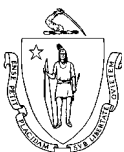


**NEW ISSUE - BOOK-ENTRY-ONLY**

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



**THE COMMONWEALTH OF MASSACHUSETTS**

**\$734,350,000**

**General Obligation Bonds  
Consolidated Loan of 2002, Series E**

**Dated: November 1, 2002**

**Due: January 1, as shown on the inside cover hereof**

*The Bonds will be issued by means of a book-entry-only system evidencing ownership and transfer of the Bonds on the records of The Depository Trust Company ("DTC") and its participants. Details of payment of the Bonds are more fully described in this Official Statement. The Bonds will bear interest from November 1, 2002 and interest will be payable on July 1, 2003 and semiannually thereafter on January 1 and July 1, calculated on the basis of a 360-day year of twelve 30-day months. The Bonds are subject to redemption prior to maturity, as more fully described herein.*

The Bonds will constitute general obligations of The Commonwealth of Massachusetts (the "Commonwealth"), and the full faith and credit of the Commonwealth will be pledged to the payment of the principal of and interest on the Bonds. However, for information regarding certain statutory limits on state tax revenue growth and on expenditures for debt service, see "SECURITY FOR THE BONDS" (herein) and the March Information Statement (referred to herein) under the headings "COMMONWEALTH REVENUES – Limitations on Tax Revenues" and "COMMONWEALTH CAPITAL SPENDING AND LONG-TERM LIABILITIES – Limit on Debt Service Appropriations."

The Bonds are offered when, as and if issued and received by the Underwriters, and subject to the unqualified approving opinions as to legality of Ropes & Gray, Boston, Massachusetts, Bond Counsel. Certain legal matters will be passed upon for the Commonwealth by Ropes & Gray, Boston, Massachusetts, Disclosure Counsel. Certain matters will be passed upon for the Underwriters by their counsel, Brown Rudnick Berlack Israels LLP, Boston, Massachusetts. The Bonds are expected to be available for delivery at DTC in New York, New York, on or about December 10, 2002.

**UBS PaineWebber Inc.**

**Bear, Stearns & Co. Inc.  
JPMorgan**

**Lehman Brothers**

**Goldman, Sachs & Co.  
Salomon Smith Barney**

**Advest, Inc.  
Corby Capital Markets Inc.  
First Albany Corporation  
Merrill Lynch & Co.  
Quick & Reilly, Inc.  
RBC Dain Rauscher Inc.**

**A.G. Edwards & Sons, Inc.  
Eastern Bank Capital Markets  
Janney Montgomery Scott Inc.  
Morgan Stanley  
Ramirez & Co., Inc.  
State Street Global Markets, LLC**

**CIBC World Markets  
Fahnestock & Co. Inc  
Mellon Financial Markets, Inc.  
Prudential Securities  
Raymond James & Associates, Inc.  
Wachovia Bank, National Association**

November 22, 2002

THE COMMONWEALTH OF MASSACHUSETTS

**\$734,350,000**  
**General Obligation Bonds**  
**Consolidated Loan of 2002, Series E**

**Dated: November 1, 2002**

**Due: January 1, as shown below**

<u>Maturity</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Price or Yield</u>
2004	\$24,180,000	3.500%	NRO
2005	5,000,000	2.000	2.030
2005	22,225,000	5.000	2.030
2006	5,000,000	2.375	2.380
2006	6,000,000	3.000	2.380
2006	17,435,000	5.250	2.380
2007	3,525,000	2.700	2.720
2007	26,125,000	5.250	2.720
2008	5,000,000	3.000	3.030
2008	26,115,000	5.500	3.030
2009	5,000,000	3.250	3.280
2009	27,700,000	5.500	3.280
2010	5,000,000	3.500	3.520
2010	29,385,000	5.500	3.520
2011	5,000,000	3.700	100
2011	31,180,000	5.500	3.700
2012	5,000,000	3.800	100
2012	33,080,000	5.500	3.800
2013	40,090,000	5.500	3.940
2014	17,435,000	4.000	4.100
2014	24,860,000	5.500	4.100*
2015	44,360,000	5.500	4.220*
2016	46,795,000	5.375	4.340*
2017	49,310,000	5.375	4.430*
2018†	19,550,000	5.375	4.520*
2018‡	32,415,000	5.250	4.440*
2019†	54,795,000	5.250	4.540*
2020†	28,290,000	5.250	4.640*
2021†	46,500,000	5.250	4.740*
2022†	8,000,000	5.250	4.810*
2022‡	40,000,000	5.250	4.810*

(accrued interest, if any, to be added)

† Insured by Financial Security Assurance Inc. See “BOND INSURANCE.”

