected to raise $181 million annually by fiscal 2018. The fiscal 2014 budget had included $161 million in expected revenue from the tax.

The fiscal 2014 budget relies on $696 million in one-time resources to support recurring spending, down from the fiscal 2013 assumption of $920 million. Among the one-time resources assumed as part of the fiscal 2014 budget is a $350 million withdrawal from the Stabilization Fund, using debt service reversions instead of tobacco settlement proceeds to fund the scheduled fiscal 2014 State Retiree Benefits Trust Fund deposit ($51 million) and redirecting $35 million in projected one-time tax settlements and judgments to the General Fund that would otherwise be statutorily required to be deposited to the Stabilization Fund. The net withdrawal, after accounting for projected deposits of capital gain revenues and tax settlements, is $231 million. The fiscal 2014 Stabilization Fund ending balance, based on fiscal 2013 year-to-date deposits and withdrawals and those assumed in the fiscal 2014 budget, is projected to be $1.379 billion.

On October 15, the Secretary of Administration and Finance certified that based on available data on tax collections and economic trends he did not believe it was necessary to revise the fiscal 2014 tax revenue estimate of $22.797 billion. He noted that while year-to-date tax revenues through September were $199 million above the budgetary benchmark, in light of the repeal of the software sales tax and economic uncertainty related to ongoing federal budget dynamics, it was prudent to retain the existing tax revenue estimate. The Secretary also announced that the Executive Office for Administration and Finance was currently forecasting lower than expected performance for non-tax revenues (approximately $150 million in reduced revenue relative to levels originally assumed in the enacted fiscal 2014 budget). He stated that the Executive Office for Administration and Finance would continue to monitor all aspects of revenue performance closely as one component of fiscal 2014 budget management.

Cash Flow

The State Treasurer is responsible for cash management and ensuring that all Commonwealth financial obligations are met on a timely basis. See "COMMONWEALTH BUDGET AND FINANCIAL MANAGEMENT CONTROLS - Cash Management Practices of State Treasurer." The Commonwealth does not engage in inter-fund borrowing. Cash flow management incorporates the periodic use of short-term borrowing to meet cash flow needs for both capital and operating expenditures. All revenue anticipation notes, including those issued as commercial paper, must be repaid by the end of the fiscal year. The state currently has liquidity support for a $400 million tax-exempt commercial paper program for general obligation notes. The Commonwealth has relied upon the commercial paper program for additional liquidity since 2002.

The Commonwealth ended fiscal 2013 with a non-segregated cash balance of approximately $2.276 billion. The most recent cash flow statement projects a fiscal 2014 ending balance of approximately $2.379 billion.

The fiscal 2013 and fiscal 2014 cash flow statements released by the State Treasurer and the Secretary of Administration and Finance on September 5, 2013 are summarized in the tables below. Fiscal 2014 is based upon the budget signed on July 12, 2013 and all supplemental appropriations filed, enacted or anticipated, and includes all prior appropriations continued into fiscal year 2014. Fiscal 2014 projections are based on actual spending and revenue through July, 2013 and estimates for the remainder of the fiscal year. Quarterly cash flow statements, as submitted by the State Treasurer to the House and Senate Committees on Ways and Means, are posted on the cash management page of the State Treasurer's website.

Commonwealth cash deposits are held in insured or collateralized bank accounts and with the Massachusetts Municipal Depository Trust (MMDT), the Commonwealth's investment pool for governmental entities.

MMDT is comprised of two portfolios, professionally managed by Federated Investors Inc., the Cash Portfolio and the Short Term Bond Fund. The Cash Portfolio investments are carried at amortized cost, which approximates fair value and the Short Term Bond Fund investments are carried at fair value.

The Cash Portfolio invests in a diversified portfolio of high quality United States dollar-denominated money market instruments (eligible under Rule 2a-7 of the Securities and Exchange Commission) of domestic and foreign issuers, United States government securities and repurchase agreements. As of September 30, 2013, the Cash Portfolio holdings were made up of commercial paper and notes (45.5%), variable rate instruments (14.9%), repurchase agreements (13.4%) and bank instruments (26.2%). As of September 30, 2013, the Cash Portfolio's weighted average life was 83 days, and the weighted average maturity was 62 days.

The Short Term Bond Fund invests in a diversified portfolio of investment grade debt securities. As of September 30, 2013, the Short Term Bond Fund holdings were made up of Adjustable Rate Mortgages (1.1%), Asset Backed Securities (8.9%), Corporate Bonds (38.3%), Mortgage Backed Securities (2.5%), Collateralized Mortgage Obligations (4.1%), U.S Treasury obligations (38.7%), Government Agencies (5.9). As of September 30, 2013, the fund's weighted average effective duration was 2.49 years, and the weighted average effective maturity was 2.63 years.

The Commonwealth's five-year capital investment plan, which is reviewed annually, calls for fiscal 2014 bond issuance of approximately $2.75 billion, which includes $2.0 billion in borrowings subject to the bond cap, $597.9 million in borrowings for the Accelerated Bridge Program and $151.9 million for project-finance spending. For cash flow needs for fiscal 2014, the Treasury issued $800.0 million in revenue anticipation notes to augment the Commonwealth's liquidity due to the statutory changes to the disbursement of local aid. As in previous years, all cash flow borrowing will be repaid in the final quarter of fiscal 2014.

The next cash flow statement is expected to be released on or about November 29, 2013.

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The following table provides General Fund ending cash balances by month for fiscal 2010 through fiscal 2014.

Month End General Fund Cash Balances (in millions)

	Fiscal 2010	**Fiscal 2011**	**Fiscal 2012**	**Fiscal 2013**	**Fiscal 2014**
July	$ 581.8	$ 1,082.2	$ 2,194.7	$ 1,944.4	$ 1,253.7
August	837.7	1,852.1	2,153.1	1,505.4	1,067.0 (1)
September	1,033.1	1,715.3	1,462.0	675.8	2,415.1(1)
October	703.4	1,522.2	1,522.5	2,175.8	1,724.2(1)
November	529.2	1,661.9	1,973.0	1,625.7	1,305.7(1)
December	890.0	1,558.0	1,287.4	1,018.4	1,791.4(1)
January	1,271.7	1,948.2	1,995.5	1,597.6	2,174.2(1)
February	988.4	1,591.3	1,551.2	1,334.9	1,211.4(1)
March	891.4	924.8	860.1	368.3	1,087.9(1)
April	1,335.9	2,246.0	1,823.8	2,001.3	1,997.4(1)
May	1,515.1	2,363.0	1,643.4	1,829.7	1,671.5(1)
June	844.3	2,200.4	2,096.7	2,276.6	2,379.9(1)

SOURCE: Office of the Treasurer and Receiver-General.

(1) Fiscal 2014 ending balances are estimated for August through June.

The following tables provide cash flow detail for fiscal 2013 and fiscal 2014.

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Overview of Fiscal 2013 Non-Segregated Operating Cash Flow (in millions) (1)

(as of September 5, 2013)

	Jul-12	Aug-12	Sep -12	Oct-12	Nov -12	Dec-12	Jan-13	Feb-13	Mar-13	Apr-13	May-13	June-13	Total FY 2013
Opening Non-Segregated Operating Cash Balance	$2,096.7	$1,944.4	$1,505.4	$675.8	$2,175.5	$1,625.7	$1,018.4	$1,597.6	$1,334.9	$368.3	$2,001.3	$1,829.7	$2,096.7
Operating Activities:													
Budgetary Funds:													
Transfer from/(to) Stabilization Fund	0.0	0.0	4.0	0	(114.3)	0.0	(94.6)	0.0	0.0	17.1	1.4	275.8	89.5
Total Budgetary Revenue/Inflows	2,399.1	2,449.3	3,298.0	2,598.4	2,175.8	3,299.4	3,334.1	2,344.1	3,116.7	4,294.4	2,832.5	3,651.8	35,793.6
Total Budgetary Expenditures/Outflows	2,361.8	3,109.3	3,231.7	2,279.0	2,637.8	3,272.4	2,461.0	2,407.1	3,689.0	2,440.8	2,111.9	2,576.4	32,578.1
Net Budgetary Funds	37.4	(660.1)	66.3	319.4	(462.0)	27.1	873.1	(63.0)	(572.3)	1,853.6	720.7	1,075.4	3,215.5
Non Budgetary Funds (Non Budgetary, Higher Ed and Trust Funds):													
Total Non Budgetary Revenue/Inflows	854.6	1,568.5	330.4	856.4	873.0	672.8	673.9	782.5	1,056.2	750.4	826.5	510.7	9,756.0
Total Non Budgetary Expenditures/Outflows	871.6	1,066.0	1,240.8	1,086.8	878.6	1,476.0	914.9	866.2	1,271.0	861.0	938.5	1,224.7	12,696.2
Net Non Budgetary Funds	(17.0)	502.4	(910.4)	(230.4)	(5.6)	(803.2)	(241.0)	(83.7)	(214.8)	(110.6)	(111.9)	(714.0)	(2,940.2)
Net Undesignated Revenue/Inflows and Expenditures/Outflows	1.1	1.6	3.3	1.6	1.2	9.0	1.5	0.9	5.3	1.3	4.3	2.6	33.9
Net Operating Activities	**$21.5**	**($156.0)**	**($840.9)**	**$90.7**	**($466.3)**	**($767.1)**	**$633.7**	**($145.8)**	**($781.8)**	**$1,744.3**	**$613.1**	**$364.0**	**$309.2**
Federal Grants:													
Total Federal Grants Revenue/Inflows	168.4	110.0	341.2	111.4	154.7	241.7	176.2	186.6	166.8	252.5	203.0	346.5	2,459.9
Total Federal Grants Expenditures/Outflows	242.6	247.8	164.2	146.1	183.0	239.6	193.1	222.1	227.9	213.6	212.5	227.5	2,520.1
Net Federal Grants	**($74.2)**	**($136.8)**	**$177.0**	**($34.7)**	**($28.3)**	**$2.1**	**($16.9)**	**($35.6)**	**($61.1)**	**$38.9**	**($9.5)**	**$119.0**	**($60.2)**
Capital Funds:													
Total Capital Revenue/Inflows	152.8	121.3	51.1	453.8	159.7	352.9	195.1	64.1	54.5	640.7	40.6	209.0	2,495.7
Total Capital Expenditures/Outflows:	252.4	267.5	216.8	223.7	214.9	195.2	232.7	145.4	178.3	184.1	208.1	245.1	2,564.0
Net Capital Funds	**($99.5)**	**($146.2)**	**($165.7)**	**$230.1**	**($55.2)**	**$157.7**	**($37.5)**	**($81.3)**	**($123.8)**	**$456.5**	**($167.5)**	**($36.1)**	**($68.4)**
Financing Activities:													
Cash Flow Financing Activities Inflows:													
Commercial Paper	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Revenue Anticipation Notes (RANS)	0.0	0.0	0.0	1,213.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1,213.7
Total Cash Flow Financing Activities Inflows	0.0	0.0	0.0	1,213.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1,213.7
Cash Flow Financing Activities Outflows:													
Commercial Paper – (Principal + Interest)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
RANS – (Principal + Interest)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	606.7	607.7	0.0	1,214.4
Total Cash Flow Financing Activities Outflows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	606.7	607.7	0.0	1,214.4
Net Financing Activities	**$ 0.0**	**$0.0**	**$0.0**	**$1,213.7**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**($606.7)**	**($607.7)**	**$0.0**	**($0.7)**
Ending Non-Segregated Operating Cash Balance	**$1,944.4**	**$1,505.4**	**$675.8**	**$2,175.5**	**$1,625.7**	**$1,018.4**	**$1,597.6**	**$1,334.9**	**$368.3**	**$2,001.3**	**$1,829.7**	**$2,276.6**	**$2,276.6**

SOURCE: Office of the Treasurer and Receiver-General.

(1) Totals may not add due to rounding.

(2) Figures are estimated.

Overview of Fiscal 2014 Non-Segregated Operating Cash Flow (in millions) (1)

(as of September 5, 2013)

	Jul-13	Aug-13 (2)	Sep -13 (2)	Oct-13 (2)	Nov -13 (2)	Dec-13 (2)	Jan-14 (2)	Feb-14 (2)	Mar-14(2)	Apr-14 (2)	May-14(2)	June-14(2)	Total FY 2014 (2)
Opening Non-Segregated Operating Cash Balance	$2,276.5	$1,253.8	$1,067.0	$2,415.1	$1,724.2	$1,305.7	$1,791.4	$2,174.2	$1,211.4	$1,087.9	$1,997.4	$1,671.5	$2,276.5
Operating Activities:													
Budgetary Funds:													
Transfer from/(to) Stabilization Fund	(145.6)	350.0	(33.6)	0.0	0.0	25.4	(18.3)	0.0	(16.9)	0.0	(18.3)	1.4	144.2
Total Budgetary Revenue/Inflows	2,459.1	2,816.7	3,254.5	2,714.0	2,491.6	3,463.0	3,344.5	2,464.6	3,614.6	4,250.6	2,788.8	3,879.2	37,541.3
Total Budgetary Expenditures/Outflows	3,120.7	3,026.5	2,647.3	3,010.6	3,024.6	2,896.2	3,050.5	3,254.9	3,508.0	2,961.8	2,664.2	2,670.8	35,836.1
Net Budgetary Funds	(661.7)	(209.8)	607.1	(296.5)	(532.9)	566.8	294.0	(790.3)	106.6	1,288.8	124.7	1,208.4	1,705.2
Non Budgetary Funds (Non Budgetary, Higher Ed and Trust Funds):													
Total Non Budgetary Revenue/Inflows	693.1	995.8	1,081.8	815.8	802.8	886.8	1,047.8	864.5	998.8	838.8	835.8	897.8	10,760.0
Total Non Budgetary Expenditures/Outflows	954.5	1,044.0	1,156.7	990.7	965.7	1,088.7	974.2	1,000.6	1,163.6	982.0	982.5	1,140.5	12,443.7
Net Non Budgetary Funds	(261.4)	(48.2)	(74.9)	(174.9)	(162.9)	(201.9)	73.6	(136.1)	(164.8)	(143.2)	(146.7)	(242.7)	(1,683.7)
Net Undesignated Revenue/Inflows and Expenditures/Outflows	0.7	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	11.7
Net Operating Activities	**($922.4)**	**($257.0)**	**$533.3**	**($470.4)**	**($694.8)**	**$365.9**	**$368.7**	**($925.3)**	**($57.2)**	**$1,146.7**	**($21.0)**	**$966.7**	**$33.3**
Federal Grants:													
Total Federal Grants Revenue/Inflows	163.6	180.0	210.0	175.0	170.0	200.0	175.0	175.0	192.0	175.0	180.0	200.5	2,196.1
Total Federal Grants Expenditures/Outflows	39.8	213.8	208.0	186.3	185.3	198.0	186.3	179.8	208.0	186.3	185.3	198.0	2,174.9
Net Federal Grants	**123.8**	**($33.8)**	**$2.0**	**($11.3)**	**($15.3)**	**$2.0**	**($11.3)**	**($4.8)**	**($16.0)**	**($11.3)**	**($5.3)**	**$2.5**	**$21.2**
Capital Funds:													
Total Capital Revenue/Inflows	48.5	456.7	324.7	115.5	576.7	419.0	300.2	237.6	219.2	227.0	302.8	379.7	3,607.8
Total Capital Expenditures/Outflows:	272.7	352.6	311.9	324.8	285.2	301.2	274.7	270.3	269.5	250.9	299.5	337.5	3,550.8
Net Capital Funds	**(224.2)**	**$104.1**	**$12.8**	**($209.3)**	**$291.5**	**$117.8**	**$25.5**	**($32.7)**	**($50.3)**	**($23.9)**	**$3.3**	**$42.2**	**$57.0**
Financing Activities:													
Cash Flow Financing Activities Inflows:													
Commercial Paper	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Revenue Anticipation Notes (RANS)	0.0	0.0	800.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	800.0
Total Cash Flow Financing Activities Inflows	0.0	0.0	800.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	800.0
Cash Flow Financing Activities Outflows:													
Commercial Paper – (Principal + Interest)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
RANS – (Principal + Interest)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	202.0	303.0	303.0	808.0
Total Cash Flow Financing Activities Outflows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	202.0	303.0	303.0	808.0
Net Financing Activities	**0.0**	**$0.0**	**$800.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**($202.0)**	**($303.0)**	**($303.0)**	**($8.0)**
Ending Non-Segregated Operating Cash Balance	**1,253.8**	**$1,067.0**	**$2,415.1**	**$1,724.2**	**$1,305.7**	**$1,791.4**	**$2,174.2**	**$1,211.4**	**$1,087.9**	**$1,997.4**	**$1,671.5**	**$2,379.9**	**$2,379.9**

SOURCE: Office of the Treasurer and Receiver-General.

