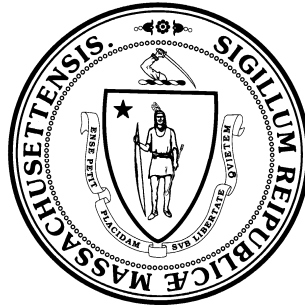


**THE
COMMONWEALTH
OF
MASSACHUSETTS**



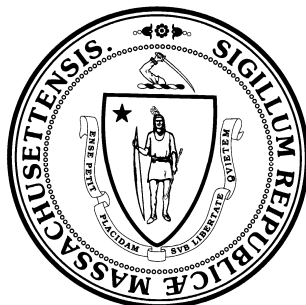
INFORMATION STATEMENT SUPPLEMENT

Dated October 24, 2008

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THE COMMONWEALTH OF MASSACHUSETTS



CONSTITUTIONAL OFFICERS

Deval L. Patrick.....Governor
Timothy P. MurrayLieutenant Governor
William F. Galvin.....Secretary of the Commonwealth
Martha Coakley.....Attorney General
Timothy P. Cahill.....Treasurer and Receiver-General
A. Joseph DeNucci.....Auditor

LEGISLATIVE OFFICERS

Therese Murray.....President of the Senate
Salvatore F. DiMasi.....Speaker of the House

THE COMMONWEALTH OF MASSACHUSETTS
INFORMATION STATEMENT SUPPLEMENT

October 24, 2008

This supplement (“Supplement”) to the Information Statement of The Commonwealth of Massachusetts (the “Commonwealth”) dated August 22, 2008 (the “August Information Statement”) is dated October 24, 2008 and contains information which updates the information contained in the August Information Statement. The August Information Statement has been filed with each Nationally Recognized Municipal Securities Information Repository (NRMSIR) currently recognized by the Securities and Exchange Commission. This Supplement and the August Information Statement must be read collectively and in their entirety in order to obtain the appropriate fiscal, financial and economic information concerning the Commonwealth through October 24, 2008. All capitalized terms not otherwise defined in this Supplement shall have the meanings ascribed to them in the August Information Statement.

The August Information Statement includes three exhibits. Exhibit A is the Statement of Economic Information as of June 30, 2008, which sets forth certain economic, demographic and statistical information concerning the Commonwealth. Exhibits B and C are, respectively, the Commonwealth’s Statutory Basis Financial Report for the year ended June 30, 2007 and the Commonwealth’s Comprehensive Annual Financial Report, reported in accordance with generally accepted accounting principles (GAAP), for the year ended June 30, 2007. Specific reference is made to said Exhibits A, B and C, copies of which have been filed with each NRMSIR currently recognized by the Securities and Exchange Commission. The financial statements are also available at the web site of the Comptroller of the Commonwealth located at <http://www.mass.gov/osc> by clicking on “Publications and Reports” and then “Financial Reports.”

RECENT DEVELOPMENTS

Fiscal 2008

Approximately \$399.5 million in supplemental appropriations were approved for fiscal 2008. Based on historical trends and preliminary estimates of fiscal 2008, the Executive Office for Administration and Finance is anticipating approximately \$275.8 million in reversions on account of fiscal 2008 (\$116.7 million of which are anticipated to be carried forward into fiscal 2009). See the August Information Statement under the heading “FISCAL 2008 AND FISCAL 2009 - Fiscal 2008.”

On October 23, 2008, the Governor filed legislation that would allow the Comptroller to address timing discrepancies in the receipt of federal reimbursements owed to the Commonwealth for fiscal 2008. In part, the timing discrepancy is a consequence of the Medicaid waiver, which delayed collection of federal reimbursements on expenditures made during fiscal 2008. See “COMMONWEALTH EXPENDITURES - Medicaid” below. Accordingly, the legislation would authorize the Comptroller to use those federal reimbursements in fiscal 2009, to make needed transfers to the Stabilization Fund and the State Lottery Fund, as the Legislature and Governor intended for fiscal 2008. The legislation would also provide the Comptroller with discretion to adjust the timing of these transfers to minimize the impact on the Commonwealth’s cash flow.

The Comptroller is expected to release audited financial statements for fiscal 2008 on the statutory basis of accounting (the Commonwealth’s Statutory Basis Financial Report) on October 31, 2008. See the August Information Statement under the heading “THE GOVERNMENT - Executive Branch; *State Comptroller*.”

Fiscal 2009

On October 15, 2008, pursuant to Section 9C of Chapter 29 of the Massachusetts General Laws, the Secretary of Administration and Finance advised the Governor of a probable deficiency of revenue of approximately \$1.421 billion with respect to the appropriations approved to date for fiscal 2009 and certain non-discretionary spending obligations that have not been budgeted, including snow and ice removal costs, health and human services caseload exposures, increased debt service and public safety costs. See the August Information Statement under the

heading “COMMONWEALTH BUDGET AND FINANCIAL MANAGEMENT CONTROLS - Overview of Operating Budget Process.” This \$1.421 billion projected shortfall to cover expenses results from a projected \$1.1 billion reduction in state tax revenues (see “Tax Revenue Forecasting” below) and \$321 million in projected costs not accounted for in the fiscal 2009 budget.