‡ Insured by Financial Guaranty Insurance Company. See “BOND INSURANCE.”

\* Subject to optional redemption and priced at the stated yield to the January 1, 2013 optional redemption date at a redemption price of 100%.

Other than with respect to information concerning Financial Security Assurance Inc. (“FSA”) contained herein under the heading “BOND INSURANCE” and in Appendix D - “Specimen Municipal Bond Insurance Policies,” none of the information in this Official Statement has been supplied or verified by FSA and FSA makes no representation or warranty, express or implied, as to (i) the accuracy or completeness of such information; (ii) the validity of the Bonds; or (iii) the tax exempt status of the interest on the Bonds.

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

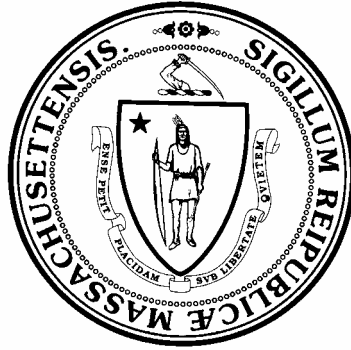
THE UNDERWRITERS HAVE PROVIDED THE FOLLOWING SENTENCE FOR INCLUSION IN THIS OFFICIAL STATEMENT: THE UNDERWRITERS HAVE REVIEWED THE INFORMATION IN THIS OFFICIAL STATEMENT IN ACCORDANCE WITH, AND AS PART OF, THEIR RESPECTIVE RESPONSIBILITIES TO INVESTORS UNDER THE FEDERAL SECURITIES LAWS AS APPLIED TO THE FACTS AND CIRCUMSTANCES OF THIS TRANSACTION, BUT THE UNDERWRITERS DO NOT GUARANTEE THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION.

IN CONNECTION WITH THIS OFFERING THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS OFFERED HEREBY AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL ON THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

#### TABLE OF CONTENTS

INTRODUCTION .....	1
Purpose and Content of Official Statement .....	1
THE BONDS .....	2
General .....	2
Redemption.....	2
Application of Proceeds of the Bonds .....	2
SECURITY FOR THE BONDS.....	3
BOND INSURANCE.....	3
Financial Security Assurance Inc.....	3
Financial Guaranty Insurance Company .....	4
LITIGATION.....	5
BOOK-ENTRY-ONLY SYSTEM .....	5
RATINGS .....	7
UNDERWRITING .....	7
TAX EXEMPTION .....	7
OPINION OF COUNSEL .....	8
CONTINUING DISCLOSURE .....	8
MISCELLANEOUS .....	9
AVAILABILITY OF OTHER INFORMATION .....	9
APPENDIX A - Commonwealth Information Statement Supplement dated November 22, 2002.....	A-1
APPENDIX B - Proposed Form of Opinion of Bond Counsel .....	B-1
APPENDIX C - Continuing Disclosure Undertaking .....	C-1
APPENDIX D - Specimen Municipal Bond Insurance Policies.....	D-1

THE COMMONWEALTH OF MASSACHUSETTS



CONSTITUTIONAL OFFICERS

**Jane M. Swift** ..... **Acting Governor**  
**William F. Galvin** ..... **Secretary of the Commonwealth**  
**Thomas F. Reilly** ..... **Attorney General**  
**Shannon P. O’Brien**..... **Treasurer and Receiver-General**  
**A. Joseph DeNucci** ..... **Auditor**