(1) Totals may not add due to rounding.

(2) Figures are estimated.

LONG-TERM LIABILITIES

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

Commonwealth Debt. The State Treasurer is statutorily responsible for the borrowing needs of the Commonwealth, including short-term cash flow needs and long-term borrowing needs for the capital budget. Borrowing is accomplished through the sale of short-term notes and long-term bonds. The Commonwealth is authorized to issue three types of direct debt – 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. See “General Obligation Debt” below. Special obligation debt may be secured either with a pledge of receipts credited to the Commonwealth Transportation Fund (formerly the Highway Fund) or with a pledge of receipts credited to the Convention Center Fund. See “Special Obligation Debt” below. Federal grant anticipation notes are secured by a pledge of federal highway construction reimbursements. See “Federal Grant Anticipation Notes” below.

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 (a) general obligation contract assistance liabilities, (b) budgetary contract assistance liabilities or (c) contingent liabilities. In addition, the Commonwealth is authorized to pledge its credit in support of scheduled, periodic payments to be made by the Commonwealth under interest rate swaps and other hedging agreements related to bonds or notes of the Commonwealth.

General obligation contract assistance liabilities arise from statutory requirements for payments by the Commonwealth to the Massachusetts Water Pollution Abatement Trust, the Massachusetts Department of Transportation and the Massachusetts Development Finance Agency that are used by such entities to pay a portion of the debt service on certain of their outstanding bonds. Such liabilities constitute a pledge of the Commonwealth’s credit for which a two-thirds vote of the Legislature is required. See “General Obligation Contract Assistance Liabilities” below.

Budgetary contract assistance liabilities arise from statutory requirements for payments by the Commonwealth under capital leases and other contractual agreements. Such liabilities do not constitute a pledge of the Commonwealth’s credit. See “Budgetary Contract Assistance Liabilities” below.

Contingent liabilities relate to debt obligations of certain 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 or may be pledged, as in the case of certain debt obligations of the MBTA, regional transit authorities, the Woods Hole, Martha’s Vineyard and Nantucket Steamship Authority, and the higher education building authorities. The Commonwealth has certain statutorily contemplated payment obligations 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 moneys otherwise appropriated for the affected institution, owed by certain community colleges and state universities on bonds issued by the former Massachusetts Health and Educational Facilities Authority (now the Massachusetts Development Finance Agency) and the Massachusetts State College Building Authority. See "Contingent Liabilities" below.

Statutory Limit on Direct Debt. Since December, 1989, state finance law has included a limit on the amount of outstanding "direct" bonds of the Commonwealth. For fiscal 2012, the debt limit was $18.944 billion under the statute in place during fiscal 2012. In August, 2012, state finance law was amended, effective January 1, 2013, to specify that the debt limit be calculated for fiscal years starting in fiscal 2013 using a fiscal 2012 base value of $17,070,000,000 and increasing the limit for each subsequent fiscal year to 105% of the previous fiscal year's limit. Based on this calculation, the statutory limit on "direct" bonds during fiscal 2014 is $18,819,675,000. Prior to June 10, 2013, this limit was calculated using a statutory definition that differed from GAAP in that the principal amount of outstanding bonds included the amount of any premium and was measured net of any discount, costs of issuance and other financing costs ("net proceeds"). On June 10, 2013, state finance law was amended, effective January 1, 2013, to change the statutory definition of outstanding debt from net proceeds to principal outstanding, a change that brings the debt outstanding definition in conformance with GAAP.

The debt limit law 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 special legislation enacted over the years, certain outstanding Commonwealth debt obligations are not counted in computing the amount of bonds subject to the limit, including Commonwealth refunding/restructuring bonds issued in September and October, 1991, federal grant anticipation notes, bonds issued to pay operating notes issued by the MBTA or to reimburse the Commonwealth for advances to the MBTA, bonds payable from the Central Artery and Statewide Road and Bridge Infrastructure Fund, bonds issued to finance the Massachusetts School Building Authority and bonds issued to finance the Commonwealth's Accelerated Bridge Program.

The outstanding Commonwealth debt, the amounts of such outstanding debt excluded from the statutory debt limit, the net amounts of such outstanding Commonwealth debt subject to the statutory debt limit and the statutory debt limit as of the end of each of the last five fiscal years are shown in the following table on a statutory basis. Previous versions of this table published in Commonwealth Information Statements and in the corresponding schedules to the Commonwealth's Comprehensive Annual Financial Reports contained incorrect information for fiscal 2011 and fiscal 2012. That information has been corrected in this table. For fiscal 2009 through fiscal 2012, the table below shows the calculation of the debt limit prior to the passage of the legislation approved on June 10, 2013, as described above, and is presented showing net proceeds. For fiscal 2013 the limit calculations are presented showing principal amounts as required by the amended law.

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Calculation of the Debt Limit
(in thousands)

	Fiscal 2009	Fiscal 2010	Fiscal 2011	Fiscal 2012	Fiscal 2013 (3)
Principal balance as of June 30	$19,264,569	$19,726,507	$20,875,055	$21,433,553	$21,513,039
Plus/ (less) amounts excluded:					
Net unamortized (discount)/premium and issuance costs	216,890	216,688	335,078	477,815	N/A
Total net proceeds/principal	19,481,459	19,943,195	21,210,133	21,911,368	$21,513,039
Less: net proceeds/principal of direct debt excluded from the statutory debt limit:					
Special obligation debt (1)	(1,100,698)	(1,063,500)	(1,025,739)	(986,050)	(935,095)
Accelerated bridge program	-	-	(672,587)	(1,035,859)	(988,605)
Federal grant anticipation notes (1)	(1,134,797)	(997,467)	(691,398)	(628,290)	(449,100)
Assumed county debt	(300)	(225)	(150)	(75)	-
MBTA forward funding	(231,000)	(165,559)	(45,907)	(207)	(207)
Transportation Infrastructure Fund	(1,401,581)	(1,243,250)	(1,362,894)	(1,345,406)	(1,303,013)
School Building Assistance (SBA)	(921,751)	(894,502)	(841,841)	(811,088)	(764,338)
Outstanding direct debt, net proceeds/principal (2)	$14,691,332	$15,578,692	$16,569,617	$17,104,393	$17,072,681
Statutory Debt Limit	**$16,365,011**	**$17,183,261**	**$18,042,424**	**$18,944,152**	**$17,923,500**

SOURCE: Office of the Comptroller. Fiscal 2013 amounts are unaudited.

(1) Includes federal grant anticipation notes issued as crossover refunding bonds. The refunding escrows funded by these bonds and related premiums are used to pay interest on the refunding bonds until the refunded bonds are callable and then to redeem the refunded bonds. Interest on the refunded bonds prior to redemption continues to be paid from pledged revenues as before.

(2) Includes capital appreciation bonds reported at original net proceeds.

(3) For fiscal 2009 through 2012, debt outstanding was defined in state finance law as net proceeds of debt issued. State finance law was amended, effective January 1, 2013, to change the statutory definition of outstanding debt from net proceeds to principal. Therefore, fiscal years prior to 2013 are calculated using net proceeds; fiscal 2013 and thereafter are calculated using principal.

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.

As of October 31, 2013, the Commonwealth had approximately $19.2 billion in general obligation bonds outstanding, of which $ 15.5 billion, or approximately 81% was fixed rate debt and $3.7 billion, or 19%, was variable rate debt. The Commonwealth's outstanding general obligation variable rate debt consists of several variable rate structures. Most of the outstanding variable rate bonds are in the form of variable rate demand bonds, which account for $761.6 million of outstanding general obligation debt as of October 31, 2013. Other outstanding variable rate structures include LIBOR Index bonds, auction rate securities, SIFMA Index Bonds and consumer price index bonds. The variable rate demand bonds are generally supported by liquidity facilities that require the bonds to be tendered by a specified date if the facility is not replaced or the bonds are not otherwise refinanced. See "Liquidity Facilities." Certain of the Commonwealth's variable rate demand bonds have been converted to an "index floating mode" for direct purchase by a bank. As of October 31, 2013, the Commonwealth had approximately $445.9 million of bonds in such a mode. Of the variable rate debt outstanding, the interest rates on $2.8 billion, or approximately 14% of total general obligation debt, have been synthetically fixed by means of floating-to-fixed interest rate swap agreements. These agreements are used as hedges to mitigate the risk associated with variable rate bonds.

Under state finance law, scheduled, periodic payments to be made by the Commonwealth pursuant to swap agreements in existence on August 1, 2008 or entered into after such date constitute general obligations of the Commonwealth to which its full faith and credit are pledged. The remaining variable rate debt of $853.0 million, or approximately 4.45% of the total outstanding general obligation debt, is unhedged and, accordingly, floats with interest rates re-set on a periodic basis.

As of October 31, 2013, the Commonwealth had outstanding approximately $122.5 million ($65.6 million principal and including a discount equal to $56.9 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%.

The Commonwealth has issued general obligation bonds in the form of Build America Bonds (BABs). BABs were authorized under the federal American Recovery and Reinvestment Act of 2009 (ARRA). Pursuant to ARRA, the Commonwealth is entitled to receive a cash subsidy from the federal government equal to 35% of the investment payable on the BABs provided the Commonwealth makes certain required filings in accordance with applicable federal rules. Such interest subsidy payments are treated under federal law as overpayments of tax and, accordingly, are subject to offset against certain amounts that may be owed by the Commonwealth to the federal government or its agencies. On March 4, 2013, the Internal Revenue Service indicated that such interest subsidy payment would be subject to a sequestration reduction of 8.7% through September 30, 2013 under the Budget Control Act of 2011, and on September 30, 2013, the Internal Revenue Service announced that such interest subsidy payment will be subject to a sequestration reduction of 7.2% through September 30, 2014. Beginning in fiscal 2012, such payments received by the Commonwealth are required to be deposited in a Build America Bonds Subsidy Trust Fund and used, without further legislative appropriation, to pay debt service on the related BABs. The Commonwealth is obligated to make payments of principal and interest on the BABs whether or not it receives interest subsidy payments. As of October 31, 2013, the Commonwealth had approximately $2.1 billion of BABs outstanding.

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 revenue 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, in some circumstances special obligation bonds. See "Special Obligation Debt" below. In addition, as of October 31, 2013 the Commonwealth had liquidity support for a $400 million commercial paper program which it utilizes regularly for cash flow purposes. In addition to borrowing via its commercial paper program, the Commonwealth issues fixed-rate revenue anticipation notes (or "RANs").

Special Obligation Debt

Commonwealth Transportation Fund. Section 2*O* of Chapter 29 of the General Laws, as amended, authorizes the Commonwealth to issue special obligation bonds secured by all or a portion of revenues accounted to the Commonwealth Transportation Fund (formerly the Highway Fund). Revenues, which are currently accounted to the Commonwealth Transportation 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 and registry of motor vehicles fees.

Between 1992 and 2005, the Commonwealth issued special obligation bonds secured by a lien on a specified portion of the motor fuels excise tax. As of October 31, 2013, the Commonwealth had outstanding approximately $296.4 million of such special obligation bonds secured by a pledge of 6.86¢ of the 24¢ motor fuels excise tax. In December, 2010, the trust agreement securing such bonds was closed to further issuance of debt.

The Commonwealth is also authorized to issue $1.875 billion of special obligation bonds secured by a pledge of all or a portion of revenues accounted to the Commonwealth Transportation Fund to fund a portion of the Commonwealth's accelerated structurally-deficient bridge program (CTF Bonds). As of October 31, 2013, the Commonwealth had outstanding approximately $988.6 million of CTF Bonds. Approximately $423.7 million of additional CTF Bonds were sold on November 5, 2013 for expected delivery on November 13, 2013. See "COMMONWEALTH CAPITAL INVESTMENT PLAN."

A portion of the outstanding CTF Bonds were issued as BABs (approximately $419.8 million) and as Recovery Zone Economic Development Bonds (RZEDBs) (approximately $156.4 million). Pursuant to ARRA, the Commonwealth is entitled to receive cash subsidy payments from the federal government equal to 35% of the debt service payable on the BABs and 45% of the debt service payable on the RZEDBs, provided, in both cases, that the Commonwealth makes certain required filings in accordance with applicable federal rules. As noted above, such subsidy payments are treated under federal law as overpayments of tax and, accordingly, are subject to offset against certain amounts that may be owed by the Commonwealth to the federal government or its agencies. On March 4, 2013, the Internal Revenue Service indicated that such interest subsidy payment would be subject to a sequestration reduction of 8.7% through September 30, 2013 under the Budget Control Act of 2011, and on September 30, 2013, the Internal Revenue Service announced that such interest subsidy payment will be subject to a sequestration reduction of 7.2% through September 30, 2014. Beginning in fiscal 2012, such payments received by the Commonwealth are required to be deposited in a Build America Bonds Subsidy Trust Fund, to be used, without further legislative appropriation, to pay debt service related to such bonds. Subsidy payments received on account of CTF Bonds are pledged to secure the payment of debt service on CTF Bonds.

Convention Center Fund. Chapter 152 of the Acts of 1997, as amended, 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 payable from moneys credited to the Convention Center Fund created by such legislation, which include certain hotel tax receipts from hotels in Boston, Cambridge, Springfield and Worcester, a surcharge on car rentals in Boston, a parking surcharge at all three facilities, a surcharge on sightseeing tours and cruises in Boston and sales tax receipts from certain hotels and other retail establishments in Boston, Cambridge and Springfield. 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%). In June, 2004, the Commonwealth issued $686.7 million of special obligation bonds secured solely by the pledge of receipts of tax revenues within the special districts surrounding the centers and other special revenues connected to such facilities, $638.7 million of which remained outstanding as of October 31, 2013.

Federal Grant Anticipation Notes

Between 1998 and 2003, the Commonwealth 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 (CA/T) 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 10¢-per-gallon pledge of motor fuel tax collections is subordinate to the pledge of Commonwealth Transportation Fund revenues securing the CTF Bonds. Principal amortization of the notes began in fiscal 2006 and will continue through fiscal 2015. Under the trust agreement securing the notes, aggregate annual debt service on grant anticipation notes may not exceed $216 million unless the rating agencies rating the notes confirm that exceeding $216 million in annual debt service will not cause them to withdraw or reduce their credit ratings. Such notes and the interest thereon are secured solely by the pledge of federal highway construction reimbursement payments and by a contingent pledge of certain motor fuels excises. In practice, the interest on such notes has been paid from state appropriations. As of October 31, 2013, $ 349.1 million of such notes remained outstanding. The lien securing such notes has been closed to further issuance.

The Commonwealth is also authorized to issue an additional $1.1 billion of grant anticipation notes secured by future federal funds to fund a portion of the Commonwealth's accelerated structurally deficient bridge program. Such notes are subordinated to the notes described in the preceding paragraph, but are also secured by a back-up pledge of net amounts in the Commonwealth Transportation Fund after application of such amounts in accordance with the trust agreement securing the CTF Bonds, the senior federal grant anticipation notes and previously issued bonds secured by motor fuels excise taxes. Similar to the notes issued for the CA/T project, the Commonwealth expects to pay interest on the notes for the bridge program from state appropriations. As of October 31, 2013, $100 million of such notes was outstanding. On November 6, 2013 approximately $252.5 million of additional notes were sold, for expected delivery on November 13, 2013.

Of the junior-lien grant anticipation notes, $100 million were issued as BABs, eligible for federal subsidy payments. As noted above, on October 1, 2013, the Internal Revenue Service indicated that such interest subsidy payment will be subject to a sequestration reduction of 7.2% through September 30, 2014 under the Budget Control Act of 2011. Beginning in fiscal 2012, such payments received by the Commonwealth are required to be deposited in a Build America Bonds Subsidy Trust Fund, to be used, without further legislative appropriation, to pay debt service related to such bonds.

The following table shows long-term debt of the Commonwealth issued and retired from fiscal 2009 through fiscal 2013, exclusive of unamortized bond premiums:

General and Special Obligation Long-Term Debt Issuance and Repayment Analysis (in thousands) (1)

	Fiscal 2009	Fiscal 2010	Fiscal 2011	Fiscal 2012	Fiscal 2013
Beginning Balance as of July 1	$18,734,440	$19,264,569	$19,726,507	$20,875,055	$21,433,553
Debt Issued	1,887,108	1,669,088	2,233,368	1,759,627	1470,473
Subtotal	20,621,548	20,933,657	21,959,875	22,634,682	22,904,026
Debt retired or defeased, exclusive of refunded debt	(1,227,029)	(1,207,150)	(974,770)	(1,202,094)	(1,386,527)
Refunding debt issued, net of refunded debt (3)	(129,950)	-	(110,050)	965	(4,460)
Ending Balance June 30 (2)	**$19,264,569**	**$19,726,507**	**$20,875,055**	**$21,433,553**	**$21,513,039**

SOURCE: Office of the Comptroller. Fiscal 2013 amounts are unaudited.