On October 15, 2008, the Governor announced a plan to close this projected \$1.421 billion shortfall. The plan consists of three major components: (i) \$1.053 billion in spending reductions and controls, (ii) a \$200 million transfer from the Stabilization Fund and (iii) \$168 million of additional revenues.

The most significant element of the Governor’s plan is \$1.053 billion in spending reductions and controls. Approximately \$755 million in reductions are being made pursuant to Section 9C to accounts within state agencies under the Governor’s control and through other spending controls. The other spending controls will result in savings of \$146 million from deficiencies not being funded, \$52 million from pension funding reconciliation (revising the previous funding schedule to take into account the valuation report described below under “COMMONWEALTH EXPENDITURES - Pension”) and \$100 million in pension funding deferrals. The remaining deficiency is being met by voluntary reductions in the budgets of the judiciary, the Legislature, other constitutional offices and district attorneys, which are not subject to the Governor’s authority to reduce spending pursuant to Section 9C. On October 15, 2008, in order to implement the voluntary reductions and address the remainder of the deficiency, the Governor filed emergency supplemental budget legislation that would extend the state pension funding schedule from 2023 to 2025 (permitting a \$100 million reduction in the amount to be funded in fiscal 2009 -- see the August Information Statement under the heading “COMMONWEALTH EXPENDITURES - Pension”), authorize the withdrawal of an additional \$200 million from the Stabilization Fund to meet fiscal 2009 obligations, formalize the voluntary spending reductions provided within non-executive accounts and establish tiers of state employee health insurance contributions based on ability to pay (expected to provide \$28.5 million for the remainder of fiscal 2009).

Along with the proposals contained in the legislation and the Section 9C reductions, the Governor identified \$168 million in additional revenues not previously budgeted for fiscal 2009, including \$100 million in anticipated Department of Revenue judgments and settlements, \$55 million in federal grants under the Temporary Assistance for Needy Families program and \$13 million in local revenues anticipated under previously proposed legislation that would authorize municipalities to levy property taxes on certain telecommunications equipment (which would offset a like amount of General Fund moneys otherwise required to supplement lottery-funded local aid -- see the August Information Statement under the heading “COMMONWEALTH REVENUES - Federal and Other Non-Tax Revenues; *Lottery Revenues*”).

The Governor stated that he intends to file additional legislation to carry out certain agency consolidations to make state government more efficient, to reform the state’s pension system and to dismantle the Massachusetts Turnpike Authority and reassign its assets and operating responsibilities.

State Taxes. Preliminary tax revenue collections for the first three months of fiscal 2009, ended September 30, 2008, totaled \$4.791 billion, an increase of \$28.9 million, or 0.6%, over the same period in fiscal 2008. The following table shows the tax collections for the first three months of fiscal 2009 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 in fiscal 2009 that are dedicated to the Massachusetts Bay Transportation Authority and to the Massachusetts School Building Authority.

Fiscal 2009 Tax Collections (in millions) (1)

<u>Month</u>	<u>Tax Collections</u>	<u>Change from Prior Year</u>	<u>Percentage Change</u>	<u>MBTA Portion (3)</u>	<u>MSBA Portion</u>	Tax Collections: Net of MBTA and MSBA
July	\$1,381.6	\$85.6	6.6	\$60.7	\$54.6	\$1,266.3
August	1,309.1	51.0	4.1	56.9	51.2	1,201.0
September (2)	2,100.4	(107.6)	(4.9)	74.2	49.3	1,976.9
October						
November						
December						
January						
February						
March						
April						
May						
June						
<u>Total(2)</u>	<u>\$4,791.1</u>	<u>\$28.9</u>	<u>0.6</u>	<u>\$191.8</u>	<u>\$155.2</u>	<u>\$4,444.2</u>

SOURCE: Executive Office for Administration and Finance.

(1) Details may not add to Total due to rounding.

(2) Figures are preliminary.

(3) Includes adjustment of \$19.4 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 \$28.9 million through September 30, 2008 is attributable in large part to an increase of approximately \$50.4 million, or 2.4%, in withholding collections, an increase of approximately \$4.9 million, or 0.9%, in income cash estimated payments and an increase of approximately \$28.4 million, or 36.6%, in income payments with returns and bills, which are partially offset by changes in other revenues (net of refunds) and by the decline of \$23.9 million, or 2.2%, in sales and use tax collections. The year-to-date fiscal 2009 collections (through September) were \$143.2 million below the benchmark estimate for the corresponding period, which was based on the fiscal 2009 estimate of \$21.402 billion (consensus fiscal 2009 estimate of \$20.987 billion adjusted for subsequent tax law changes). However, the Department of Revenue received a one-time corporate settlement payment of \$80.3 million in July. Without taking that corporate settlement into account, year-to-date total collections would have been about \$223 million below benchmark.