LEGISLATIVE OFFICERS

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

## **OFFICIAL STATEMENT**

### **THE COMMONWEALTH OF MASSACHUSETTS**

**\$734,350,000**

**General Obligation Bonds  
Consolidated Loan of 2002, Series E**

### **INTRODUCTION**

This Official Statement (including the cover pages and Appendices A through D attached hereto) provides certain information in connection with the issuance by The Commonwealth of Massachusetts (the "Commonwealth") of \$734,350,000 aggregate principal amount of its General Obligation Bonds, Consolidated Loan of 2002, Series E (the "Bonds"). The Bonds will be general obligations of the Commonwealth, and the full faith and credit of the Commonwealth will be pledged to the payment of the principal of and interest on the Bonds. However, for information regarding certain statutory limits on state tax revenue growth and expenditures for debt service, see "SECURITY FOR THE BONDS" and the March Information Statement (described below) under the headings "COMMONWEALTH REVENUES – Limitations on Tax Revenues" and "COMMONWEALTH CAPITAL SPENDING AND LONG-TERM LIABILITIES – Limit on Debt Service Appropriations."

#### **Purpose and Content of Official Statement**

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

Specific reference is made to the Commonwealth's Information Statement dated March 25, 2002 (the "March Information Statement"), as it appears as Appendix A in the Official Statement dated March 25, 2002 of the Commonwealth with respect to the Commonwealth's General Obligation Bond Anticipation Notes, 2002 Series A (the "March Official Statement"). A copy of the March Official Statement has been filed with each Nationally Recognized Municipal Securities Information Repository currently recognized by the Securities and Exchange Commission and with the Municipal Securities Rulemaking Board. The information contained in the March Information Statement has been supplemented by the Commonwealth Information Statement Supplement dated November 22, 2002 (the "Supplement"), which is attached hereto as Appendix A. The March Information Statement, as supplemented by the Supplement, contains certain fiscal, budgetary, financial and other general information concerning the Commonwealth. Exhibit A to the Supplement contains certain economic information concerning the Commonwealth. Exhibits B and C to the March Information Statement, as supplemented by the Supplement, contain the financial statements of the Commonwealth for the fiscal year ended June 30, 2002, prepared on a statutory basis and for the fiscal year ended June 30, 2001, prepared on a GAAP basis, respectively. Specific reference is made to said Exhibits B and C, copies of which have been filed with each Nationally Recognized Municipal Securities Information Repository currently recognized by the Securities and Exchange Commission. The financial statements are also available at the home page of the Comptroller of the Commonwealth located at [www.state.ma.us/osc](http://www.state.ma.us/osc).

Attached hereto as Appendix B is the proposed form legal opinion of Bond Counsel with respect to the Bonds. Appendix C attached hereto contains the proposed form of the Commonwealth's continuing disclosure undertaking to be included in the form of the Bonds to facilitate compliance by the Underwriters with the requirements of paragraph (b)(5) of Rule 15c2-12 of the Securities and Exchange Commission. Appendix D attached hereto contains the specimen municipal bond insurance policies of Financial Security Assurance Inc. and Financial Guaranty Insurance Company.

## THE BONDS

### General

The Bonds will be dated November 1, 2002 and will bear interest from such date payable semiannually on January 1 and July 1 of each year, commencing July 1, 2003 (each an "Interest Payment Date") until the principal amount is paid. The Bonds will mature on January 1 in the years and in the aggregate principal amounts, and shall bear interest at the rates per annum (calculated on the basis of a 360-day year of twelve 30-day months), as set forth on the inside cover page of this Official Statement. The Commonwealth will act as its own paying agent with respect to the Bonds. The Commonwealth reserves the right to appoint from time to time a paying agent or agents or bond registrar for the Bonds.

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

### Redemption

*Optional Redemption.* The Bonds maturing on and after January 1, 2014 will be subject to redemption on any date prior to their stated maturity dates on and after January 1, 2013 at the option of the Commonwealth from any moneys legally available therefor, in whole or in part at any time, by lot, at 100% of the principal amount thereof, plus accrued interest to the redemption date.