(1) Including premium, discount and accretion of capital appreciation bonds.

(2) Includes federal grant anticipation notes issued as crossover refunding bonds. The refunding escrows funded by these bonds and related premiums are used to pay interest on the refunding bonds until the refunded bonds are callable and then to redeem the refunded bonds. Interest on the refunded bonds prior to redemption continues to be paid from pledged revenues as before.

(3) Amounts may be negative due to defeasances of debt of authorities from the issuance of Commonwealth debt as afforded under General Laws.

The following table sets forth the amounts of Commonwealth long-term general obligation debt, special obligation debt and federal grant anticipation notes outstanding, exclusive of unamortized bond premiums, as of the end of the last five fiscal years.

Outstanding Long Term Commonwealth Debt (in thousands)

	Fiscal 2009	Fiscal 2010	Fiscal 2011	Fiscal 2012	Fiscal 2013
General Obligation Debt	$17,051,724	$17,682,517	$18,516,760	$18,851,538	$19,140,239
Special Obligation Debt	1,078,630	1,052,620	1,591,505	1,971,630	1,923,700
Federal Grant Anticipation Notes(1)	1,134,215	991,370	766,790	610,385	449,100
TOTAL	**$19,264,569**	**$19,726,507**	**$20,875,055**	**$21,433,553**	**$21,513,039**

SOURCE: Office of the Comptroller. Fiscal 2013 amount are unaudited.

(1)The fiscal year 2009 to 2010 amounts include federal grant anticipation notes issued as crossover refunding bonds. The refunding escrows funded by these bonds and related premiums were used to pay interest on the refunding bonds until the refunded bonds were callable and then to redeem the refunded bonds. Interest on the refunded bonds prior to redemption continued to be paid from pledged revenues as before. These bonds were retired during fiscal year 2011.

Debt Service Requirements

The following table sets forth, as of October 31, 2013, 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 swap agreement, the debt service schedule assumes payment of the fixed rate due under such agreement. For other variable-rate bonds, the schedule assumes a 5% interest rate.

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Debt Service Requirements on Commonwealth Bonds as of October 31, 2013 through Maturity (in thousands) (1)

	General Obligation Bonds						Federal Highway Grant Anticipation Notes				
Period Ending	**Principal**	**CABs**	**Gross Interest**	**Build America Bond Subsidies**	**Net Interest**	**Debt Service**	**Principal**	**Gross Interest**	**Build America Bond Subsidies**	**Net Interest**	**Debt Service**
6/30/2014	$880,135,000	$-	$543,204,914	$(24,658,185)	$518,546,729	$1,398,681,729	$170,710,000	$17,450,690	$(1,493,893)	$15,956,797	$186,666,797
6/30/2015	1,352,428,239	7,685,663	816,536,211	(36,557,119)	779,979,092	2,140,092,994	178,390,000	9,772,765	(1,493,893)	8,278,872	186,668,872
6/30/2016	1,401,754,640	6,651,631	763,722,059	(36,557,119)	727,164,940	2,135,571,211	11,390,000	4,098,383	(1,434,434)	2,663,949	14,053,949
6/30/2017	1,150,306,565	5,579,741	710,012,708	(36,557,119)	673,455,589	1,829,341,895	11,635,000	3,719,886	(1,301,960)	2,417,926	14,052,926
6/30/2018	1,045,080,463	4,958,357	663,578,563	(36,557,119)	627,021,444	1,677,060,264	11,925,000	3,276,587	(1,146,805)	2,129,781	14,054,781
6/30/2019	917,352,470	4,234,197	619,243,136	(36,557,119)	582,686,017	1,504,272,684	12,245,000	2,779,553	(972,844)	1,806,710	14,051,710
6/30/2020	913,528,621	3,478,800	575,592,041	(36,299,869)	539,292,172	1,456,299,592	12,600,000	2,234,649	(782,127)	1,452,522	14,052,522
6/30/2021	1,130,753,582	3,071,413	523,959,371	(35,013,619)	488,945,752	1,622,770,747	12,985,000	1,647,921	(576,772)	1,071,148	14,056,148
6/30/2022	1,033,870,392	2,765,360	472,516,321	(32,698,369)	439,817,952	1,476,453,704	13,390,000	1,020,044	(357,015)	663,028	14,053,028
6/30/2023	851,165,028	2,556,438	427,242,199	(31,412,119)	395,830,079	1,249,551,545	13,830,000	348,170	(121,860)	226,311	14,056,311
6/30/2024	821,131,752	2,174,350	386,820,288	(31,294,519)	355,525,768	1,178,831,871	-	-	-	-	-
6/30/2025	772,393,130	2,159,519	349,132,262	(31,294,519)	317,837,743	1,092,390,393	-	-	-	-	-
6/30/2026	725,073,493	2,152,537	313,663,840	(30,776,169)	282,887,671	1,010,113,701	-	-	-	-	-
6/30/2027	631,178,180	2,170,413	282,119,710	(30,202,869)	251,916,841	885,265,435	-	-	-	-	-
6/30/2028	623,215,657	2,290,097	254,706,633	(28,953,369)	225,753,264	851,259,018	-	-	-	-	-
6/30/2029	654,262,972	1,724,816	224,894,397	(26,687,119)	198,207,278	854,195,066	-	-	-	-	-
6/30/2030	615,172,398	1,322,685	192,933,342	(22,892,244)	170,041,098	786,536,180	-	-	-	-	-
6/30/2031	539,779,726	1,082,099	159,321,430	(16,807,669)	142,513,761	683,375,586	-	-	-	-	-
6/30/2032	306,037,316	581,553	142,547,361	(14,775,919)	127,771,442	434,390,311	-	-	-	-	-
6/30/2033	274,442,982	274,206	128,196,124	(12,440,089)	115,756,034	390,473,222	-	-	-	-	-
6/30/2034	350,550,000	-	113,614,651	(11,068,042)	102,546,610	453,096,610	-	-	-	-	-
6/30/2035	294,845,000	-	98,298,788	(9,647,490)	88,651,297	383,496,297	-	-	-	-	-
6/30/2036	304,405,000	-	83,911,517	(8,176,716)	75,734,801	380,139,801	-	-	-	-	-
6/30/2037	310,250,000	-	69,018,586	(6,654,001)	62,364,584	372,614,584	-	-	-	-	-
6/30/2038	295,825,000	-	53,800,980	(5,077,435)	48,723,544	344,548,544	-	-	-	-	-
6/30/2039	226,585,000	-	41,171,791	(3,445,109)	37,726,682	264,311,682	-	-	-	-	-
6/30/2040	195,820,000	-	30,303,785	(1,608,766)	28,695,018	224,515,018	-	-	-	-	-
6/30/2041	171,095,000	-	21,137,753	-	21,137,753	192,232,753	-	-	-	-	-
6/30/2042	145,325,000	-	13,884,516	-	13,884,516	159,209,516	-	-	-	-	-
6/30/2043	182,600,000	-	9,911,708	-	9,911,708	192,511,708	-	-	-	-	-
6/30/2044	50,000,000	-	1,125,000	-	1,125,000	51,125,000	-	-	-	-	-
Totals	**$19,166,362,603**	**$56,913,876**	**$9,086,121,986**	**$(634,669,805)**	**$8,451,452,182**	**$27,674,728,660**	**$449,100,000**	**$46,348,649**	**$(9,681,603)**	**$36,667,045**	**$485,767,045**

SOURCE: Office of the Comptroller.

(1) Totals may not add due to rounding.

Special Obligation Revenue Bonds (Convention Center)

Period Ending	Principal	Gross Interest	Debt Service
6/30/2014	$-	$17,242,966	$17,242,966
6/30/2015	19,995,000	34,485,933	54,480,933
6/30/2016	21,075,000	33,436,195	54,511,195
6/30/2017	22,210,000	32,329,758	54,539,758
6/30/2018	23,310,000	31,163,733	54,473,733
6/30/2019	24,475,000	30,126,438	54,601,438
6/30/2020	23,380,000	28,841,500	52,221,500
6/30/2021	24,610,000	27,672,500	52,282,500
6/30/2022	25,970,000	26,380,475	52,350,475
6/30/2023	27,440,000	24,952,125	52,392,125
6/30/2024	28,990,000	23,442,925	52,432,925
6/30/2025	30,625,000	21,848,475	52,473,475
6/30/2026	32,360,000	20,164,100	52,524,100
6/30/2027	34,190,000	18,384,300	52,574,300
6/30/2028	36,125,000	16,503,850	52,628,850
6/30/2029	38,170,000	14,516,975	52,686,975
6/30/2030	40,330,000	12,417,625	52,747,625
6/30/2031	42,610,000	10,199,475	52,809,475
6/30/2032	45,020,000	7,855,925	52,875,925
6/30/2033	47,565,000	5,379,825	52,944,825
6/30/2034	50,250,000	2,763,750	53,013,750
6/30/2035	-	-	-
6/30/2036	-	-	-
6/30/2037	-	-	-
6/30/2038	-	-	-
6/30/2039	-	-	-
6/30/2040	-	-	-
6/30/2041	-	-	-
6/30/2042	-	-	-
6/30/2043	-	-	-
6/30/2044	-	-	-
Totals	**$638,700,000**	**$440,108,846**	**$1,078,808,846**

Special Obligation Revenue Bonds (CTF- Accelerated Bridge Program)

Period Ending	Principal	Gross Interest	Build America Bond Subsidies	Net Interest	Debt Service
6/30/2014	$8,475,000	$50,396,930	$(12,314,218)	$38,082,711	$46,557,711
6/30/2015	8,700,000	49,973,180	(12,314,218)	37,658,961	46,358,961
6/30/2016	9,260,000	49,538,180	(12,314,218)	37,223,961	46,483,961
6/30/2017	9,840,000	49,075,180	(12,314,218)	36,760,961	46,600,961
6/30/2018	10,635,000	48,583,180	(12,314,218)	36,268,961	46,903,961
6/30/2019	11,460,000	48,051,430	(12,314,218)	35,737,211	47,197,211
6/30/2020	12,530,000	47,478,430	(12,314,218)	35,164,211	47,694,211
6/30/2021	13,660,000	46,851,930	(12,314,218)	34,537,711	48,197,711
6/30/2022	14,480,000	46,168,930	(12,314,218)	33,854,711	48,334,711
6/30/2023	16,085,000	45,444,930	(12,314,218)	33,130,711	49,215,711
6/30/2024	34,005,000	44,640,680	(12,314,218)	32,326,461	66,331,461
6/30/2025	35,335,000	42,929,127	(11,937,075)	30,992,052	66,327,052
6/30/2026	36,740,000	41,116,916	(11,529,251)	29,587,665	66,327,665
6/30/2027	38,265,000	39,263,215	(11,065,116)	28,198,099	66,463,099
6/30/2028	39,845,000	37,260,123	(10,575,162)	26,684,961	66,529,961
6/30/2029	41,485,000	35,238,268	(10,057,913)	25,180,355	66,665,355
6/30/2030	43,185,000	33,264,667	(9,511,790)	23,752,877	66,937,877
6/30/2031	44,955,000	31,060,200	(8,935,317)	22,124,883	67,079,883
6/30/2032	46,810,000	28,727,467	(8,315,910)	20,411,557	67,221,557
6/30/2033	48,735,000	26,219,280	(7,661,301)	18,557,979	67,292,979
6/30/2034	50,730,000	23,672,945	(6,969,584)	16,703,361	67,433,361
6/30/2035	52,800,000	21,012,969	(6,238,652)	14,774,317	67,574,317
6/30/2036	54,950,000	18,234,447	(5,466,299)	12,768,148	67,718,148
6/30/2037	57,035,000	15,332,190	(4,650,219)	10,681,970	67,716,970
6/30/2038	59,130,000	12,341,646	(3,717,943)	8,623,703	67,753,703
6/30/2039	61,110,000	9,224,303	(2,546,326)	6,677,977	67,787,977
6/30/2040	63,145,000	5,981,699	(1,308,301)	4,673,397	67,818,397
6/30/2041	65,220,000	2,608,800	-	2,608,800	67,828,800
6/30/2042	-	-	-	-	-
6/30/2043	-	-	-	-	-
6/30/2044	-	-	-	-	-
Totals	**$988,605,000**	**$949,691,238**	**$(255,942,564)**	**$693,748,674**	**$1,682,353,674**

Special Obligation Revenue Bonds (Gas Tax)

Period Ending	Principal	Interest	Debt Service
6/30/2014	$37,170,000	$15,533,574	$52,703,574
6/30/2015	39,070,000	13,630,674	52,700,674
6/30/2016	39,900,000	11,481,824	51,381,824
6/30/2017	42,465,000	9,287,324	51,752,324
6/30/2018	23,040,000	7,261,319	30,301,319
6/30/2019	24,300,000	5,994,119	30,294,119
6/30/2020	25,640,000	4,657,619	30,297,619
6/30/2021	26,905,000	3,391,772	30,296,772
6/30/2022	28,385,000	1,911,997	30,296,997
6/30/2023	9,520,000	476,000	9,996,000
6/30/2024	-	-	-
6/30/2025	-	-	-
6/30/2026	-	-	-
6/30/2027	-	-	-
6/30/2028	-	-	-
6/30/2029	-	-	-
6/30/2030	-	-	-
6/30/2031	-	-	-
6/30/2032	-	-	-
6/30/2033	-	-	-
6/30/2034	-	-	-
6/30/2035	-	-	-
6/30/2036	-	-	-
6/30/2037	-	-	-
6/30/2038	-	-	-
6/30/2039	-	-	-
6/30/2040	-	-	-
6/30/2041	-	-	-
6/30/2042	-	-	-
6/30/2043	-	-	-
6/30/2044	-	-	-
Totals	**$296,395,000**	**$73,626,223**	**$370,021,223**

SOURCE: Office of the Comptroller.
(1) Totals may not add due to rounding.

Interest Rate Swaps

The Commonwealth has entered into interest rate swap agreements for the sole purpose of hedging changes in the interest rates on a portion of its outstanding variable rate bonds, predicated on the assumption that the interest on such bonds, combined with the cost of the associated interest rate swaps, would produce lower aggregate interest costs than fixed-rate bonds. Approximately $2.8 billion of the Commonwealth's outstanding variable-rate debt is synthetically fixed via floating-to-fixed interest rate swap hedge agreements.

Under the terms of these floating-to-fixed rate hedge agreements, the counterparties to the swaps are obligated to pay the Commonwealth an amount equal or approximately equal to the variable-rate payment on the related bonds or a payment based on a market index, and the Commonwealth is obligated to pay the counterparties a stipulated fixed rate. The floating rate received by the Commonwealth from swap counterparties is used to offset the variable rate paid to bondholders. Only the net difference in interest payments is actually exchanged with the counterparty. The net payments made or received on these agreements are reported as part of interest expense in the Commonwealth's basic financial statements. In all cases, the Commonwealth remains responsible for making interest payments to the variable-rate bondholders.

The intended effect of these agreements is essentially to fix the Commonwealth's interest rate obligations with respect to its variable-rate bonds in order to hedge or mitigate the Commonwealth's exposure to changes in interest rates on these bonds. For example, during a period when interest rates rise, the Commonwealth would receive higher payments from swap counterparties that would be used to offset higher payments to bondholders of the outstanding variable rate bonds. During a period when interest rates decline, the reduction in interest payments to bondholders would offset the higher payments made to swap counterparties. In both scenarios, the net obligation of the Commonwealth is essentially fixed through the life of the swap and bonds. This allows the Commonwealth to finance its capital budget using floating rate bonds, which, combined with interest rate swaps, are assumed to be less costly than fixed-rate bonds, while hedging the risk of rising interest rates on those bonds to provide long-term budget certainty. As of October 31, 2013, all of the Commonwealth's interest rate swaps were floating-to-fixed rate agreements and were deemed effective hedges, as provided for in GASB Statement No. 53.

The bonds and related swap agreements have final maturities ranging from 2013 to 2037. The total notional value of approximately $2.8 billion effectively matches the par amount of the related variable-rate bonds. Under the swap agreements, the Commonwealth pays the relevant counterparties fixed rates ranging from 3.486% to 5.25% and receives variable-rate payments equal to or approximately equal to the amount of variable rate payments the Commonwealth pays on the related variable-rate refunding bonds or a payment based on a market index.