Legislation approved by the Governor on July 23, 2008 requires the Department of Revenue to submit to the Legislature semi-monthly reports of preliminary tax revenues, one on or before the third business day following the fifteenth day of each month and one on or before the third business day of the following month. The report for June is to be submitted on the day after the Department's processing of June tax revenues.

The Department of Revenue released its October, 2008 mid-month tax revenue report on October 20, 2008. The report indicated that October, 2008 month-to-date tax collections (through October 15) totaled \$441 million, up \$30 million from the same period in October, 2007, with the full-month October benchmark (based on the original \$21.402 billion estimate for fiscal 2009 -- benchmarks for the October 15, 2008 estimate of \$20.302 billion referenced below under "Tax Revenue Forecasting" have not yet been developed) projecting total tax revenues of \$1.268 billion, an increase of \$66 million from October, 2007. The report noted that virtually all of the month-to-date increase through October 15 was the result of a decrease in corporate/business tax refunds, due to the fact that those refunds would be issued later in October in 2008 than in 2007. The report also noted that by the end of October, corporate/business tax refunds would significantly exceed the October, 2007 total, as well as exceed the amount assumed in the original benchmarks, a factor that was taken into account in the October 15, 2008 downward revision of the fiscal 2009 revenue estimate.

Finally, the report cautioned that growth in revenues received through October 15 was not necessarily indicative of what the growth for the full month would be, since most of the important activity in October occurs during the second half of the month, primarily because sales, meals, motor fuels and rooms tax returns are due on the 20th of each month and most corporate/business refunds and income tax refunds are processed in the last two weeks of October. There may be other differences in the due dates for certain tax payments from one fiscal year to the next (for example, in the timing of refund cycles) which complicate month-to-date comparisons to the prior year.

Tax Revenue Forecasting. Based on an analysis of fiscal 2009 year-to-date revenue trends and taking into account revised economic forecasts and recommendations of the Department of Revenue and outside economists from the Governor's Council of Economic Advisors, the Secretary of Administration and Finance has revised the fiscal 2009 revenue estimate downward by \$1.1 billion, from \$21.402 to \$20.302 billion. The basis for this revenue revision is described below.

Economic forecasts for the remainder of fiscal 2009 have been revised sharply downward over the past month due to the unfolding international financial crisis and its projected impact on the national and state economies. Both economic forecasters used by the Commonwealth in developing its revenue forecasts (Economy.com and Global Insight) assume that the United States is currently in a recession that will last through mid-2009.

The revised fiscal 2009 tax revenue forecast is based on the following economic assumptions:

- As measured by real gross domestic product (GDP), the economy saw no growth or contracted slightly in the third quarter of calendar year 2008 and is projected to decline over the next two quarters. GDP growth for all of fiscal 2009 is projected to be between 0.3% and 0.6%, compared to growth of 2.0% in fiscal 2007 and 2.4% in fiscal 2008;
- Massachusetts employment is expected to decline by 0.6% to 1.0% over the remainder of fiscal 2009, and by 0.4% to 0.7% for fiscal year 2009 as a whole;
- Massachusetts personal income (excluding capital gains) is expected to grow by only 1.6% to 2.9% over the remainder of fiscal 2009 and 2.2% to 3.3% for fiscal 2009 as a whole;
- Massachusetts wages and salaries are projected to grow by between 1.6% and 2.8% for the remainder of fiscal 2009 and 2.5% to 3.4% for the year as a whole;
- Massachusetts retail sales are expected to decline by 1.4% to 1.9% over the remainder of fiscal 2009 and by 1.0% to 1.2% for the fiscal year as a whole;
- Corporate profits at the national level are expected to decline by 4.8% to 9.4% over the remainder of fiscal 2009, and by 5.4% to 9.8% for the fiscal year as a whole. (There are no forecasts for state corporate profits);
- Due to the decline in the equity and real estate markets, Massachusetts capital gains taxes are projected to decline by close to 30% in fiscal 2009.

In addition to the economic assumptions described above, several other factors are expected to affect revenue growth over the remainder of fiscal 2009, compared to fiscal 2008.

- Over the final three quarters of fiscal 2008, the Commonwealth received approximately \$272 million in one-time corporate payments, which are not expected to recur in fiscal 2009;
- Large refunds that are \$50 million to \$100 million higher than usual will be paid out in October, 2008 and November, 2008 due to the impact of the financial crisis on financial industry profits;
- Tax revenue collections are projected to be increased by a net of approximately \$225 million due to tax corporate tax reform and other revenue initiatives.