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

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

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

### Plan of Finance

The Bonds are being issued pursuant to the provisions of Section 49 of Chapter 29 of the Massachusetts General Laws and bond authorizations contained in various special laws enacted by the Legislature. The net proceeds of the sale of the Bonds will be applied by the Treasurer and Receiver-General of the Commonwealth (the "State Treasurer") to the various purposes for which the issuance of bonds has been authorized pursuant to such special laws or to reimburse the state treasury for expenditures previously made pursuant to such laws. Any accrued interest payable upon original delivery of the Bonds will be credited ratably to the funds from which debt service on the Bonds is paid and will be used to pay interest on the Bonds. Any premium received by the Commonwealth upon original delivery of

the Bonds will be treated as net proceeds of the issue except to the extent that the State Treasurer may determine to apply all or a portion of such premium to the costs of issuance thereof and other financing costs related thereto or to the payment of the principal of or sinking fund installments with respect to the Bonds.

The purposes for which the Bonds will be issued have been authorized by the Legislature under various bond authorizations. A portion of the proceeds are expected to be used, pursuant to “forward funding” legislation enacted as part of the Commonwealth’s fiscal 2000 budget to restructure the financial operations of the Massachusetts Bay Transportation Authority (MBTA), to reimburse the Commonwealth for a portion of the transfer from the Commonwealth’s highway capital projects fund required by the “forward funding” legislation. [The unamortized balance of this transfer, which totals approximately \$285.3 million in payments previously made to the MBTA with respect to MBTA operating costs, is expected to be financed through the issuance of the Bonds.] See Appendix A – “Commonwealth Information Statement” under the heading “FINANCIAL RESULTS – Massachusetts Bay Transportation Authority – Financial Restructuring.” The balance of the proceeds will be used to finance or reimburse the Commonwealth for a variety of capital expenditures that are included within the current five-year capital spending plan established by the Executive Office for Administration and Finance. The plan, which is an administrative guideline and is subject to amendment at any time, sets forth capital spending allocations over the next five fiscal years and establishes annual capital spending limits. See Appendix A – “Commonwealth Information Statement” under the heading “COMMONWEALTH CAPITAL SPENDING AND LONG-TERM LIABILITIES.”

### **SECURITY FOR THE BONDS**

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

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

### **BOND INSURANCE**

The following has been provided by Financial Security Assurance Inc. (“FSA”) and Financial Guaranty Insurance Company (“FGIC”), with respect to the maturities of the Bonds to be insured by FSA (the “FSA Insured Bonds”) and to the maturity of the Bonds to be insured by FGIC (the “FGIC Insured Bonds”), respectively, as indicated on the inside cover of this Official Statement.

#### **Financial Security Assurance Inc.**

Concurrently with the issuance of the Bonds, FSA will issue its Municipal Bond Insurance Policy (the “FSA Policy”) for the FSA Insured Bonds. The FSA Policy guarantees the scheduled payment of principal of and interest on the FSA Insured Bonds when due as set forth in the form of the FSA Policy included as an exhibit to this Official Statement. The FSA Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

FSA is a New York domiciled insurance company and a wholly owned subsidiary of Financial Security Assurance Holdings Ltd. (“Holdings”). Holdings is an indirect subsidiary of Dexia, S.A., a publicly held Belgian

corporation. Dexia, S.A., through its bank subsidiaries, is primarily engaged in the business of public finance in France, Belgium and other European countries. No shareholder of Holdings or FSA is liable for the obligations of FSA.

As of September 30, 2002, FSA's total policyholders' surplus and contingency reserves were approximately \$1,728,433,000 and its total unearned premium reserve was approximately \$972,390,000 in accordance with statutory accounting principles. As of September 30, 2002, FSA's total shareholder's equity was approximately \$1,928,564,000 and its total net unearned premium reserve was approximately \$814,684,000 in accordance with generally accepted accounting principles.

The financial statements included as exhibits to the annual and quarterly reports filed by Holdings with the Securities and Exchange Commission are hereby incorporated herein by reference. Also incorporated herein by reference are any such financial statements so filed from the date of this Official Statement until the termination of the offering of the Bonds. Copies of materials incorporated by reference will be provided upon request to FSA: 350 Park Avenue, New York, New York 10022, Attention: Communications Department (telephone: (212) 826-0100).