All of the Commonwealth's counterparties are required to post collateral in certain circumstances. The Commonwealth is not required to post collateral under any of its existing swap agreements.

Prior to the bankruptcy filings by Lehman Brothers Holdings Inc. and its subsidiaries in September, 2008, the Commonwealth was a party to several interest rate swap agreements with Lehman Brothers affiliates. Following the bankruptcy filings, the Commonwealth terminated those agreements in October and November, 2008, made termination payments to Lehman Brothers Special Financing Inc. (LBSF) and entered into replacement swap agreements with other counterparties. In early 2010, LBSF notified the Commonwealth that it disagreed with the termination amounts that the Commonwealth had paid in 2008 and issued a subpoena related to the terminations. On June 13, 2012, LBSF issued a Derivative ADR Notice obligating the parties to submit to mandatory court-ordered mediation. The Derivative ADR Notice contains a settlement demand from LBSF in the amount of approximately $32.7 million, including approximately $13.9 million of interest and expenses. A formal mediation commenced on November 19, 2012, and concluded without resolution.

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The following table describes the interest rate swap agreements, all of which are floating-to-fixed rate hedges that the Commonwealth has entered into in connection with certain of its outstanding variable rate bond issues as of October 31, 2013.

Associated Bond Issue	Outstanding Notional Amount (in thousands)	Bond Floating Rate	Swap Fixed Rate Paid (Range)	Swap Variable Rate Received	Effective Date	Termination Date	Fair Value as of 10/31/2013	Counterparty
General Obligation Bonds:								
Series 1997B (refunding)	$54,075	VRDB	4.659%	Cost of Funds	8/12/1997	August 1, 2015	$(3,061,199)	Goldman Sachs Matsui Marine Derivative Products Co., LP
Series 1997B (refunding)	36,050	VRDB	4.659%	SIFMA	9/1/2010	August 1, 2015	(2,009,649)	Sumitomo Mitsui Banking Corp
Series 1998A (refunding) Consolidated Loan of 2006, Series A Central Artery Loan of 2000, Series A Central Artery Loan of 2000, Series B	143,838	VRDB	4.174%	60% 1-Month LIBOR + 25 basis points	11/17/2008	September 1, 2016	(8,752,424)	Deutsche Bank AG
Series 1998A (refunding)	60,775 (1)	VRDB	4.174%	Cost of Funds	9/17/1998	September 1, 2016	(3,931,642)	Wells Fargo Bank
Series 2001B & C	491,755	VRDB	4.150%	Cost of Funds	2/20/2001	January 1, 2021	(70,499,862)	Morgan Stanley Capital Services
Series 2003B	58,765	CPI	4.500%	CPI-based formula	3/12/2003	December 1, 2014	(1,000,436)	Goldman Sachs Matsui Marine Derivative Products Co., LP
Series 2003B	10,000	CPI	4.500%	CPI-based formula	10/8/2008	December 1, 2013	(70,805)	Deutsche Bank AG
Series 2010A, 2011A, 2012A & 2013A (refunding)	523,745	SIFMA	3.486% - 4.004%	SIFMA	3/15/2005	February 1, 2028	(76,029,561)	Wells Fargo Bank
Series 2006C (refunding)	100,000	CPI	3.73%- 3.85%	CPI-based formula	1/1/2007	November 1, 2020	(4,166,086)	Wells Fargo Bank
Series 2007A	400,000	LIBOR	4.420%	67% 3-Month LIBOR + 0.57%	10/8/2008	May 1, 2037	(42,647,816)	Barclays Bank PLC
Series 2007A (refunding)	31,665	LIBOR	3.936%	67% 3-Month LIBOR + 0.46%	10/8/2008	November 1, 2020	(4,685,942)	Deutsche Bank AG
Series 2007A (refunding)	414,130	LIBOR	4.083%	67% 3-Month LIBOR +	10/8/2008	November 1, 2025	(67,616,072)	Bank of NY Mellon

Associated Bond Issue	Outstanding Notional Amount (in thousands)	Bond Floating Rate	Swap Fixed Rate Paid (Range)	Swap Variable Rate Received	Effective Date	Termination Date	Fair Value as of 10/31/2013	Counterparty
				0.55%				
Series 2000A	$105,417	VRDB	3.942%	SIFMA - 3 basis points	8/16/2007	August 1, 2018	$(11,083,919)	Merrill Lynch Capital Services
Series 2000A	53,108	VRDB	3.942%	SIFMA - 3 basis points	8/16/2007	August 1, 2018	(5,577,411)	JP Morgan formerly Bear Stearns
Series 2006B, Series 2000D	294,000	VRDB/ ARS	4.515%	67% 3-MonthLIBOR	4/2/2009	June 15, 2033	(84,221,319)	Barclays Bank PLC
Subtotal	**$2,777,323**						**$(314,854,281)**	
Special Obligation Dedicated Tax Revenue Bonds								
Series 2004 (Convention Ctr)	$28,863	CPI	4.45% - 5.25%	CPI-based formula	6/29/2004	January 1, 2018	$(1,522,240)	Goldman Sachs Capital Markets
Series 2004 (Convention Ctr)	28,864	CPI	4.45% - 5.25%	CPI-based formula	6/29/2004	January 1, 2018	(1,508,466)	JP Morgan formerly Bear Stearns
Series 2004 (Convention Ctr)	28,863	CPI	4.45% - 5.25%	CPI-based formula	6/29/2004	January 1, 2018	(1,508,200)	JPMorgan Chase Bank
Series 2005A (Gas Tax)	96,490	CPI	4.771% - 5.059%	CPI-based formula	1/12/2005	June 1, 2022	(5,900,364)	Merrill Lynch Capital Services
Subtotal	**$183,080**						**$(10,439,270)**	
Total	**$2,960,403**						**$(325,293,551)**	

SOURCE: Office of the Treasurer and Receiver General.

(1) The Series 1998A swap with Citi Swapco was partially terminated as part of the novation of the Commonwealth's swaps with Citi Swapco and Citibank to Wells Fargo on September 20, 2013.

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Liquidity Facilities

Most of the Commonwealth's outstanding variable rate debt consists of variable rate demand bonds whose interest rates re-set daily or weekly through a remarketing process. Because these bonds offer a "put" or tender feature, they are supported by standby bond purchase agreements with commercial banks which require the applicable bank to purchase any bonds that are tendered and not successfully remarketed. The following table describes the liquidity facilities that the Commonwealth had with respect to such bonds as of October 31, 2013.

Variable Rate Bonds	Outstanding Principal Amount (in thousands)	Bank	Termination Date
1997 Series B (Refunding)	$90,125	TD Bank	8/10/2015
2000 Series A	200,000	Bank of America	12/23/2014
2000 Series B	75,590	US Bank	5/22/2015
2001 Series C (Refunding)	245,880	State Street Bank	2/20/2014
2006 Series A	150,000	Wells Fargo Bank	8/15/2014

SOURCE: Office of the Treasurer and Receiver General.

The Commonwealth also has liquidity support for a $400 million commercial paper program under two series of commercial paper: Series I and J. Series I commercial paper is supported by a line of credit provided by TD Bank, N.A., which expires on February 17, 2015. Series J commercial paper is supported by a line of credit provided by The Bank of Nova Scotia which expires on February 17, 2014.

Direct Purchase Agreements

Certain of the Commonwealth's variable rate demand bonds have been converted to an "index floating mode" for direct purchase by a bank. The following table describes the Commonwealth's direct purchase agreements, each with a different bank, as of October 31, 2013.

Direct Purchase Bonds	Outstanding Principal Amount (in thousands)	Mandatory Tender Date
2001 Series B (Refunding)	$245,875	2/3/2014
2006 Series B, Subseries B-1	100,000	5/31/2016
2006 Series B, Subseries B-2	100,000	5/31/2016

SOURCE: Office of the Treasurer and Receiver General.

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General Obligation Contract Assistance Liabilities

Massachusetts Department of Transportation, as successor to the Massachusetts Turnpike Authority. On February 19, 1999, the Commonwealth and the Massachusetts Turnpike Authority entered into a contract which provides for the Commonwealth to make annual operating assistance payments to the Massachusetts Department of Transportation (MassDOT), as successor to the Authority, which are capped at $25 million annually and extend until the end of the 40th fiscal year following the transfer of certain facilities associated with the Commonwealth's Central Artery/Ted Williams Tunnel Project (CA/T) to MassDOT. On June 30, 2009, the Commonwealth and the Turnpike Authority entered into a contract for financial assistance which provides for the payment by the Commonwealth to MassDOT, as successor to the Authority, of $100 million per fiscal year, commencing July 1, 2009 until June 30, 2039. Payments under both contracts constitute a general obligation pledge of the Commonwealth for which the full faith and credit of the Commonwealth are pledged.

Massachusetts Water Pollution Abatement Trust. The Massachusetts Water Pollution Abatement Trust (the "Trust") manages the Commonwealth's state revolving fund program under 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 funds and to issue debt obligations to make loans to local governmental units and others to finance eligible water pollution abatement and drinking water projects. Under state law, loans made by the Trust are required to provide for subsidies or other financial assistance to reduce the debt service expense on the loans. Currently, most new loans made by the Trust bear interest at 2%. Other loans made by the Trust may bear interest at lower rates, including a zero rate of interest, and a portion of the principal of certain loans has also been subsidized by the Trust. To provide for a portion of the subsidy on most of its loans, the Trust receives contract assistance payments from the Commonwealth. Under the Trust's enabling act, the aggregate annual contract assistance payment for the Trust's Clean Water Act program may not exceed $71 million, and the aggregate annual contract assistance payment for the Trust's Safe Drinking Water Act program may not exceed $17 million. The Commonwealth's agreement to provide contract assistance constitutes a general obligation of the Commonwealth for which its full faith and credit are pledged, and the Commonwealth's contract assistance payments are pledged as security for repayment of the Trust's debt obligations. As of October 31, 2013 the Trust had approximately $3.32 billion of bonds outstanding. Approximately 9.88% of the Trust's aggregate debt service is covered by Commonwealth contract assistance.

Massachusetts Development Finance Agency, On June 12, 2008, the Governor approved legislation amending a 2006 law authorizing an "infrastructure investment incentive" program, known as "I-Cubed." The amendment, among other things, clarifies the manner in which the program is to be financed and the security for the related bonds. Under the program, up to $250 million of public infrastructure improvements to support significant new private developments may be financed by bonds issued by the Massachusetts Development Finance Agency (MassDevelopment) that will be secured by and payable from a general obligation pledge of contract assistance from the Commonwealth. Legislation approved by the Governor on August 7, 2012 increased this amount from $250 million to $325 million. Until a related new private development is completed and occupied, the developer's property will be assessed by the municipality in which the development is located in amounts equal to the debt service cost on the bonds to reimburse the Commonwealth for such cost. After each phase of the private development is completed and occupied, the municipality will be required to reimburse the Commonwealth for any portion of the debt service cost on the bonds that is not covered by new state tax revenues generated from the related private development. The municipality's reimbursement obligation will be secured by a general obligation pledge of the municipality, a local aid intercept and a reserve fund which must be funded in an amount equal to or greater than two years of debt service on the bonds. The obligation of the municipality ends when the Commonwealth has collected revenues sufficient to pay principal and interest payments to date plus all remaining principal payments due. Pursuant to this legislation, in April, 2010, MassDevelopment issued $10 million of bond anticipation notes in anticipation of the issuance of bonds to finance certain public infrastructure costs at a development in Somerville, Massachusetts. Renewals of these notes are expected to be financed by special obligation bonds issued in 2014.

Legislation approved by the Governor on August 8, 2008 includes an authorization to finance up to $43 million of the costs of a parkway at the former South Weymouth naval air base to support the development of the former base. Similar to the I-Cubed program financing model, the bonds to be issued by MassDevelopment to finance the parkway will be secured and payable from a general obligation pledge of contract assistance from the Commonwealth. In the event that the new state tax revenues generated from the new private development are less than the debt service cost on the bonds, the South Shore Tri-Town Development Corporation, a public entity with municipal taxing and other powers over the geographic area of the former base, will be required to reimburse the Commonwealth for any such shortfall. The legislation provides that such payment obligations of the Corporation be secured by a general obligation pledge of the Corporation. As of October 31, 2013, approximately $28.1 million of such bonds were outstanding.

The following table sets forth the Commonwealth's general obligation contract assistance requirements for fiscal 2014 and thereafter pursuant to contracts with the Massachusetts Water Pollution Abatement Trust, the Massachusetts Department of Transportation (as successor to the Massachusetts Turnpike Authority) and Massachusetts Development Finance Agency.

General Obligation Contract Assistance Requirements
(in thousands)

Fiscal Year	Massachusetts Water Pollution Abatement Trust	Massachusetts Department of Transportation	Massachusetts Development Finance Agency	Total
2014	$63,056	$125,000	$2,176	$190,232
2015	59,376	125,000	2,544	186,920
2016	54,463	125,000	2,546	182,009
2017	47,290	125,000	2,545	174,835
2018	41,485	125,000	2,543	169,028
2019	41,187	125,000	2,545	168,732
2020	35,793	125,000	2,544	163,337
2021	28,898	125,000	2,546	156,444
2022	19,650	125,000	2,547	147,197
2023	19,977	125,000	2,543	147,520
2024	11,865	125,000	2,544	139,409
2025	7,853	125,000	2,544	135,397
2026	5,644	125,000	2,547	133,191
2027 through 2049	11,431 (1)	1,875,000	36,968	1,923,399
Total	**$447,968**	**$3,500,000 (2)**	**$69,682**	**$4,017,650**

SOURCES: Massachusetts Water Pollution Abatement Trust column – Office of the Treasurer and Receiver-General; Massachusetts Department of Transportation and Massachusetts Development Finance Agency columns - Executive Office for Administration and Finance.
(1) Current contract assistance payments end in fiscal 2033.
(2) Represents $25 million per year for fiscal years 2027 to 2049, inclusive and $100 million per year for fiscal years 2027 to 2039, inclusive.

Budgetary Contract Assistance Liabilities

Route 3 North Transportation Improvements Association Commonwealth Lease Revenue Bonds. In August, 2000, the Route 3 North Transportation Improvements Association (the "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, $305.6 million of which were issued as refunding bonds. 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. In May, 2007 and November, 2008, the Commonwealth sold general obligation bonds to refund most of the lease revenue bonds and replace them with fixed-rate general obligation bonds. As of December 31, 2012, the Route 3 North Transportation Improvements Association had $5.52 million of such lease revenue bonds outstanding, all of which are fixed-rate.

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 was 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 was leased to MassDevelopment/Saltonstall Building Redevelopment Corporation for a term of up to 50 years, with extension terms permitted for an aggregate of 30 more years. MassDevelopment/Saltonstall Building Redevelopment Corporation has paid the Commonwealth $816,667 in ground rent for fiscal 2014.

MassDevelopment/Saltonstall Building Redevelopment Corporation has renovated the building and subleased 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 makes sublease payments to MassDevelopment/Saltonstall Building Redevelopment Corporation. The remainder of the building has been 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 full-year costs include $7,076,954 per year of base rent and parking space rent. Parking space rent may be adjusted for fair market value every five years and was last adjusted in 2009. In addition, included in the table below are the Commonwealth's estimated pro-rata shares 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.

As of October 31, 2013, MassDevelopment/Saltonstall Building Redevelopment Corporation had approximately $161.8 million of such lease revenue bonds 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 and data processing facility of the Department of Revenue and certain other departments and agencies of the Commonwealth. The bonds bore interest at a variable rate, and under two interest rate swap agreements that were entered into at the time with Lehman Brothers Special Financing, Inc. (LBSF), MassDevelopment received variable rate payments with respect to the bonds and was 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 provided for the payment of debt service on the bonds, including swap related payments, and certain other expenses associated with the project. In September, 2008, LBSF and its parent, Lehman Brothers Holdings Inc. (LBHI), filed for bankruptcy. In December, 2008, the bonds were refinanced by the Commonwealth through the issuance of general obligation debt, and the Commonwealth made a $2.3 million payment to LBSF to terminate the swap agreements. In May, 2010, LBHI advised the Executive Office for Administration and Finance that it calculated the termination value to be approximately $13.7 million. In June, 2011, LBHI issued a subpoena to the Executive Office for Administration and Finance relating to the termination of the swap agreements. In April, 2012, LBHI issued a Derivative ADR Notice obligating the parties to submit to mandatory court ordered mediation. The Derivative ADR notice contains a settlement demand from LBHI in the amount of approximately $16.5 million. A formal mediation process commenced on October 11, 2012 and concluded without resolution. Any obligation of the Commonwealth with respect to this termination does not constitute a general obligation or a pledge of the credit of the Commonwealth or of MassDevelopment and is subject to appropriation by the Legislature.