In the first quarter of fiscal 2009, tax revenue collections grew by \$29 million, or 0.6%, but declined by 0.2% baseline (the baseline measure adjusts for tax law and processing changes that affect revenue collections) compared to the same period in fiscal 2008. Based on the economic assumptions and other factors described above, tax collections for the remainder of the fiscal 2009 are projected to decline by \$577 million, or 3.6%, actual and \$833 million, or 5.2%, baseline from the same period last year.

Federal and other Non-Tax Revenues

Lottery Revenues. The fiscal 2009 budget assumes total net transfers from the Lottery of \$1.005 billion to fund various commitments appropriated by the Legislature from the State Lottery Fund and the Arts Lottery Fund (\$12.7 million for services and operation of the Massachusetts Cultural Council, \$1 million for a compulsive gamblers treatment program, \$78.6 million to the General Fund for the activities of the General Fund, \$810.9 million for local aid to cities and towns and \$102.3 million for administrative expenses of the Lottery), with the balance, if any, to be transferred to the General Fund. The assumed \$1.005 billion figure is approximately \$17.4 million higher than the Lottery Commission's estimate of its operating revenues for fiscal 2009 of \$988 million. The Lottery Commission expects to submit a revised spending plan for fiscal 2009 that reduces overall spending by \$3 million, which will reduce the expected deficiency to \$14.4 million.

Cash Flow

A cash flow report for fiscal 2008 and forecast for fiscal 2009, dated September 2, 2008, has been released by the State Treasurer and the Secretary of Administration and Finance. The fiscal 2008 cash flow report incorporates actual spending and revenue through June 30, 2008. See the August Information Statement under the heading "FISCAL 2008 AND FISCAL 2009 - Cash Flow."

The September 2, 2008 cash flow reports an actual cash balance on June 30, 2008 of \$1.198 billion, approximately \$393 million lower than the July 1, 2007 cash balance of \$1.591 billion that opened the fiscal year.

The fiscal 2009 cash flow projection is based upon the fiscal 2009 budget signed on July 13, 2008 (including the value of all vetoes and subsequent overrides), all supplemental appropriations either filed, enacted or anticipated and all prior appropriations continued into fiscal 2009. Fiscal 2009 projections are based on actual spending and revenue through July, 2008 and estimates for the remainder of fiscal 2009. The fiscal 2009 budget provides for spending of \$28.165 billion and is based upon a tax estimate of \$21.402 billion (original consensus revenue estimate of \$20.987 billion adjusted for subsequent tax law changes). The fiscal 2009 projections are also based on the five-year capital investment plan published in August, 2007 by the Executive Office for Administration and Finance.

The report was prepared before the Secretary of Administration and Finance determined on October 15, 2008 that a downward revision of the fiscal 2009 tax revenue estimate was necessary and, accordingly, does not reflect either the revised estimate or the spending reductions and increases in other funding sources announced by the Governor on that date. Such revenue and expense adjustments will be reflected in future cash flow statements. See the August Information Statement under the heading "COMMONWEALTH BUDGET AND FINANCIAL MANAGEMENT CONTROLS - Overview of Operating Budget Process" and "Fiscal 2009" above. The fiscal 2009 tax estimate reflected in the report includes \$1.465 billion dedicated to the Commonwealth's pension obligations, \$768 million in sales tax revenues dedicated to the Massachusetts Bay Transportation Authority and \$702 million in sales tax revenues dedicated to the Massachusetts School Building Authority. The fiscal 2009 budget assumes total net transfers from the State Lottery of \$988 million, which is an insufficient amount to fully fund local aid to cities and towns. The fiscal 2009 cash flow projection also assumes the receipt of \$288.5 million on April 15, 2009 pursuant to the tobacco master settlement agreement.

Based on the September 2, 2008 projections, the fiscal 2009 forecast shows an overall decline in the non-segregated cash balance from \$1.198 billion to \$716.6 million. Several factors affect the overall decline in the cash balance, including general obligation bond proceeds received in fiscal 2008 which are projected to be spent in fiscal 2009, fiscal 2008 appropriations carried forward and authorized to be expended in fiscal 2009 and some anticipated transfers that may result from the fiscal 2008 consolidated net surplus calculation. The month-end balance for July, 2008 was \$832 million, compared to a balance of \$1.292 billion for July, 2007.

The September 2, 2008 projections, as well as previous projections, anticipated the issuance by the Commonwealth of revenue anticipation notes in late September. Due to disruptions in the capital markets, the Commonwealth deferred the issuance of revenue anticipation notes until October. In order to meet cash flow needs through the end of September, the State Treasurer accelerated into September the withdrawal from the Stabilization Fund originally planned for December and issued an additional \$101 million in commercial paper. The total amount

of commercial paper outstanding, as of October 24, 2008, is \$361.6 million. Approximately \$172 million is expected to be repaid in October. The Commonwealth issued \$750 million of revenue anticipation notes on October 10, 2008, to be repaid in equal installments on April 30, 2009 and May 29, 2009.