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

#### **Financial Guaranty Insurance Company**

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

The FGIC Policy is non-cancelable and the premium will be fully paid at the time of delivery of the Bonds. The FGIC Policy covers failure to pay principal or accreted value (if applicable) of the FGIC Insured Bonds on their stated maturity date or date on which the same shall have been duly called for mandatory sinking fund redemption, and not on any other date on which the FGIC Insured Bonds may have been otherwise called for redemption, accelerated or advanced in maturity, and covers the failure to pay an installment of interest on the stated date for its payment. The FGIC Policy is not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

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

FGIC is a wholly-owned subsidiary of FGIC Corporation (the "Corporation"), a Delaware holding company. The Corporation is a subsidiary of General Electric Capital Corporation ("GE Capital"). Neither the



Corporation nor GE Capital is obligated to pay the debts of or claims against FGIC. FGIC is a monoline financial guaranty insurer domiciled in the State of New York and subject to regulation by the State of New York Insurance Department. As of June 30, 2002, the total capital and surplus of FGIC was approximately \$1.01 billion. FGIC prepares financial statements on the basis of both statutory accounting principles and GAAP. Copies of such financial statements may be obtained by writing to FGIC at 125 Park Avenue, New York, New York 10017, Attention: Communications Department (telephone: (212) 312-3000) or to the New York State Insurance Department at 25 Beaver Street, New York, New York 10004-2319, Attention: Financial Condition Property/Casualty Bureau (telephone: (212) 480-5187).

## **LITIGATION**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

### **RATINGS**

The Bonds have been assigned ratings by Fitch Ratings ("Fitch"), Moody's Investors Service, Inc. ("Moody's") and Standard & Poor's Ratings Services (Standard & Poor's"). The ratings assigned to the uninsured Bonds by Fitch, Moody's and Standard & Poor's are AA-, Aa2 and AA-, respectively.

For the FSA Insured Bonds, the ratings assigned by Fitch, Moody's and Standard & Poor's are AAA, Aaa and AAA, respectively, based upon the understanding that the payment of the principal and interest on such Bonds will be guaranteed by a municipal bond insurance policy to be issued by FSA simultaneously with the delivery of the FSA Insured Bonds.

For the FGIC Insured Bonds, the ratings assigned by Fitch, Moody's and Standard & Poor's are AAA, Aaa and AAA, respectively, based upon the understanding that the payment of the principal and interest on such Bonds will be guaranteed by a municipal bond insurance policy to be issued by FGIC simultaneously with the delivery of the FGIC Insured Bonds.

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

### **UNDERWRITING**

The Underwriters have agreed, subject to certain conditions, to purchase all of the Bonds from the Commonwealth at an aggregate underwriters' discount from the initial offering prices or yields set forth on the inside cover of this official statement equal to \$3,705,403.66, which is approximately 0.5046% of the aggregate principal amount of the Bonds. The Underwriters may offer and sell the Bonds to certain dealers and others (including dealers depositing Bonds into investment trusts) at prices lower than the public offering prices (or yields higher than the offering yields) stated on the inside cover page hereof. The principal offering prices (or yields) set forth on the inside cover page hereof may be changed from time to time after the initial offering by the Underwriters.

### **TAX EXEMPTION**

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

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

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

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

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

The excess, if any, of the tax basis of the Bonds to a purchaser (other than a purchaser who holds such Bonds as inventory, stock in trade or for sale to customers in the ordinary course of business) over the amount payable at maturity is "bond premium." For federal income tax purposes, bond premium is amortized over the term of such Bonds, is not deductible and reduces the purchaser's adjusted tax basis. Bond purchasers should consult their tax advisers with respect to the tax consequences of bond premium.