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, 2013 are set forth in the table below.

The following table sets forth the Commonwealth's budgetary contract assistance requirements. These figures are as of June 30, 2013.

Budgetary Contract Assistance Liabilities (in thousands)

Fiscal Year	Route 3 North Transportation Improvements Association Commonwealth Lease Revenue Bonds	MassDevelopment/ Saltonstall Building Redevelopment Corporation Lease Revenue Bonds (1)	Other Leases (2)	Total
2014	$1,130	$9,534	$120,048	$130,712
2015	1,128	9,629	100,586	111,343
2016	1,129	9,701	83,542	94,372
2017	1,116	9,775	65,171	76,062
2018	--	9,851	57,317	67,168
2019	--	9,930	48,248	58,178
2020	--	10,037	39,024	49,061
2021	--	10,120	23,725	33,845
2022	--	10,206	16,368	26,574
2023	--	10,295	14,179	24,474
2024	--	10,386	14,269	24,655
2025	--	10,506	13,352	23,858
2026 through 2036	--	122,886	84,930	207,816
Total	**$4,503**	**$242,856**	**$680,759**	**$928,118**

SOURCES: Other Leases column - Office of the Comptroller; GAAP Basis, all other columns - Executive Office for Administration and Finance.

(1) Cash flows from the Commonwealth represent gross payments to MassDevelopment, including projections provided by MassDevelopment of the Commonwealth's share of operating costs and other items that are subject to change.

(2) Includes operating and capital leases. Leases with the institutions of higher education that are supported by tuition and fees are not included.

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, notes and other obligations 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 and for MBTA payment obligations related to leases, reimbursement obligations, interest exchange agreements and other financing obligations entered into 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 August 31, 2013, the Massachusetts Bay Transportation Authority had approximately $388.8 million 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 $118 million to $87 million through fiscal 2015 and declining thereafter.

Massachusetts Development Finance Agency. Under legislation approved in 2010 and amended in 2011, the Massachusetts Development Finance Agency (MassDevelopment) is authorized to issue bonds for the benefit of nonprofit community hospitals and nonprofit community health centers. Such bonds are to be secured by capital reserve funds funded at the time of bond issuance in an amount equal to the maximum annual debt service on the bonds. The legislation provides that MassDevelopment is to notify the Governor if any such capital reserve fund needs to be replenished, and that the Legislature is to appropriate the amount necessary to restore the fund to its required level. The legislation contains no limit on the amount of such bonds that may be issued. Any project to be financed by such bonds must be approved by the Secretary of Health and Human Services, and any loan to a community hospital or community health center (and the issuance and terms of the related bonds) must be approved by the Secretary of Administration and Finance. If any such institution defaults on a loan, any moneys in the custody of the Commonwealth that are payable to the institution may be withheld by the Commonwealth and used to pay debt service or to replenish the applicable capital reserve fund. If, following a Commonwealth transfer to replenish a capital reserve fund, the applicable institution fails to reimburse the Commonwealth within six months, the Commonwealth may withhold funds payable to the institution, and all contracts issued by the Group Insurance Commission, the Commonwealth Health Insurance Connector Authority and MassHealth to a third party for the purposes of providing health care insurance paid for by the Commonwealth are to provide that the third party is to withhold payments to the institution and transfer the withheld amounts to the Commonwealth.

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 the 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 the Authority 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 August 31, 2013 the Steamship Authority had approximately $52.85 million of bonds outstanding. The Commonwealth's obligations to the Steamship Authority are general obligations for which its full faith and credit have been pledged.

University of Massachusetts Building Authority and Massachusetts State College Building Authority. These higher education building authorities, created to assist institutions of public higher education in the Commonwealth, have outstanding bonds some of 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. As of October 31, 2013, the Massachusetts State College Building Authority had approximately $21.95 million of Commonwealth-guaranteed debt outstanding. Under its enabling act, the Massachusetts State College Building Authority is not permitted to issue any additional Commonwealth-guaranteed debt. The University of Massachusetts Building Authority may have outstanding up to $200 million in Commonwealth-guaranteed debt and had approximately $129.5 million of Commonwealth-guaranteed debt outstanding as of October 31, 2013.

Massachusetts Housing Finance Agency (MassHousing). 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 the creation of a capital reserve fund in connection with the issuance of such bonds. No single-family housing bonds secured by capital reserve funds are outstanding, and no such bonds have been issued by MassHousing since 1985. As of June 30, 2013, MassHousing had outstanding approximately $195.0 million of multi-family housing bonds secured by capital reserve funds. 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 fund. All such capital reserve funds are maintained at their required levels. If amounts are withdrawn from a capital reserve fund to pay debt service on bonds secured by such fund, upon certification by the chairperson of MassHousing to the Governor of any amount necessary to restore the 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.

Regional Transit Authorities. There are 15 regional transit authorities throughout the Commonwealth that provide public transportation in 231 municipalities with areas not served by the MBTA. These authorities are overseen by the Massachusetts Department of Transportation and are funded from operating revenues, federal subsidies, state subsidies and assessments paid by the participating municipalities. The subsidies and local assessments are paid one fiscal year in arrears to reimburse the authorities for the net cost of service not covered by operating revenues. In anticipation of receipt of these subsidies and local assessments in the following fiscal year, the authorities issue revenue anticipation notes to fund their net costs of service. Legislation approved by the Governor on July 13, 2008, provided for the Commonwealth guaranty for revenue anticipation notes issued by regional transit authorities. The legislation provides that the Commonwealth is required to pay any principal or interest on any such note if the authority does not have sufficient funds to make the payment and grants the holder of any such note the right to require such payment by the Commonwealth, which right is enforceable as a claim against the Commonwealth. As of December 31, 2012, revenue anticipation notes issued by regional transit authorities were outstanding in the aggregate principal amount of approximately $161.6 million.

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 which the Commonwealth determines it can afford to finance 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
2009	$19,517,272
2010	18,516,310
2011	15,870,432
2012	13,893,469
2013	13,761,773

SOURCE: Office of the Comptroller. Fiscal 2013 is unaudited.

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 underwriters' discount, costs of issuance and other financing costs) 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 principal amount of debt outstanding as measured and reported in conformity with GAAP.

In 2008, the Legislature enacted a series of five-year bond authorizations to fund the Commonwealth's Capital Investment Plan. See "COMMONWEALTH CAPITAL INVESTMENT PLAN." To continue funding the plan, the Governor will soon file bond authorization bills for investments in housing, energy and environment, state buildings, information technology, state military facilities, public safety, and grants to municipalities. In addition, the Governor will file a bond authorization bill to fund the transportation investment plan that was released with his fiscal 2014 budget recommendations. See "FISCAL 2013 AND FISCAL 2014 – Fiscal 2014." Consistent with the current policies of the Executive Office for Administration and Finance, capital spending and subsequent debt issuance will continue to be constrained by the debt affordability policy and the statutory debt limit, and will be published annually in the Capital Investment Plan.

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COMMONWEALTH CAPITAL INVESTMENT PLAN

The Executive Office for Administration and Finance annually updates its five-year capital investment plan, including its debt affordability analysis. The five-year plan coordinates capital expenditures by state agencies and authorities that are funded primarily by Commonwealth debt and federal reimbursements. Beginning in fiscal 2009 and expected through fiscal 2013, capital funds are also provided pursuant to the American Recovery and Reinvestment Act of 2009.

The Executive Office for Administration and Finance sets an annual administrative limit on the amount of bond-funded capital expenditures. The purpose of the administrative limit, known as the "bond cap," is to keep Commonwealth debt within affordable levels.

On October 8, 2012, the Governor released a five-year capital investment plan for fiscal 2013 through fiscal 2017 (the Fiscal 2013-2017 Capital Plan), totaling over $16.7 billion. All figures within this section are predicated on the Fiscal 2013-2017 Capital Plan. The five-year capital investment plan for fiscal 2014 through fiscal 2018 is expected to be released later in November, 2013.

The bond cap determination is based on the debt affordability policy described in the updated debt affordability analysis. Under this policy, the Executive Office for Administration and Finance will set the annual borrowing limit at a level designed to keep debt service within 8% of budgeted revenues. For this purpose, debt service includes principal and interest payments on all general obligation debt, special obligation gas tax debt, interest on federal grant anticipation notes, general obligation contract assistance payment obligations and budgetary contract assistant payment obligations on certain capital lease financings. In addition, while the accelerated bridge program will be funded outside of the bond cap, the related debt service costs of the program have been fully accounted for under the debt affordability policy in setting the bond cap at the designated levels. However, when a project financed with debt payable by the Commonwealth directly or indirectly generates new state revenue that is applied to the payment of such debt, the Executive Office for Administration and Finance will exclude the debt, the related debt service payment obligations and the new revenue used to pay such obligations from the debt affordability analysis. For example, bonds issued by MassDevelopment and payable by the Commonwealth pursuant to the I-Cubed program or for the parkway at the former South Weymouth naval base are excluded from the bond cap, as the Commonwealth's payment liability with respect to such bonds is expected to be limited to the new state tax revenues generated from the private development supported by the infrastructure improvements financed by the such bonds.

For the purpose of the debt affordability analysis, budgeted revenue includes all Commonwealth taxes and other revenues available to pay Commonwealth operating expenses, including debt service, pensions and other budgetary obligations. It does not include off-budget revenues dedicated to the Massachusetts Bay Transportation Authority, the Massachusetts School Building Authority and the Massachusetts Convention Center Authority.

The fiscal 2013 estimate was based on the adopted fiscal 2013 budget. For purposes of projecting budgeted revenue in future fiscal years, projected increases to budgeted revenues are the lesser of 3% or the actual compound annual growth rate over the last ten fiscal years. The compound annual growth rate in budgeted revenues from fiscal 2002 through fiscal 2012 was 4.32%. To be consistent with the debt affordability policy, a 3% compound growth rate was applied to fiscal 2013 revenues and to each year thereafter.

In addition to keeping debt service within 8% of budgeted revenues, the debt management policy limits future annual growth in the bond cap for the regular capital program to not more than $125 million. This additional constraint is designed to ensure that projected growth in the bond cap will be held to stable and sustainable levels. As noted above, the bond cap is expected to grow by $125 million annually from fiscal 2013 through fiscal 2015.

The Executive Office for Administration and Finance will revisit the debt capacity and affordability analysis periodically, and at least every year, to revise estimates for future years by taking into account fluctuations in interest rates, budgeted revenues and other changes affecting the Commonwealth's debt capacity. In addition, the Executive Office for Administration and Finance will annually assess the appropriateness of the methodology and constraints for establishing the bond cap.

The following table shows the annual bond cap, the resulting estimated total annual debt service payment obligations and the estimated debt service as a percentage of estimated budgeted revenues, all as presented in the debt affordability analysis released in October, 2012.

Bond Cap (in thousands)

	Fiscal 2013	Fiscal 2014	Fiscal 2015	Fiscal 2016	Fiscal 2017
Bond Cap (1)	$1,968,000	$2,000,000	$2,125,000	$2,125,000	$2,125,000
Total Debt Service Obligations	2,475,157	2,543,845	2,649,731	2,903,383	2,688,323
Estimated Budgeted Revenues	33,604,667	34,611,145	35,648,368	36,715,024	37,829,139
Debt Service as % of Budgeted Revenues	7.37%	7.35%	7.43%	7.91%	7.11%

SOURCE: Executive Office for Administration and Finance..

(1) Includes $93 million of fiscal 2012 unused bond cap that has been carried forward to fiscal 2013.

In the past, the Commonwealth aggregated its capital expenditures into eight major categories based primarily on the agencies responsible for spending and carrying out capital projects: information technology, infrastructure and facilities, environment, housing, public safety, transportation, convention centers, other and school building assistance. The following table sets forth historical capital spending in fiscal 2008 through fiscal 2012 according to these categories.

Commonwealth Historical Capital Spending (in millions) (1)

Investment Category:	Fiscal 2008	Fiscal 2009	Fiscal 2010	Fiscal 2011	Fiscal 2012
Information technology	$ 65	$ 97	$ 100	$ 119	$ 120
Infrastructure/facilities	186	333	391	458	518
Environment	188	246	158	142	131
Housing	172	252	318	174	185
Public safety	19	21	11	7	17
Transportation	1,109	1,388	1,694	1,512	1,740
Convention centers	-	-	5	-	-
Other	43	96	108	127	126
Total (1)	$1,782	$2,432	$2,785	$2,539	$2,837

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

(1) Totals may not add due to rounding.

Beginning in fiscal 2008, the Executive Office for Administration and Finance re-characterized capital spending into 12 categories based on spending purpose, rather than spending agency: community investments, corrections, courts, economic development, energy and environment, health and human services, higher education, housing, information technology, public safety, state office buildings and facilities, and transportation. This presentation of capital investment categories results in certain expenditures appearing in categories that are different from those in which they had been categorized in the historical capital spending table above. For example, Chapter 90 local aid for municipal transportation projects appears in the community investment category, rather than the transportation category, because these funds are invested in municipally-owned assets.

The capital investment plan for fiscal 2013 through fiscal 2017 is designed to allocate resources strategically to invest in the Commonwealth's public facilities and programs and represents the Governor's vision for public infrastructure. The following tables show the allocation of bond cap spending by major investment category and the allocation of total capital spending from all sources of funding by major investment category for fiscal 2013 through fiscal 2017.

Capital Investment Plan – Total Bond Cap (in millions)

Investment Category:	**Fiscal 2013(2)**	**Fiscal 2014**	**Fiscal 2015**	**Fiscal 2016**	**Fiscal 2017**	**5-Year Total**	**% of 5-Year Total**
Community Investments	$292	$285	$277	$273	$273	$1,401	14%
Corrections	37	55	57	64	77	289	3
Courts	20	76	128	148	114	486	5
Economic Development	138	129	139	150	148	704	7
Energy/Environment	167	159	114	86	87	614	6
Health/Human Services	28	38	70	75	102	312	3
Higher Education	177	260	293	288	282	1,300	13
Housing	180	170	170	170	170	858	8
Information Technology	174	102	119	121	120	636	6
Public Safety	28	38	67	67	51	251	2
State Buildings/Facilities	74	64	73	59	68	337	3
Transportation	653	624	620	625	634	3,156	31
Total (1)	**$1,968**	**$2,000**	**$2,125**	**$2,125**	**$2,125**	**$10,343**	**100%**

SOURCE: Executive Office for Administration and Finance, Five-Year Capital Investment Plan released October, 2012.
(1) Totals may not add due to rounding.
(2) Includes $1.875 billion in Bond Cap and $93 million in unused capacity from the prior fiscal year.

Capital Investment Plan – All Sources of Funding (in millions)

Investment Category:	**Fiscal 2013**	**Fiscal 2014**	**Fiscal 2015**	**Fiscal 2016**	**Fiscal 2017**	**5-Year Total**	**% of 5-Year Total**
Community Investments	$323	$315	$305	$300	$301	$1,543	9%
Corrections	37	55	57	64	77	289	2
Courts	20	76	133	163	119	511	3
Economic Development	188	154	164	175	173	854	5
Energy/Environment	267	287	221	143	133	1,051	6
Health/Human Services	31	40	89	104	106	369	2
Higher Education	248	326	310	291	285	1,460	9
Housing	180	170	170	170	170	858	5
Information Technology	237	211	178	177	140	942	6
Public Safety	40	52	73	67	51	282	2
State Buildings/Facilities	74	64	73	59	68	337	2
Transportation	1,631	1,776	1,686	1,648	1,431	8,172	49
Total (1)	**$3,275**	**$3,526**	**$3,456**	**$3,359**	**$3,052**	**$16,668**	**100%**

SOURCE: Executive Office for Administration and Finance, Five-Year Capital Investment Plan released October, 2012.
(1) Totals may not add due to rounding.

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The following table shows the sources of capital funds for fiscal 2013 and the estimated sources of funds for the next five fiscal years. The different sources of funding for the capital program, as reflected in the table, include:

- State Bond Cap – Commonwealth borrowing to support the regular capital program.
- Federal Funds – Federal reimbursements for capital expenditures.
- Other Funds – Contributions made by third parties to capital projects being carried out by the Commonwealth.
- Project Financed – General obligation bonds, the debt service for which is budgeted from savings or new revenue related to the project, including the CEIP program where Commonwealth bonds are to be paid with savings achieved as a result of energy efficiencies.
- Pay-As-You-Go – Funding from current revenue for capital projects.
- Accelerated Bridge Program (ABP) – Commonwealth special obligation bonds secured by revenues credited to the Commonwealth Transportation Fund or federal grant anticipation notes issued to fund the Accelerated Bridge Program.