The Commonwealth's next cash flow projection is expected to be released on or before December 1, 2008.

Overview of Fiscal 2008 Non-Segregated Operating Cash Flow (in millions) (1)

(as of September 2, 2008)

	Jul	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June
Opening Balance	\$1,590.8	\$1,291.8	\$1,186.9	\$724.7	\$456.8	\$393.4	\$499.3	\$1,238.9	\$573.2	\$314.9	\$1,369.2	\$1,286.7
CP /RANs Issuance	-	-	-	200.0	300.0	900.0	-	-	400.0	-	-	-
Total Receipts	2,687.8	3,055.6	3,491.6	2,558.7	3,130.8	3,449.9	3,343.6	3,112.5	4,209.7	4,812.26	3,774.1	4,549.9
Total Expenditures	2,987.1	3,173.4	3,953.4	3,026.1	3,400.8	4,483.6	3,100.8	3,376.6	4,939.7	3,757.7	3,856.4	4,641.1
Central Artery Settlement	-	-	-	-	-	-	401.2	(401.2)	-	-	-	-
Stabilization Transfers	-	-	-	-	(92.9)	240.0	-	-	72.0	-	-	3.0
Closing Balance	<u>\$1,291.5</u>	<u>\$1,187.4</u>	<u>\$725.1</u>	<u>\$457.2</u>	<u>\$393.8</u>	<u>\$499.7</u>	<u>\$1,239.3</u>	<u>\$573.6</u>	<u>\$315.2</u>	<u>\$1,369.5</u>	<u>\$1,286.9</u>	<u>\$1,198.5</u>

SOURCE: Office of the Treasurer and Receiver-General.

(1) Totals may not add due to rounding.

Overview of Fiscal 2009 Non-Segregated Operating Cash Flow (in millions) (1) (2)

(as of October 24, 2008)

	Jul	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June
Opening Balance	\$1,198.2	\$832.5	\$794.4	\$645.7	\$1,210.1	\$658.5	\$143.0	\$688.6	\$427.7	\$88.9	\$1,423.1	\$897.7
CP /RANs Issuance	-	500.0	233.6	750.0	-	466.0	-	-	-	-	-	-
Total Receipts	2,942.4	3,445.6	4,174.4	4,143.8	3,083.0	4,305.1	3,882.6	3,078.7	4,354.0	5,052.5	3,370.0	4,700.0
Total Expenditures	3,307.9	3,483.5	4,633.0	3,579.2	3,634.5	4,820.5	3,336.9	3,339.5	4,692.5	3,718.3	3,895.4	4,881.0
Central Artery Settlement	-	-	-	-	-	-	-	-	-	-	-	-
Stabilization Transfers	-	-	310.0	-	-	-	-	-	-	-	-	-
Closing Balance	<u>\$832.7</u>	<u>\$794.6</u>	<u>\$645.8</u>	<u>\$1,210.2</u>	<u>\$658.6</u>	<u>\$143.0</u>	<u>\$688.7</u>	<u>\$427.7</u>	<u>\$89.0</u>	<u>\$1,423.2</u>	<u>\$897.7</u>	<u>\$716.6</u>

SOURCE: Office of the Treasurer and Receiver-General.

(1) Totals may not add due to rounding.

(2) Table does not reflect revenue and spending reductions announced on October 15, 2008. See "RECENT DEVELOPMENTS - Fiscal 2009."

COMMONWEALTH EXPENDITURES

Medicaid

On September 30, 2008, the Commonwealth announced that it had reached an agreement in principle with the federal Centers for Medicare and Medicaid Services (CMS) to continue through June 30, 2011 its section 1115 demonstration waiver, under which the Commonwealth operates the majority of its Medicaid program (including the 2006 health reform expansions), as well as other key elements of the Commonwealth's health care reform initiative. See the August Information Statement under the heading "COMMONWEALTH EXPENDITURES - Medicaid." The prior approval was set to expire on June 30, 2008, and was extended several times in order to allow the Commonwealth and CMS to complete discussions regarding terms for the next three years.

The agreement authorizes federal reimbursement for approximately \$21.2 billion in state health care spending from fiscal 2009 through fiscal 2011, \$4.3 billion more in spending than was authorized for fiscal 2006 through fiscal 2008. It enables the Commonwealth to claim federal reimbursement for all programs at current eligibility and benefit levels (including for Commonwealth Care's subsidized coverage of adults up to 300% of the federal poverty level).