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

#### **OPINIONS OF COUNSEL**

The unqualified approving opinions as to the legality of the Bonds will be rendered by Ropes & Gray of Boston, Massachusetts, Bond Counsel to the State Treasurer. The proposed form of the opinion of Bond Counsel relating to the Bonds is attached hereto as Appendix B. Certain legal matters will also be passed upon by Ropes & Gray of Boston, Massachusetts, as Disclosure Counsel to the State Treasurer. Certain legal matters will be passed on for the Underwriters by their counsel, Brown Rudnick Berlack Israels LLP of Boston, Massachusetts.

#### **CONTINUING DISCLOSURE**

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

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

## MISCELLANEOUS

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

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

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

## AVAILABILITY OF OTHER INFORMATION

Questions regarding this Official Statement or requests for additional financial information concerning the Commonwealth should be directed to Jeffrey S. Stearns, Deputy Treasurer, Office of the Treasurer and Receiver-General, One Ashburton Place, 12th floor, Boston, Massachusetts 02108, telephone 617/367-3900 or Laura Guadagno, Assistant Secretary for Capital Resources and Chief Development Officer, Executive Office for Administration and Finance, State House, Room 373, Boston, Massachusetts 02133, telephone 617/727-2040. Questions regarding legal matters relating to this Official Statement and the Bonds should be directed to Lawrence D. Bragg, III, Ropes & Gray, One International Place, Boston, Massachusetts 02110, telephone 617/951-7000.

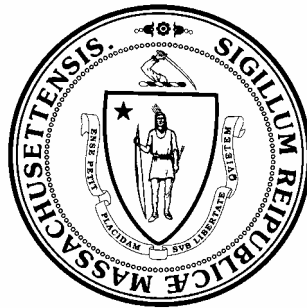
## THE COMMONWEALTH OF MASSACHUSETTS

By /s/ Shannon P. O'Brien  
Shannon P. O'Brien  
*Treasurer and Receiver-General*

By /s/ Kevin J. Sullivan  
Kevin J. Sullivan  
*Secretary of Administration and Finance*

November 22, 2002

**THE  
COMMONWEALTH  
OF  
MASSACHUSETTS**



**INFORMATION STATEMENT SUPPLEMENT**

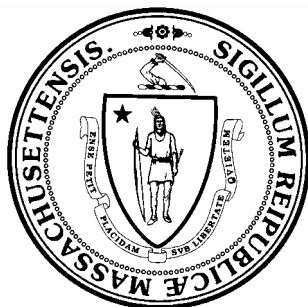
**Dated November 22, 2002**

**TABLE OF CONTENTS**  
**INFORMATION STATEMENT SUPPLEMENT DATED NOVEMBER 22, 2002**

RECENT DEVELOPMENTS .....	1
Fiscal 2003 .....	1
Cash Flow .....	3
Fiscal 2002 .....	4
Selected Financial Data—Statutory Basis .....	6
Stabilization Fund and Disposition of Year-End Surpluses .....	9
Initiative Petitions .....	9
COMMONWEALTH REVENUES .....	10
STATE WORKFORCE .....	11
Employee Retirement Incentive Plan .....	11
Budget-Funded Workforce .....	11
COMMONWEALTH CAPITAL SPENDING AND LONG-TERM LIABILITIES .....	12
Capital Spending Plan .....	12
Central Artery/Ted Williams Tunnel Project .....	14
General Authority to Borrow and Types of Long-Term Liabilities .....	17
Proposed Capital Spending Authorizations .....	18
Debt Service Requirements on Commonwealth Bonds .....	18
LEGAL MATTERS .....	20
Update of Existing Litigation .....	20
CONTINUING DISCLOSURE .....	22
AVAILABILITY OF OTHER FINANCIAL INFORMATION .....	23
ECONOMIC INFORMATION .....	Exhibit A

(Exhibits B and C are included by reference, and have been filed with Nationally Recognized Municipal Securities Information Repositories).  
B. Statutory Basis Financial Report for the year ended June 30, 2002  
C. Comprehensive Annual Financial Report (GAAP basis) for the year ended June 30, 2001

**THE COMMONWEALTH OF MASSACHUSETTS**



**CONSTITUTIONAL OFFICERS**

**Jane M. Swift.....Acting Governor**  
**William F. Galvin..... Secretary of the Commonwealth**  
**Thomas F. Reilly ..... Attorney General**  
**Shannon P. O'Brien .....Treasurer and Receiver-General**  
**A. Joseph DeNucci..... Auditor**