Capital Investment Plan – Sources of Funds (in millions)

	State Bond Cap	Federal Funds	Project Financed	Pay-As-You-Go	Other Funds	Accelerated Bridge Program	Total
2013 (1)	$1,968	$669	$127	$15	$87	$360	$3,227
2014	2,000	702	177	-	86	561	3,526
2015	2,125	606	145	-	42	532	3,451
2016	2,125	666	106	-	13	435	3,344
2017	2,097	656	79	-	8	178	3,019
5-Year Total (2)	**$10,315**	**$3,299**	**$634**	**$15**	**$237**	**$2,067**	**$16,566**

SOURCE: Executive Office for Administration and Finance.
(1) Fiscal 2013 includes $1.875 billion in bonds issued under the bond cap and $93 million in unused capacity from the prior fiscal year.
(2) Totals may not add due to rounding.

On July 27, 2012, the Governor approved legislation that created a Capital Debt Affordability Committee within the Executive Office for Administration and Finance, consisting of seven voting members – the Secretary of Administration (who chairs the committee), the State Treasurer, the Comptroller, the Secretary of Transportation, one appointee of the Governor and two appointees of the State Treasurer – and eight legislative leaders who are non-voting members. The committee is charged with reviewing on a continuing basis the size and condition of the Commonwealth's tax-supported debt, as well as the debt of certain state authorities. On or before December 15 of each year, the committee is required to submit to the Governor and the Legislature the committee's estimate of the total amount of new Commonwealth debt that could prudently be authorized for the next fiscal year, taking into account certain specified criteria. The committee's estimates are advisory and not binding on the Governor or the Legislature. The legislation provides that the Governor is to determine, on or before January 15 of each year, the total authorization of new Commonwealth debt that he considers advisable for the next fiscal year. The effective date of the legislation creating the Committee was January 1, 2013.

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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 her 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.

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.

Rosie D., et al. v. The Governor, United States District Court, Western Division. In a memorandum of decision dated January 26, 2006, the District Court ruled in favor of a class of Medicaid-recipient children that the Commonwealth fails to provide the home- and community-based services required under the Early and Periodic Screening, Diagnosis and Treatment ("EPSDT") provisions of the Medicaid Act. In February, 2007, the District Court adopted the defendants' proposed remedial plan, with some modifications, and, in July, 2007, entered judgment in accordance with that plan, as modified. The Commonwealth did not appeal from that judgment and has undertaken implementation of its remedial plan. The plan originally contemplated full implementation by June 30, 2009, but, on the Commonwealth's motion, the court modified the judgment to extend the date for full implementation to November 30, 2009. MassHealth estimates that its implementation of program changes in compliance with the remedy order will increase its costs, including administrative costs, prospectively by over $20 million annually. Although the monitoring period had most recently been set to expire December 31, 2012, the court entered an order in June, 2013, extending monitoring through December 31, 2013, and in September, 2013, further extended monitoring through June 30, 2014. The Commonwealth maintains that it is in full compliance with the court's judgment and is providing the plaintiffs and the court monitor with a large volume of documentation that the plaintiffs requested. The next hearing date is December 6, 2013.

Kristy Didonato, et al. v. Department of Transitional Assistance, et al. (*Didonato I* and *Didonato II*), Massachusetts Housing Court Western Division. These are consolidated class actions challenging DTA's practices and procedures relating to emergency shelter placements and, more specifically, its practices and procedures relating to the placement of families in shelters that are located more than 20 miles from their home communities. In October, 2006, the Housing Court allowed the plaintiffs' motion for partial summary judgment on the systemic notice and hearing claims in *Didonato I* and *II*. Following the court's decision, DTA worked with plaintiffs' counsel to implement the court's partial summary judgment decision and also initiated settlement discussions to resolve the remaining claims in the consolidated complaints. Plaintiffs moved to amend their complaint to include a demand that the Commonwealth adopt a policy requiring that motel placements be used to avoid placing families with school-age children in shelters that are more than 20 miles from their home communities. The court allowed the motion to amend over the defendants' objection. If the Commonwealth is compelled to facilitate a motel placement before placing a family with school-age children in a shelter more than 20 miles from their home community, the program costs related to implementing such a requirement potentially could exceed $20 million. On July 1, 2009, the emergency shelter program was transferred from DTA to another state agency, the Department of Housing and Community Development. The merits of plaintiffs' suit likely will not be argued to the court until 2014.

Connor B., ex rel. Vigurs, et al. v. Patrick, et al., United States District Court. This is a class action in which plaintiffs allege that the Commonwealth's foster care system violates foster children's constitutional and statutory rights to be protected from harm while in state custody; to not be deprived unnecessarily of child-parent and sibling relationships; to safe, stable foster care placements and timely adoption planning and recruitment; to payments to foster care providers that cover the actual costs of providing food, clothing, shelter, and other essential items; and to adequate educational, mental health, medical, and dental services. Plaintiffs further allege that children are abused and neglected while in the Commonwealth's foster care system at a rate higher than the national average; that children in foster care are moved from one placement to another with unusual frequency; that many children never achieve permanency in their placements; and that hundreds of children "age out" of foster care inadequately prepared to live independently as adults. Plaintiffs claim that the system's alleged failures are attributable to an insufficient number of social workers, all carrying excessive caseloads; a dearth of appropriate foster care placements and ancillary services; and insufficient supports (including financial reimbursement) to foster care providers. The Court denied the defendants' motion to dismiss the lawsuit and, in late February 2011, granted the plaintiff's motion for class certification. A bench trial began in January, 2013 and went on hiatus after the plaintiffs rested their case. The defendants filed a motion for judgment on the record on April 30, 2013, which the Court took under advisement following a hearing in May. On September 30, 2013, the Court allowed the Commonwealth's motion and entered final judgment for the defendants. Had plaintiffs succeeded in achieving all of the declaratory and injunctive relief they sought, the Commonwealth could have been required to expend tens of millions of dollars in increased foster care reimbursement payments, personnel costs and services. The District Court will soon be issuing a memorandum articulating the full grounds for its decision and the plaintiffs' right to appeal will not elapse any sooner than November 29, 2013.

SEIU v. Department of Mental Health, Supreme Judicial Court. The Service Employees International Union ("SEIU") has challenged the Department of Mental Health's contracts for the provision of Community Based Flexible Supports ("CBFS") as unlawful privatization contracts under the so-called Pacheco Law (G. L. c. 7, §§ 52-55). The union seeks declaratory relief invalidating portions of the CBFS contracts as well as reinstatement of and back pay for up to 100 former Department case managers who the union claims were laid off in 2009 as a result of these allegedly unlawful contracts. On August 15, 2012, the Department filed a motion for judgment on the pleadings dismissing the case due to lack of subject matter jurisdiction based on SEIU's lack of standing to pursue the action and its failure to include as defendants in the action the private contractors whose contracts would be partially invalidated were the requested relief granted. By Memorandum of Decision and Order dated March 8, 2013, the court (Hopkins, J.) allowed the Department's motion, and on March 24, 2013, judgment entered dismissing the case. SEIU subsequently filed a Notice of Appeal, and that appeal is now pending in the Supreme Judicial Court. In addition to its defenses based on lack of subject matter jurisdiction and failure to name necessary parties, the Department denies that it violated the Pacheco Law and denies that reinstatement or back pay would be available as relief in the action even if portions of the CBFS contracts were invalidated. The Department believes that the potential cost associated with rehiring the laid-off case managers would be $10 million annually. This would be in addition to whatever back pay might be awarded if the plaintiff prevails.

Hutchinson et al v. Patrick et al, United States District Court, Massachusetts. This is a class action, commenced in 2007, brought by two organizations and five individuals with brain injuries who are residents of various nursing facilities. Plaintiffs claim that they and a class of between 2,000 and 4,000 brain-injured individuals are entitled to, among other things, placement in community settings. Plaintiffs asserted claims under the Americans with Disabilities Act, the Rehabilitation Act and the Medicaid Act; they sought declaratory and injunctive relief.

After the court certified a class in October 2007, the parties engaged in an intensive period of settlement negotiations. In May, 2008, the parties entered into a settlement agreement ("Agreement"). Under the terms of the Agreement, the state defendants were to create two new home- and community-based programs to serve brain-injured individuals. These programs were subject to federal approval by the Centers for Medicare and Medicaid Services ("CMS") under Section 1115 of the Social Security Act. After it became apparent that CMS would not approve one of these programs, the plaintiffs served defendants with a Notice of Noncompliance pursuant to the Agreement. The parties engaged in substantial negotiations over how to address this issue and, after formal mediation sessions, the parties executed an Amended Settlement Agreement. The Amended Settlement Agreement received final approval from the court on July 11, 2013.

Under the terms of the Amended Settlement Agreement, the defendants will use the Massachusetts Money Follows the Person Demonstration Project ("MFP Project") and various waiver programs to provide community residential and non-residential supports in an integrated setting to Massachusetts Medicaid-eligible persons with an acquired brain injury who are in nursing and long-term rehabilitation facilities ("Class Members in Facilities").

Over the six-year term of the Agreement, the defendants will provide between 905 and 1,174 waiver slots for Class Members in Facilities. The exact number of slots to be added will depend on the level of demand for waiver services.

Demand for additional waiver slots will be determined based on the 12-month period ending on September 30 for each year in years 3, 4 and 5. If at least one Class Member in a Facility is denied waiver services due to lack of capacity in the MFP Project and waiver programs, then demand is considered to have exceeded capacity for that year. If demand exceeds capacity in a given year, the following year capacity will be increased by 125% of the number of slots added in the prior year. If demand does not exceed capacity in a given year, the following year's capacity will be increased by 100% of the number of slots added in the prior year.

The cost of implementing these programs is projected to be approximately $386 million, with approximately half of that amount expected to be reimbursed by the federal government. These costs will be phased in over the six-year term of the agreement. The net state cost in fiscal 2014 is expected to be $11.5 million, which is projected to be absorbed within MassHealth's fiscal 2014 appropriation. The net state cost in the sixth year of the agreement (fiscal 2019) is expected to be $56.2 million. The net state cost in the sixth year represents the expected annualized cost of these programs going forward.

Medicaid Audits and Regulatory Reviews

In re: Centers for Medicare and Medicaid Services regulations (Uncompensated Care Pool/Health Safety Net Trust Fund). The federal Health Care Financing Administration (now CMS) asserted in June, 2000 that the portion of the Medicaid program funded by the Commonwealth's Health Safety Net Trust Fund (formerly the Uncompensated Care Pool) might violate federal regulations regarding permissible taxes on health care providers. Since 1993, MassHealth has sought federal waivers for the Commonwealth's assessment on acute care hospitals and surcharge payers, respectively, which fund the Uncompensated Care Pool and its successor, the Health Safety Net Trust Fund. The Commonwealth believes that the assessments are within the federal law pertaining to health care-related taxes. Under federal regulations, if the Commonwealth were ultimately determined to have imposed an impermissible health care-related tax, the federal government could seek retroactive repayment of federal Medicaid reimbursements. Updated federal regulations on health care-related taxes took effect June 30, 2010. By the end of pool fiscal year 2013, the Commonwealth will have collected an estimated $5.482 billion in acute hospital assessments since 1990 and an estimated $2.362 billion in surcharge payments since 1998.

In re: Disallowance of 2005 MassHealth acute hospital supplemental payments to UMass Memorial Health Care, Inc.. In February, 2011, CMS sent the Massachusetts Executive Office of Health and Human Services (EOHHS) a Notice of Disallowance of $25,543,963 in FFP for payments to UMass Memorial Health Care, Inc. (UMMHC) hospitals attributable to dates of service in fiscal 2000 through 2003, based on CMS' interpretation of the two-year FFP claiming deadline. This disallowance stems from a 2006 deferral. EOHHS filed a Request for Reconsideration with the U.S. Department of Health and Human Services (HHS) on March 31, 2011. On April 17, 2012, the Commonwealth received notice that HHS affirmed $17.4 million of the UMMHC disallowance and reversed the remainder, allowing $8.1 million in FFP. A question remains as to whether CMS intended to allow $8.1 million or half that amount, since $8.1 million represents both the federal and non-federal share of the payment at issue. EOHHS appealed the disallowance of $17.4 million to the Departmental Appeals Board (DAB) on June 12, 2012. Oral argument was held on June 18, 2013, and the DAB issued its decision on October 3, 2013, deciding in the Commonwealth's favor on all but $4.25 million. The deadline for either party to request reconsideration is December 2, 2013.

In re: Office of the Inspector General Report Number: A-01-12-0006 (Claiming the correct Federal medical assistance percentage for claim adjustments made to the Form CMS-64). On April 6, 2012, the federal Office of the Inspector General (OIG) initiated an audit of MassHealth's federal reporting of certain claims with dates of service between January 1, 2006 and December 31, 2010. The OIG has not yet issued a draft report but has stated orally that its recommended financial findings could be as much as $133 million. An exit conference was scheduled for September 13, 2013, but based on information provided by EOHHS the OIG is continuing its analysis of MassHealth's federal reporting. The OIG has stated orally that it expects to issue a draft report by the end of calendar year 2013. EOHHS is in the process of reviewing the OIG's working papers and evaluating response options to this potential audit finding. Such options include legal defenses as well as applying the OIG's claims methodology to other datasets that would yield significant financial off-sets to the initial finding amount. The strength of these off-sets and legal defenses will need to be further assessed once the OIG issues its draft report and EOHHS completes its review of the OIG's methodology. EOHHS will have 30 days to respond to the draft report once it is issued.

In re: Centers for Medicare and Medicaid Financial Management Review: 01-MS-2012-MA-01 (Massachusetts Medicaid Nursing Facility User Fees – Federal Fiscal Year 2010). On November 10, 2011, the Centers for Medicare and Medicaid Services (CMS) Office initiated a financial review of Massachusetts' Nursing Facility User Fees for federal fiscal year 2010. On September 4, 2013, CMS issued a draft report. In its report, CMS referenced that the Commonwealth collected $220.7 million in federal fiscal year 2010 in nursing facility user fees and that non-compliance with requirements for federal funding could result in recoupment of federal funds. The findings and recommendations included a request to submit a new application for a waiver of federal requirements applicable to the user fee. CMS has asked EOHHS to develop a new tax structure governing the imposition of Massachusetts Medicaid nursing facility user fees to ensure that the Commonwealth can maintain compliance with federal funding requirements. CMS granted EOHHS's request for an extension of time to respond, making the EOHHS response to the draft report due December 3, 2013.

Taxes

Feeney, et al. v. Dell, Inc. v. Commissioner of Revenue, Supreme Judicial Court (SJC) and Appellate Tax Board (ATB). The plaintiffs, a putative class of Massachusetts consumers who purchased Dell computers between 1995 and 2006, brought suit against Dell seeking a declaration that Dell wrongfully collected (and remitted to the Commissioner) sales tax upon service contracts that were purchased at the same time consumers purchased personal computers from Dell. The Supreme Judicial Court ruled that Dell could not be liable under M.G.L. Chapter 93A (and therefore be forced to pay treble damages) for collecting taxes that it believed, in good faith, were due; the Court, however, let the declaratory action go forward if amended to include a lack of good faith. Dell filed a third-party complaint against the Commissioner of Revenue, seeking a declaration that the sales taxes it collected (and paid) on service contracts were wrongfully collected and should be paid back. The Commissioner successfully moved to stay Dell's third-party action until Dell had fully prosecuted appeals from the denials of the abatement petitions that Dell had filed with the Appellate Tax Board, seeking return of the same sales taxes. On April 27, 2011, the U.S. Supreme Court issued a decision in *AT&T Mobility v. Concepcion*, in which it held that arbitration clauses cannot be overruled by state laws or court rulings because the Federal Arbitration Act (FAA) preempts state laws. Citing *Concepcion*, Dell filed a motion to dismiss in Superior Court to confirm an arbitration award and bar the class action, which was denied. The Appeals Court allowed Dell's motion for interlocutory review of the ruling, and the SJC subsequently granted Dell's application for direct appellate review. Following receipt of amicus briefs, the case was argued before the SJC on December 4, 2012, and on June 12, 2013, the SJC ruled against Dell, distinguishing *Concepcion* and finding that the arbitration clause was invalid. Subsequently, on June 20, 2013, the U. S. Supreme Court issued a decision in *American Express Co. v. Italian Colors Restaurant*, No. 12-133. On June 26, 2013, Dell filed a petition for rehearing with the SJC, arguing that the Supreme Court's *American Express* decision overrules the SJC's June 12, 2013 decision. By Opinion dated August 1, 2013, the SJC reversed the lower court's denial of the renewed motion to confirm the arbitration award and remanded the case to the Superior Court. On October 4, 2013, a hearing was held on motions by Dell to confirm the arbitration and motions to maintain a class action. On October 24, 2013, the Superior Court granted Dell's motion to confirm the arbitration award of dismissal. However, in a footnote, the Court did not rule on plaintiffs' motion to substitute another individual plaintiff, but noted that the motion would be the subject of a separate ruling. As a result "the case remains active."