Within the overall \$21.2 billion spending authority, the agreement authorizes the Commonwealth to claim federal reimbursement over the three-year renewal period for approximately \$5 billion of spending within the Safety Net Care Pool, a capped pool of funding used to support several key elements of the Commonwealth's health reform effort, including Commonwealth Care and the Health Safety Net Trust Fund. This is a \$1 billion increase in the Commonwealth's authority to claim federal reimbursement for programs in the Safety Net Care Pool, compared to the fiscal 2006 through fiscal 2008 waiver period. The agreement also transforms the Safety Net Care Pool by shifting from a series of annual caps to a three-year aggregate cap. Together, this increased authority to secure federal reimbursement and greater flexibility will allow the Commonwealth to meet all of its federal funding projections for fiscal 2009 and to plan ahead to meet all of its commitments for fiscal 2010 and fiscal 2011.

The Commonwealth is currently engaged with CMS on finalizing the documentation associated with this agreement in principle. During this time, the Commonwealth will continue to operate under a short-term extension of the agreement that was originally set to expire on June 30, 2008, and is currently authorized through November 3, 2008. The Commonwealth will evaluate the need for additional short-term extensions as necessary to finalize documentation.

Health Care Reform Legislation

On October 1, 2008, the Division of Health Care Finance and Policy adopted final regulations revising the "fair share" test, which requires employers with 11 or more full-time equivalent employees (FTEs) to make a "fair and reasonable" premium contribution to their employees' health insurance or pay a fee to the Commonwealth. See the August Information Statement under the heading "COMMONWEALTH EXPENDITURES - Health Care Reform Legislation."

Previously, the regulations provided that an employer met the "fair and reasonable" contribution standard if either (i) 25% or more of its full-time employees enrolled in the employer's group health plan, or (ii) it offered to contribute at least 33% towards the premium cost for a group health plan for full-time employees who worked at least 90 days. The revised regulations, which will take effect January 1, 2009, maintain this test for firms with 50 or fewer FTEs but require larger firms to meet both the employee enrollment and the employer contribution standards. Moreover, under the revised regulations, firms would also be considered to meet the "fair and reasonable contribution" standard if 75% or more of their full-time employees enroll in their group health plans.

These new regulations are projected to generate \$30 million in revenue for a full year of implementation, to support government-funded health insurance programs. (Because of the delayed effective date and a quarterly filing and payment schedule, the first year's revenues will be collected partly in fiscal 2009 and partly in fiscal 2010.) The Commonwealth estimates that approximately 1,100 firms will be liable for the fair share contribution under the new regulations.

Office of Disability and Community Services

Under the settlement agreement approved June 16, 2008 in *Rolland v. Patrick et al.*, the Commonwealth expects to devote an additional \$17-20 million each year to pay for the placement of the affected individuals and the provision of active treatment. See the August Information Statement under the headings "COMMONWEALTH EXPENDITURES - Office of Disabilities and Community Services" and "LEGAL MATTERS."

Pension

On September 10, 2008, PERAC released its actuarial valuation of the total pension obligation as of January 1, 2008. See the August Information Statement under the heading "COMMONWEALTH EXPENDITURES - Pension; *Valuation of Pension Obligation.*" The unfunded actuarial accrued liability as of that date for the total obligation was approximately \$12.105 billion, including approximately \$2.420 billion for the State Employees' Retirement System, \$8.072 billion for the Massachusetts Teachers' Retirement System, \$1.237 billion for Boston Teachers and \$376 million for cost-of-living increases reimbursable to local systems. The valuation study estimated the total actuarial accrued liability as of January 1, 2008 to be approximately \$56.637 billion (comprised of \$22.821 billion for state employees, \$30.955 billion for state teachers, \$2.485 billion for Boston Teachers and \$376 million for cost-of-living increases reimbursable to local systems). Total assets were valued at approximately \$44.532 billion based on a five-year average valuation method, which equaled 90.4% of the January 1, 2008 total asset market value. The valuation method was the same as the method used in the 2007 valuation. The following table shows the valuation of accrued liabilities and assets from 2004 through 2008:

Pension Fund Valuation and Unfunded Accrued Liabilities (in millions)

<u>Valuation Date</u>	<u>Total Actuarial Accrued Liability</u>	<u>Actuarial Value of Assets(1)</u>	<u>Unfunded Accrued Liabilities</u>		<u>Valuation Date</u>
			<u>Unfunded Actuarial Liability(2)</u>	<u>Market Value of Unfunded Liability</u>	
January 1, 2004	\$46,059	\$34,045	\$12,014	\$14,350	January 1, 2004
January 1, 2005	48,358	34,939	13,419	12,861	January 1, 2005
January 1, 2006	50,865	36,377	14,488	11,844	January 1, 2006
January 1, 2007	53,761	40,412	13,349	8,859	January 1, 2007
January 1, 2008	56,637	44,532	12,105	7,402	January 1, 2008

SOURCE: Public Employee Retirement Administration Commission.