Dell's sales tax appeals were heard by the Appellate Tax Board on June 12, 2013 — coincidentally, the same day the SJC issued its decision relating to the Superior Court matter. The ATB case was presented on a lengthy stipulation of facts together with over 6,500 pages of exhibits. Post-hearing briefs were filed by the Intervenor and Commissioner on October 13, 2013; Dell declined to file an initial brief. Reply briefs were due by November 1, 2013. The ATB requested legal memoranda by September 10, 2013 on whether the August 1st SJC opinion has any legal effect on the ATB appeals. Dell and the Commissioner indicated no objection to awaiting a final resolution of the Superior Court action, as this could result in a termination of the ATB appeals. Plaintiffs requested that the matter proceed as scheduled on briefs. The ATB took no action on the legal memoranda. The briefing schedule was left unchanged.

DIRECTV, Inc. v. Commonwealth of Massachusetts Department of Revenue, Suffolk Superior Court. Satellite-television providers DIRECTV and Dish Network claim that the excise tax on the sale of direct broadcast satellite services to subscribers or customers in the Commonwealth (enacted by Mass. St. 2009, c. 27, sec. 61 and 150) violates the Commerce Clause of the United States Constitution and the equal protection clauses of the United

States and Massachusetts Constitution. Were the providers to prevail, the potential refund of taxes collected under the statute may exceed $10 million for each tax year, and a corresponding amount of annual revenue would be unavailable for collection in future tax years. But on November 21, 2012, the Court (Billings, J.) granted summary judgment in favor of the Department, declaring that M.G.L. c. 64M, §§ 1 *et seq.*, which imposes a tax on direct broadcast satellite services, does not violate the Commerce Clause or the Equal Protection Clause of the U.S. Constitution. The providers appealed on January 25, 2013. The Superior Court is currently assembling the record. In late 2012, the providers also filed petitions for relief with the Appellate Tax Board. A status conference in the Board proceedings is scheduled for November 7, 2013.

Allied Domecq Spirits & Wines USA, Inc. v. Commissioner of Revenue, Appellate Tax Board. This case, which if resolved adversely to the Commissioner could mean a loss of $31.7 million in tax revenue, involves two major issues. The first is a finding of no nexus by the auditor with respect to a subsidiary with large losses. The second issue is a *Syms*-type intangible holding company case involving Allied Domecq's subsidiary, Dunkin Donuts. While there is a clear circular flow of funds, the holding company does appear to have employees. The ATB bifurcated the case, and the 'no nexus' adjustment was tried on April 15, 2009. On April 1, 2010, the Board decided the 'no nexus' issue in the Commissioner's favor. The parties agreed to settle the case by settling all the issues other than the one the Board has decided, so that the taxpayer can then appeal the Board's decision on that one issue. After signing a settlement agreement, the parties filed a stipulation with the ATB, which then issued a decision on November 9, 2011. On May 22, 2013, the Appellate Tax Board issued Findings of Fact and a Report in favor of the Commissioner in the corporate excise tax case for the years ended August 31, 1996 through August 31, 2004. The Commissioner argued that the losses of Allied Domecq's affiliate, Allied Domecq North America Corporation ("ADNAC"), had been properly excluded from Allied Domecq's Massachusetts combined group because the transactions that ADNAC relied on as creating nexus with Massachusetts lacked business purpose or economic substance. Appellant filed a notice of appeal within 60 days of the date of the ATB decision and has docketed its appeal with the Appeals Court.

New Cingular Wireless PCS, LLC v. Commissioner of Revenue, Appellate Tax Board. The issue in this case, which if resolved adversely to the Commissioner could mean a loss of $20.3 million in tax revenue, is whether the taxpayer is entitled to an abatement and refund of sales tax charged to and collected from its customers during the period November, 2005 through September, 2010 on Internet access charges the taxpayer argues are exempt from Massachusetts taxation under the Internet Tax Freedom ("IFTA") Act and 830 Code Mass. Regs. 64H.1.6.

Potential suit asserting corporate excise/public utilities (M.G.L. c. 63) abatement claims. The taxpayer and related entities have filed amended returns/abatements seeking $96 million. This matter has not yet been filed with the Appellate Tax Board.

Other Revenues

Commonwealth of Massachusetts v. Philip Morris Inc., RJ Reynolds Tobacco Company, Lorillard Tobacco Company, et al., Supreme Judicial Court, Middlesex Superior Court (a/k/a the Tobacco Master Settlement Agreement, Nonparticipating Manufacturer ("NPM") Adjustment Disputes)

These matters arise under the Tobacco Master Settlement Agreement ("MSA"), entered into in 1998, that settled litigation and claims by Massachusetts and 51 other states or dependencies (collectively the "States") against the major tobacco manufacturers. Under the MSA, yearly payments made by the Original Participating Manufacturers ("OPMs") and Subsequent Participating Manufacturers (collectively the Participating Manufacturers or "PMs") are subject to a number of adjustments. One such adjustment is the Non-Participating Manufacturer ("NPM") Adjustment, which can be triggered if the PMs suffer a specified market share loss as compared to their market share during the base year 1997. Under the MSA, a nationally recognized economic firm selected jointly by the States and the PMs must make a determination that "the disadvantages experienced" by the PMs as a result of complying with the MSA were "a significant factor contributing to the Market Share Loss" for a given year. Even if such a determination is made, the States can still avoid the NPM adjustment if it is determined that the States "diligently enforced" their individual NPM Escrow Statutes.

(a) (2003 NPM Adjustment) The PMs seek to reduce, by approximately $1.1 billion, the MSA payments they made to the States for 2003 sales and so they deposited a portion of this amount into an escrow account pending a resolution of this claim. A determination has been made that the PMs suffered a market share loss and that the disadvantages experienced by the PMs as a result of complying with the MSA were a significant factor contributing to the market share loss. The PMs' claim to an NPM Adjustment for calendar year 2003 is no longer being pressed against the Commonwealth, however. On November 3, 2011, the manufacturers advised the panel of three arbitrators seated in a nationwide arbitration to resolve the 2003 NPM Adjustment dispute that Massachusetts was one of 16 states and territories whose claims of "diligence" were no longer being contested. Since the December 5, 2011 deadline for any state to challenge the claim of another state has passed, the Commonwealth's claim to its allocable share of the 2003 NPM Adjustment is no longer in dispute. As a result, the Commonwealth will receive approximately $29 million. Arbitration hearings for the remaining States concluded in May 2013 and decisions regarding each State were issued on September 11, 2013. Payment of the additional funds to the Commonwealth is unlikely to occur before April 2014. Any post-arbitration litigation could further delay payment of this additional amount.

(b) (2004 NPM Adjustment) In the same manner as described above, the PMs seek to reduce, by approximately $1.1 billion, the MSA payments they made to the States for 2004 sales. A determination has been made that the PMs suffered a market share loss and that the disadvantages experienced by the PMs as a result of complying with the MSA were a significant factor contributing to the market share loss. The PMs notified the States of their intent to arbitrate the issue of whether each state diligently enforced its NPM Escrow Statute during 2004 following the conclusion of the 2003 NPM Adjustment Arbitration proceedings. If the Commonwealth does not prevail, future MSA payments to Massachusetts would be reduced by an amount yet to be determined, between $17 million, plus interest, up to but not exceeding the full amount of the state's MSA payment for 2004 sales, depending upon the outcome of similar NPM proceedings against other states.

(c) (2005 NPM Adjustment) In the same manner as described above, the PMs seek to reduce, by approximately $753 million, the MSA payments they made to the States for 2005 sales. A determination has been made that the PMs suffered a market share loss and that the disadvantages experienced by the PMs as a result of complying with the MSA were a significant factor contributing to the market share loss. The PMs notified the States of their intent to arbitrate the issue of whether each state diligently enforced its NPM Escrow Statute during 2005 following the conclusion of the 2003 NPM Adjustment Arbitration proceedings. If the Commonwealth does not prevail, future MSA payments to Massachusetts would be reduced by an amount yet to be determined, between $30 million, plus interest, up to but not exceeding the full amount of the state's MSA payment for 2005 sales, depending upon the outcome of similar NPM proceedings against other states.

(d) (2006 NPM Adjustment) In the same manner as described above, the PMs seek to reduce, by approximately $704 million, the MSA payments they made to the States for 2006 sales. A determination has been made that the PMs suffered a market share loss and that the disadvantages experienced by the PMs as a result of complying with the MSA were a significant factor contributing to the market share loss. The PMs notified the States of their intent to arbitrate the issue of whether each state diligently enforced its NPM Escrow Statute during 2006 following the conclusion of the 2003 NPM Adjustment Arbitration proceedings. If the Commonwealth does not prevail, future MSA payments to Massachusetts would be reduced by an amount yet to be determined, between $7 million, plus interest, up to but not exceeding the full amount of the state's MSA payment for 2006 sales, depending upon the outcome of similar NPM proceedings against other states.

(e) (2007 NPM Adjustment) In the same manner as described above, the PMs seek to reduce, by approximately $791 million, the MSA payments they made to the States for 2007 sales. A determination has been made that the PMs suffered a market share loss and that the disadvantages experienced by the PMs as a result of complying with the MSA were a significant factor contributing to the market share loss. The PMs notified the States of their intent to arbitrate the issue of whether each state diligently enforced its NPM Escrow Statute during 2007 following the conclusion of the 2003 NPM Adjustment Arbitration proceedings. If the Commonwealth does not prevail, future MSA payments to Massachusetts would be reduced by an amount yet to be determined, between $9 million, plus interest, up to but not exceeding the full amount of the state's MSA payment for 2007 sales, depending upon the outcome of similar NPM proceedings against other states.

(f) (2008 NPM Adjustment) In the same manner as described above, the PMs seek to reduce, by approximately $888 million, the MSA payments they made to the States for 2008 sales. This amount is subject to revision until a Final Calculation in March, 2013. A determination has been made that the PMs suffered a market share loss and that the disadvantages experienced by the PMs as a result of complying with the MSA were a significant factor contributing to the market share loss. The PMs notified the States of their intent to arbitrate the issue of whether each state diligently enforced its NPM Escrow Statute during 2008 following the conclusion of the 2003 NPM Adjustment Arbitration proceedings. If the Commonwealth does not prevail, future MSA payments to Massachusetts would be reduced by an amount yet to be determined, between one million dollars, plus interest, up to but not exceeding the full amount of the state's MSA payment for 2009 sales, depending upon the outcome of similar NPM proceedings against other states.

(g) (2009 NPM Adjustment) In the same manner as described above, the PMs seek to reduce, by approximately $848 million, the MSA payments they made to the States for 2009 sales. This amount is subject to revision until a Final Calculation in March, 2014. A determination has been made that the PMs suffered a market share loss and that the disadvantages experienced by the PMs as a result of complying with the MSA were a significant factor contributing to the market share loss. The PMs have not yet notified the States of their intent to arbitrate the issue of whether each state diligently enforced its NPM Escrow Statute during 2009. If the matter is arbitrated and the Commonwealth does not prevail, future MSA payments to Massachusetts would be reduced by an amount yet to be determined, between $2 million, plus interest, up to but not exceeding the full amount of the state's MSA payment for 2008 sales, depending upon the outcome of similar NPM proceedings against other states.

(h) (2010 NPM Adjustment) In the same manner as described above, the PMs seek to reduce, by approximately $843 million, the MSA payments they made to the States for 2010 sales. This amount is subject to revision until a Final Calculation in March, 2015. A determination has been made that the PMs suffered a market share loss and that the disadvantages experienced by the PMs as a result of complying with the MSA were a significant factor contributing to the market share loss. The PMs have not yet notified the States of their intent to arbitrate the issue of whether each state diligently enforced its NPM Escrow Statute during 2010. If the matter is arbitrated and the Commonwealth does not prevail, future MSA payments to Massachusetts would be reduced by an amount yet to be determined, between $1 million, plus interest, up to but not exceeding the full amount of the state's MSA payment for 2010 sales, depending upon the outcome of similar NPM proceedings against other states.

Environment

Wellesley College v. Commonwealth, Suffolk Superior Court. Wellesley College has threatened to seek 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. In September, 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 that is expected to cost approximately $40 million. The judgment has since been amended by agreement of the parties and with approval of the court. Under the terms of the partial settlement and judgment, the Commonwealth has reimbursed the college approximately $1.1 million (approximately 2.5% of total clean-up costs) from an escrow account after the Department of Environmental Protection ("DEP") determined that a portion of the Lake Waban shoreline clean-up was properly performed. Other issues that may lead to counterclaims by the College against the Commonwealth or its agencies include (1) groundwater contamination, estimated to cost $2 million or more depending on future decisions by DEP on appropriate clean-up; (2) clean-up of Lake Waban itself, for which DEP has now approved a temporary solution, reviewable every five years (N.B.: if a full clean-up of the lake is required in the future, it could cost up to $100 million); and (3) contaminated sediments in lower Waban Brook, which are expected to be addressed by Wellesley College within the next 12 months.

In re Massachusetts Military Reservation (pre-litigation). The Commonwealth, through the Executive Office of Energy and Environmental Affairs, the Department of Environmental Protection and the Attorney General's office, were engaged in discussions with federal Natural Resource Trustees, including the United States Army and Air Force, the Department of the Interior and the National Oceanic and Atmospheric Administration, and private contractors regarding natural resource damages at the Massachusetts Military Reservation on Cape Cod. Federal Trustees and private contractors claim that the Commonwealth and others are liable for natural resource damages due to widespread contamination primarily from past military activities at the Reservation and are responsible for response actions and related clean-up activities. The assessment process for natural resource damages is set out in federal regulations and has not been completed. 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. In 2013, the state and federal trustees reopened preliminary discussions per a Trustee Council resolution on a potential settlement framework.

Boston Harbor Clean-Up. The Commonwealth is engaged in various lawsuits in the United States District Court concerning environmental and related laws, including an action brought by the federal Environmental Protection Agency alleging violations of the Clean Water Act and seeking to reduce the pollution in Boston Harbor, *e.g., United States v. Metropolitan District Commission*; *Conservation Law Foundation v. Metropolitan District Commission*. The Massachusetts Water Resources Authority (MWRA), successor in liability to the Metropolitan District Commission, 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. 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 that the MWRA or a municipality is prevented by state law from raising revenues necessary to comply with such a judgment. The total cost of construction of the wastewater facilities required under the federal district court's order, not including combined sewer overflow (CSO) abatement costs, has been approximately $3.8 billion. The MWRA has also spent approximately $846 million through June 2013 in developing and implementing the CSO plan and its projects. Thus, the cost of construction of water treatment facilities required under the court's order has now amounted to approximately $4.65 billion. Going forward, the MWRA anticipates spending at least an additional $56.9 million on remaining design and construction work on CSO projects. These figures do not include routine ongoing costs, such as maintenance expenses and capital spending for plant and system retrofits, and replacements.

Other

Perini Corp., Kiewit Constr. Corp., Jay Cashman, Inc. d/b/a Perino-Kiewit-Cashman Joint Venture v. Commonwealth. In several related cases and potential litigation, plaintiffs ("PKC") make claims for alleged increased costs arising from differing site conditions, changes and other causes of delay on the Central Artery/Ted Williams Tunnel project. Plaintiffs have asserted claims in excess of $150 million. These claims are at various stages of resolution, including claims pending before the Superior Court and the Central Artery Tunnel Project Dispute Review process, which includes a Dispute Review Board ("DRB") and a Project Director's/Chief Engineer's decision. The DRB has issued decisions on many of the claims, recommending that PKC be awarded approximately $78.3 million on claims of approximately $158 million. The majority of those decisions are now the subject of further court proceedings or a decision of the Project's Chief Engineer pursuant to the parties' contracts.

In May, 2012, the Appeals Court heard oral arguments as to whether the DRB was authorized to issue binding arbitral decisions on numerous claims, or whether it was only authorized to issue non-binding recommendations that were subject to review by the Project Director. On January 17, 2013, the Appeals Court issued its decision, concluding that the DRB exceeded its authority by purporting to issue binding arbitration awards totaling approximately $44.4 million. As a result, the Appeals Court affirmed the trial court's decision to set aside the awards. The Appeals Court also ruled that the DRB's "awards" constituted recommendations that were subject to final review by the Project Director. Following review of the DRB's recommendations relative to the matters on appeal, the Project's Chief Engineer concluded that PKC was entitled to approximately $3.4 million. PKC requested a rehearing before the Appeals Court which was denied. PKC also filed an application for further appellate review by the Supreme Judicial Court, which was denied on June 6, 2013.