(1) Based on five-year average smoothing methodology.

(2) Based on actuarial valuation.

The existing funding schedule is based on the January 1, 2003 actuarial liability, brought forward on an estimated basis to January 1, 2004, and on asset values on January 1, 2004. The most recent funding schedule recommended by PERAC is based on the January 1, 2007 actuarial liability, brought forward on an estimated basis to January 1, 2008, and asset values on December 31, 2007. The funding schedule that was recommended by PERAC has not been updated to reflect the actuarial January 1, 2008 results, though PERAC has submitted a schedule, for review, to the Executive Office for Administration and Finance that reflects the final January 1, 2008 actuarial results. On October 15, 2008, the Governor filed legislation that would extend the funding schedule from 2023 to 2025. See "RECENT DEVELOPMENTS - Fiscal 2009."

LONG-TERM LIABILITIES

General Obligation Debt

On September 11, 2008, the Commonwealth issued fixed-rate general obligation bonds in the aggregate principal amount of \$652,790,000 to refund certain auction-rate bonds (outstanding in the aggregate principal amount of \$163,650,000) and to finance capital expenditures expected to occur in fiscal 2009.

Interest Rate Swaps

On September 15, 2008, Lehman Brothers Holdings Inc. (“LBHI”), the corporate parent of Lehman Brothers Derivatives Products Inc. (“LBDP”) and Lehman Brothers Special Financing Inc. (“LBSF”), filed for bankruptcy. At the time of the filing, the Commonwealth had outstanding interest rate swaps with LBDP and LBSF. See the August Information Statement under the heading “LONG-TERM LIABILITIES - Interest Rate Swaps.” The Commonwealth’s outstanding interest rate swap with LBDP was subject to automatic termination upon such bankruptcy filing, with payment of a termination amount by the Commonwealth due within five days of notice of such termination. However, no notice of termination was given and, on September 16, 2008, the swap was assigned by the parties to LBSF and is no longer subject to automatic termination. LBHI was the guarantor of the swaps originally entered into with LBSF, and as a result of LBHI’s bankruptcy filing, those swaps became subject to termination at the option of the Commonwealth. On October 3, 2008, LBSF filed for bankruptcy. On October 8, 2008, the Commonwealth terminated all of its original LBSF swaps and assigned them to different counterparties without incurring any net termination costs. It is the Commonwealth’s intention to assign its remaining swap to a different counterparty in the near future without incurring termination costs. The Commonwealth would owe a termination payment on this swap if it was to be terminated at this time and was not assigned to a replacement counterparty.

Budgetary Contract Assistance Liabilities

City of Chelsea Commonwealth Lease Revenue Bonds. By virtue of the bankruptcy filing by LBHI described above under “Interest Rate Swaps,” the interest rate swaps with LBSF related to the City of Chelsea Lease Revenue Bonds are subject to termination at the option of the Commonwealth. See the August Information Statement under the heading “LONG-TERM LIABILITIES - Budgetary Contract Assistance Liabilities; *City of Chelsea Commonwealth Lease Revenue Bonds.*” The Commonwealth is currently considering structuring alternatives, including assigning the swaps to different counterparties or refunding the bonds. The August Information Statement is hereby corrected to note that a ratings downgrade of FSA would not, in fact, trigger termination costs under the swaps, because the FSA insurance covers only the bonds, not the swaps.

Contingent Liabilities

Massachusetts Turnpike Authority. By virtue of the bankruptcy filing by LBHI described above under “Interest Rate Swaps,” the Lehman swaptions described in the August Information Statement under the heading “LONG-TERM LIABILITIES - Contingent Liabilities; *Massachusetts Turnpike Authority*” are now subject to termination at the option of the Authority. The Turnpike Authority would owe a termination payment on each of these swaptions if they were to be terminated at this time. The Turnpike Authority is evaluating its options and has made no decision at this time regarding the Lehman swaptions. On October 2, 2008, Moody’s Investor’s Service, Inc. announced a downgrade of its ratings of the Turnpike Authority’s senior and subordinated Metropolitan Highway System bonds to Baa2 from A3 and Baa3 from Baa1, respectively. As a result of this downgrade, the Turnpike Authority will be required to post collateral with respect to a “basis” swap it entered into in 1999 with JPMorgan Chase Bank in a notional amount of \$100 million. The current estimated collateral value required to be posted is approximately \$10.1 million. The Turnpike Authority expects to post the collateral when due.

COMMONWEALTH CAPITAL INVESTMENT PLAN

Capital Investment Plan

The updated bond cap and debt affordability analysis and updated five-year capital investment plan are not yet finalized. They are expected to be completed in the near future. See the August Information Statement under the heading “COMMONWEALTH CAPITAL INVESTMENT PLAN - Capital Investment Plan.”