The Appeals Court's decision will affect additional "awards" issued by the DRB, which now could be supplanted by a Chief Engineer's decision. PKC is challenging the Project Director's/Chief Engineer's decisions in these matters under the standard of review set forth in G.L. c. 30, § 39J. A hearing was held on those matters in the Superior Court on September 26, 2013. The parties are awaiting a decision. The parties are also scheduled to make oral argument before the Appeals Court on December 9, 2013 on PKC's appeal of a Superior Court decision with respect to the calculation of interest on DRB2 Order #3.

Slater et al. v. Harold W. Clarke et al., United States District Court, Washington, and United States Court of Appeals for the Ninth Circuit (interlocutory appeal). Plaintiffs in this civil suit sought damages and injunctive and declaratory relief from a number of Massachusetts defendants, including current or former employees of the Department of Correction, the Commonwealth Fusion Center, the Executive Office of Public Safety and Security (EOPSS), and the Worcester County District Attorney's Office, in connection with the murders of Beverly and Brian Mauck, in Washington State, by Daniel Tavares, a former Massachusetts inmate. Plaintiffs allege that Massachusetts officials improperly and prematurely released Tavares from Massachusetts custody and that, after Tavares fled to Washington State, Massachusetts officials failed to extradite Tavares, knowing that he posed a danger to Washington residents.

Plaintiffs voluntarily dismissed the suit against the former Commissioner of the Department of Correction, Harold W. Clarke. The remaining defendants moved to dismiss the complaint on the grounds of lack of personal jurisdiction, absolute prosecutorial immunity, qualified immunity, and failure to state a claim upon which relief may be granted. The court dismissed the case against William Lochrie, an employee of the Department of Correction Office of Investigative Services, for lack of personal jurisdiction. The District Court denied the motions to dismiss of the remaining defendants with respect to personal jurisdiction and absolute immunity. On interlocutory appeal, the Ninth Circuit Court of Appeals on November 19, 2012, reversed the District Court's ruling as to absolute immunity, holding that defendants are entitled to absolute immunity to the extent they participated in the decision whether to extradite Tavares. Following the Ninth Circuit's ruling, the District Court dismissed the case against Lieutenant Richard Range of the Commonwealth Fusion Center, and plaintiffs voluntarily dismissed the suit against Assistant District Attorney Erin Donnelly. In an order issued on July 30, 2013, the District Court affirmed the dismissal of all claims against Donnelly and dismissed all claims against the remaining defendant, former EOPSS Secretary Kevin Burke, with prejudice.

Ianella, Trustee of Tecce Family Trust v. Massachusetts Turnpike Authority, Suffolk Superior Court. The plaintiff seeks damages against the Massachusetts Turnpike Authority ("Authority") for harm caused to its property and restaurant as a result of construction work done on the Central Artery/Tunnel ("CA/T") project. The plaintiff claims that the construction diminished the value of the rental units located within the property and prevented access to the restaurant causing lost business revenue. The plaintiff is seeking damages under the eminent domain statutes, G.L. c. 79, §§ 10 and 12, alleging that the construction performed for the Authority resulted in a constructive "taking" of the property. Additionally, the plaintiff has brought claims for "business interference," nuisance, and negligence.

The plaintiff claims to have suffered at least $17 million in lost business as well as an unspecified amount of property damage and diminished value of the property. The lawsuit is being defended under a $25 million owner-controlled insurance program issued by Chartis Insurance Co. for the CA/T project. However, Chartis is doing so under a reservation of rights concerning coverage. The Authority's motion for summary judgment was denied in late February, 2012. The discovery period will close soon, to be followed by pre-trial and final trial conferences in December 2013 and January 2014. A March 4, 2014 trial date has been set.

Takings associated with the Yawkey Way Extension roadway project. MassDOT has recorded Orders of Taking for the acquisition of permanent and temporary easements for the Yawkey Way Extension roadway project in the Fenway area of Boston. The following pro tanto awards were approved by the Highway Administrator on December 13th: (1) a $3,260,000 award to the Olde Town Team Realty Trust (controlled by the Red Sox organization); (2) a $2,500,000 award to the HRPT Medical Buildings Realty Trust; (3) a $370,000 award to the Soho Realty Limited Partnership/51 B, LLC; (4) a $155,000 award to the Fenmore Realty Corporation (Children's Hospital); and (5) a $ 25,000 award to Beth Israel Hospital. These awards total $6,310,000. It is anticipated that HRPT Medical Buildings Realty Trust will challenge the pro tanto award and file suit, since that entity challenged the City of Boston's zoning decision for the Fenway Center Project.

In re Lehman Brothers Holdings, et al., Debtors, United States Bankruptcy Court, Southern District of New York. This is a proceeding under Chapter 11 of the Bankruptcy Code. Prior to the bankruptcy filings by Lehman Brothers Holdings Inc. and its subsidiaries in September and October, 2008, the Commonwealth was a party to several interest rate swap agreements with Lehman Brothers affiliates. Following the bankruptcy filings, the Commonwealth terminated those agreements in October and November, 2008, made termination payments to Lehman Brothers Special Financing Inc. (LBSF) and entered into replacement swap agreements with other counterparties. In early 2010, LBSF notified the Commonwealth that it disagreed with the termination amounts that the Commonwealth had paid in 2008 and issued a subpoena related to the terminations. On June 13, 2012, LBSF issued a Derivative ADR Notice obligating the parties to submit to mandatory court-ordered mediation. The Derivative ADR Notice contains a settlement demand from LBSF in the amount of approximately $32.7 million, including approximately $13.9 million of interest and expenses. The Commonwealth submitted its response to the Derivative ADR Notice denying the settlement demand on August 13, 2012. Formal mediation commenced on November 19, 2012, and concluded without resolution. LBSF asserts that interest continues to accrue on its claim and it valued its claim at approximately $35 million, including interest, on November 19, 2012. LBSF may initiate litigation in further pursuit of its claim.

Lehman Brothers Special Financing Inc. ("LBSF") v. Massachusetts Development Finance Agency ("MDFA") and the Commonwealth of Massachusetts, acting by and through its Executive Office for Administration and Finance ("Mass. A&F"); claim subject of mediation. In 1993, MDFA used the proceeds of variable interest rate bonds issued by the City of Chelsea's Industrial Development Financing Authority to finance the construction of the Massachusetts Information Technology Center. In order to provide a synthetic fixed rate financing for the project, MDFA entered into a rate swap agreement with LBSF. In a subsequent agreement between MDFA and Mass. A&F, dated as of December 11, 2008, the Commonwealth agreed, to the extent permitted by law and subject to appropriation, to indemnify, defend and hold harmless MDFA from and against any losses, damages, injuries, costs or expenses and any suits, demands, claims, actions or other proceedings arising out of the termination of the swap agreement. Effective December 17, 2008, MDFA terminated the swap agreement with LBSF. In September, 2008, Lehman Brothers Holdings, Inc. and its various subsidiaries, including LBSF, filed for bankruptcy pursuant to Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the Southern District of New York in a proceeding titled: *In Re Lehman Brothers Holdings, Inc.*, No. 08-013555 (JMP)(JD013). As part of those proceedings, the Bankruptcy Court issued an Alternative Dispute Resolution Procedures Order for Affirmative Claims of Debtors Under Derivatives Contracts. On April 20, 2012, pursuant to the Bankruptcy Court's Order, LBSF initiated mediation proceedings against MDFA, claiming that that MDFA improperly calculated the termination value of the interest rate swap agreement by applying the wrong index in its termination calculation. LBSF demands payment of the principal amount of approximately $12.6 million plus interest from December 11, 2008 to the date of payment (calculated by LBSF as of April 20, 2012 to be approximately $6.1 million). MDFA rejected LBSF's demand, and the matter proceeded to mediation. The matter was not resolved through mediation and so LBSF may initiate litigation in further pursuit of its claim.

Debra Baggett and April Marlborough, on behalf of themselves and others similarly situated v. Michael Ashe, Jr. and Patricia Murphy, in their individual capacities, U.S. District Court, District of Mass., Western Div. This is a civil rights class action for money damages against Hampden County Sheriff Michael J. Ashe, Jr. and Assistant Superintendent Patricia Murphy regarding policies and procedures of the Western Massachusetts Regional Women's Correctional Center related to inmate movement and the fact that the challenged policies do not specifically prohibit male correctional officers from operating the video camera during an inmate move to a higher security placement even though that move includes a strip search. On May 23, 2013, the court certified a class of approximately 178 current and former inmates. Defendants have filed a petition for leave to pursue an interlocutory appeal of the class certification order with the United States Court of Appeals for the First Circuit. Assuming, however, the class certification stands and the plaintiff class were to prevail on all claims, total damages awarded could exceed, in theory, $10 million.

Drug Testing Laboratory disputes. On August 28, 2012, a chemist formerly employed at the Department of Public Health's drug testing laboratory in Boston admitted to several types of misconduct involving her handling of laboratory samples, which were used in criminal cases. The Governor was informed and ordered the immediate closure of the laboratory. The Governor established a central office to identify individuals who may be affected by the chemist's alleged malfeasance, which the office has estimated as possibly tens of thousands of criminal drug cases. The Governor also announced that Inspector General Glenn Cunha is conducting an independent assessment of the laboratory's operations. In addition, the Attorney General's Office is conducting a criminal investigation. On December 17, 2012, the former chemist was indicted by a Statewide Grand Jury on 27 charges in connection with altering drug evidence during the testing process and obstructing justice. She was arraigned on December 20, 2012 in Suffolk Superior Court. There likely will be significant, but as yet undetermined, state costs required to investigate and respond to the chemist's alleged malfeasance. Supplemental appropriations totaling $30 million were approved during fiscal 2013 to create a fund to reimburse agencies and cities for costs associated with investigating and responding to misconduct at the state drug testing laboratory. In addition, there may be costs to defend civil complaints alleging state liability in both state and federal court and for potential judgments. Those additional state costs cannot be fully estimated at this time.

Solomon v. Bigby et al., Jones v. Bigby et al., and *Moses v. Bigby et al.,* U.S. District Court, District of Massachusetts – Eastern Division. These are civil actions for civil rights violations against current and former employees of the Executive Office of Health and Human Services, the Department of Public Health, the Suffolk County District Attorney's Office, and the Boston Police Department. All three cases are in the early stages of litigation. As an example, plaintiff Jones is seeking $2.5 million in damages. The court has under advisement a motion to dismiss filed by some defendants in the *Solomon* case. Other motions to dismiss will be heard on December 6, 2013. Separately, a *pro se* inmate has filed an action in Suffolk Superior Court seeking damages from several current or former state employees, in addition to the United States Attorney. Additionally, the Commonwealth has received three presentment letters alleging civil rights and tort violations arising out of events at the state drug lab. One of these presentment letters, captioned *Alomar et al. v. Bigby et al*., provides notice of a class action that will be brought by 37 plaintiffs alleging violations of their civil rights.

MedImmune, LLC v. Board of Trustees of the University of Massachusetts d/b/a University of Massachusetts Biologic Laboratories, Maryland Court of Special Appeals. This case relates to a license agreement between MedImmune LLC and University of Massachusetts Biologic Laboratories ("MassBiologics"). Under the agreement, MedImmune pays MassBiologics approximately $25 million per year in royalties. In the lawsuit, MedImmune alleges (1) breach of the license agreement and (2) that the agreement was terminable in August 2011, when suit was brought, and that MedImmune has no royalty obligations after that date. During the pendency of the lawsuit, MedImmune has continued to pay MassBiologics royalties, but has reserved the right to seek their repayment if the court rules that MedImmune was authorized to terminate the agreement in August 2011. MedImmune also claimed repayment of any royalties paid after a breach occurred. On summary judgment, the trial court ruled that the agreement was not breached. After a trial, the court ruled that the agreement was not terminated or terminable in August 2011 and will not terminate unless and until MedImmune stops making and selling its leading product, Synagis®. MedImmune has appealed the judgment to the Court of Special Appeals, Maryland's intermediate appellate court, and MassBiologics cross-appealed.

Given just the amount of royalties that have been paid since August 2011, if MedImmune were to prevail on appeal on its claims that the agreement was terminable either in August 2011 or upon breach, MassBiologics would be required to pay (either way) in excess of $25 million to MedImmune. The precise amount of the repayment contingency would depend on (a) the appellate court's ruling, and (b) the amount of royalties paid between the date of termination, or the date of putative breach, and date of final judgment.

Potential suits arising from New England Compounding Center and the fungal meningitis outbreak. As a result of the national fungal meningitis outbreak caused by contaminated products at New England Compounding Center, a Massachusetts pharmacy, the Department of Public Health, the Board of Registration in Pharmacy, and/or state employees may be sued. Claims may include claims under M.G.L. c. 258 as well as civil rights claims for deliberate indifference. Due to the severity of the injuries, which include over 60 deaths and several hundred cases of fungal meningitis, there is a potential for damages to exceed $20 million. At present, no suits have been filed yet against any state entity or state employees, although the Commonwealth has received two letters presenting tort claims for potential pre-litigation resolution.

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MISCELLANEOUS

Any provisions of the constitution of the Commonwealth, of 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 any official statement of which this Information Statement is a part 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.

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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.mass.gov/osc by clicking on "Financial Reports" under the "Publications and Reports" tab.

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.

On behalf of the Commonwealth, the State Treasurer will provide to the Municipal Securities Rulemaking Board (MSRB), through its Electronic Municipal Market Access (EMMA) System 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. Except as noted in the following three paragraphs, the Commonwealth has not failed in the last five years to comply with its continuing disclosure undertakings with respect to any of its debt.

In December, 2012, the Commonwealth learned that notice of a rating downgrade of certain Commonwealth bonds insured by Assured Guaranty Municipal (originally insured by Financial Security Assurance Inc.) had not been filed following a downgrade of the rating of Assured Guaranty Municipal from AAA to AA+ in October, 2010 by S&P. Any such downgrade notice would have been superseded by the subsequent notice filed by the Commonwealth in September, 2011 that the Commonwealth's underlying S&P rating had been upgraded to AA+.

The fiscal 2011 annual financial information filed by the Commonwealth on March 26, 2012 pursuant to its continuing disclosure undertakings related to its grant anticipation note program inadvertently omitted a statement of the actual amounts (gross and net) of pledged funds as of the end of fiscal 2011. The fiscal 2011 amounts were included in the fiscal 2012 filing made on March 26, 2013, and an amended filing has been posted with EMMA for fiscal 2011.

The fiscal 2011 annual financial information filed by the Commonwealth on March 26, 2012 and the fiscal 2012 annual financial information filed by the Commonwealth on March 26, 2013 pursuant to its continuing disclosure undertakings related to its general obligation bond program contained incorrect information about the amount of outstanding direct debt subject to the statutory debt limit and, in the case of the fiscal 2012 filing, about the amount of the limit. Amended filings for fiscal 2011 and for fiscal 2012 have been posted with EMMA, and a corrected table is included in this Information Statement. See "LONG-TERM LIABILITIES – General Authority to Borrow; *Statutory Limit on Direct Debt*."

The State Treasurer also regularly files information with EMMA beyond the documents required by the Commonwealth's continuing disclosure undertakings, including updated Information Statements. In addition, information of interest to investors may be posted on the Commonwealth's investor website at www.massbondholder.com or on twitter at twitter.com/BuyMassBonds.

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AVAILABILITY OF OTHER FINANCIAL INFORMATION

Questions regarding this Information Statement or requests for additional information concerning the Commonwealth should be directed to Colin MacNaught, Assistant Treasurer for Debt Management, Office of the Treasurer and Receiver-General, One Ashburton Place, 12th floor, Boston, Massachusetts 02108, telephone (617) 367-3900, or to Scott Jordan, Undersecretary of the Executive Office for Administration and Finance, State House, Room 373, Boston, Massachusetts 02133, telephone (617) 727-2040. Questions regarding legal matters relating to this Information Statement should be directed to John R. Regier, Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., One Financial Center, Boston, Massachusetts 02111, telephone (617) 348-1720.

THE COMMONWEALTH OF MASSACHUSETTS

By *__/s/ Steven Grossman__*
Steven Grossman
Treasurer and Receiver-General

By *__/s/ Glen Shor__*
Glen Shor
Secretary of Administration and Finance

November 7, 2013

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