LEGAL MATTERS

Matters described in the August Information Statement under the heading “LEGAL MATTERS” are updated as follows:

Ricci v. Patrick, United States District Court, First Circuit Court of Appeals. On October 1, 2008, the United States Court of Appeals for the First Circuit reversed a District Court order requiring the Commonwealth to keep open an expensive and outmoded institution for the care of mentally retarded citizens. The Court of Appeals directed entry of judgment dismissing with prejudice the claims the plaintiffs had brought in this action. On October 16, 2008, certain plaintiffs filed a motion for panel rehearing, to which the Commonwealth is responding.

Hutchinson v. Patrick et al., United States District Court, Western Division. After a fairness hearing on July 25, 2008, where there were no objections from class members, the court entered an order on September 19, 2008, approving the final comprehensive settlement agreement and retaining jurisdiction over the case pending compliance with the terms of the settlement agreement.

Rolland v. Patrick, United States District Court, Western Division. This case carries the potential for a prospective increase in annual program costs of more than \$20 million.

Disability Law Center, Inc. v. Massachusetts Department of Correction et al, United States District Court. Disability Law Center, Inc. (“DLC”) has received the medical and mental health records of numerous inmates. The parties have been engaged in settlement discussions, and the next status report to the Court is due on October 31, 2008. While DLC requests only injunctive relief, estimated increased program costs could amount to over \$25 million in the event of an adverse outcome.

Fleet Funding, Inc. & Fleet Funding II. V. Commissioner of Revenue, Appeals Court. The Appellants have filed their brief, and the Commissioner’s brief is currently due on October 31, 2008.

Commonwealth of Massachusetts v. Philip Morris Inc., RJ Reynolds Tobacco Company, Lorillard Tobacco Company, et. al. (2006 NPM Adjustment) The SFD proceeding for a 2006 NPM adjustment commenced in May 2008 and is presently underway.

Cutting Edge Enterprises, Inc. v. National Association of Attorneys General et al., United States District Court, Southern District of New York; *Cutting Edge Enterprises, Inc. v. National Association of Attorneys General et al*, United States Bankruptcy Court, Middle District of North Carolina. In January, 2008, Cutting Edge voluntarily dismissed its action and on February 5, 2008, the case was officially closed.

Conservation Law Foundation, Inc. v. Romney, United States District Court. This case was dismissed by agreement on August 19, 2008.

The Arborway Committee v. Executive Office of Transportation et al., Suffolk Superior Court. The Commonwealth has moved for summary judgment on statute of limitations grounds and the plaintiff’s opposition memorandum to that motion is due on October 31, 2008. Discovery is proceeding simultaneously with the motion for summary judgment.

MISCELLANEOUS

Any provisions of the constitution of the Commonwealth, of general and special laws and of other documents set forth or referred to in the August Information Statement and this Supplement 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.

The August Information Statement and this Supplement contain 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 the August Information Statement and this Supplement 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 the August Information Statement and this Supplement 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 the August Information Statement and this Supplement are subject to change without notice. Neither the delivery of this Supplement nor any sale made pursuant to any official statement of which the August Information Statement and this Supplement are 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 Supplement, except as expressly stated.

CONTINUING DISCLOSURE

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

On behalf of the Commonwealth, the State Treasurer will provide to each NRMSIR within the meaning of Rule 15c2-12 of the SEC, no later than 270 days after the end of each fiscal year of the Commonwealth, certain financial information and operating data relating to such fiscal year, as provided in said Rule 15c2-12, together with audited financial statements of the Commonwealth for such fiscal year. To date, the Commonwealth has complied with all of its continuing disclosure undertakings relating to the general obligation debt of the Commonwealth and has not failed in the last six years to comply with its continuing disclosure undertakings with respect to its special obligation debt and federal grant anticipation notes. However, the annual filings relating to the fiscal year ended June 30, 2001 for the Commonwealth's special obligation debt and for the Commonwealth's federal highway grant anticipation notes were filed two days late, on March 29, 2002. Proper notice of the late filings was provided on March 29, 2002 to the Nationally Recognized Municipal Securities Information Repositories and the Municipal Securities Rulemaking Board.

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

AVAILABILITY OF OTHER FINANCIAL INFORMATION

Questions regarding the August Information Statement or this Supplement 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 Karol Ostberg, Director of Capital Finance, or Lori D. Hindle, Capital Finance Program Manager, Executive Office for Administration and Finance, State House, Room 373, Boston, Massachusetts 02133, telephone (617) 727-2040. Questions regarding legal matters relating to the August Information Statement or this Supplement 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/ Timothy P. Cahill
Timothy P. Cahill
Treasurer and Receiver-General

By /s/ Leslie A. Kirwan
Leslie A. Kirwan
Secretary of Administration and Finance

October 24, 2008

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