**LEGISLATIVE OFFICERS**

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



**THE COMMONWEALTH OF MASSACHUSETTS  
INFORMATION STATEMENT SUPPLEMENT**

**November 22, 2002**

This supplement (“Supplement”) to the Information Statement of The Commonwealth of Massachusetts (the “Commonwealth”) dated March 25, 2002 (the “March Information Statement”) is dated November 22, 2002, and contains information which updates the information contained in the March Information Statement. The March Information Statement appears in the Commonwealth’s Official Statement dated March 25, 2002 with respect to its \$180,000,000 General Obligation Bond Anticipation Notes, 2002 Series A, a copy of which has been filed with each Nationally Recognized Municipal Securities Information Repository currently recognized by the Securities and Exchange Commission. Exhibit A to this Supplement is the Statement of Economic Information as of October 2, 2002. Exhibit A sets forth certain economic, demographic and statistical information concerning the Commonwealth. Exhibits B and C are the Statutory Basis Financial Report for the year ended June 30, 2002 and the Comprehensive Annual Financial Report (GAAP basis) for the year ended June 30, 2001, respectively. Specific reference is made to said Exhibits B and C, copies of which have been filed with each Nationally Recognized Municipal Securities Information Repository currently recognized by the Securities and Exchange Commission. The financial statements are also available at the web site of the Comptroller of the Commonwealth located at <http://www.state.ma.us/osc/Reports/reportsfinancial.htm>. This Supplement and the March 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 November 22, 2002. All capitalized terms not otherwise defined in this Supplement shall have the meanings ascribed to them in the March Information Statement.

**RECENT DEVELOPMENTS**

**Fiscal 2003**

On April 15, 2002, the Acting Governor and legislative leaders reached a consensus on the fiscal 2003 tax revenue estimate of \$14.716 billion. The Department of Revenue estimated that \$684 million of sales tax revenue dedicated to the MBTA was included in the \$14.716 billion figure. On June 11, 2002, the Executive Office for Administration and Finance revised its fiscal 2003 tax revenue estimate downward to \$14.175 billion, based on its forecast of lower growth in income and corporate tax revenue in fiscal 2003 than previously projected. In July 2002, the Executive Office for Administration and Finance again revised the tax revenue estimate downward to \$14.116 billion. The Department of Revenue’s revised estimate assumed that tax cuts scheduled to take effect under then-current tax law would remain in effect.

On June 25, 2002, the Acting Governor signed an interim budget to allow state services to continue for the first month of fiscal 2003. On July 22, 2002 the Acting Governor signed an additional interim budget to allow state services to continue for the first two weeks of August.

On July 19, 2002, the Legislature passed legislation that the Department of Revenue estimated would increase Commonwealth tax revenues in fiscal 2003 by approximately \$1.241 billion (compared to then-current law) through increases in the cigarette tax, the tax on capital gains, elimination of the personal income tax charitable deduction, decreases in personal income tax exemptions and a delay in the implementation of Question 4, which would have reduced the tax rate on most non-capital gains income from 5.3% in tax year 2002 to 5.0% in tax year 2003. In addition, the fiscal 2003 General Appropriation Act (“GAA”) increased certain fees, which would increase revenues by approximately \$80 million. The tax increase legislation was vetoed by the Acting Governor, but the veto was overridden.

Also on July 19, 2002, the Legislature passed the GAA. The Legislature’s enacted budget was based on a tax revenue estimate of \$14.116 billion, plus the \$1.241 billion in estimated tax increases. The fiscal 2003 GAA included provisions that would conform state tax treatment of certain retirement accounts and mobile telecommunications services to federal law, which the Department of Revenue estimates will reduce fiscal 2003 tax collections by approximately \$8 million. The fiscal 2003 GAA also included provisions for a tax amnesty to be implemented in fiscal 2003, which the Department of Revenue estimates will increase tax revenue collections by \$43 million. These estimates yield a fiscal 2003 tax revenue estimate of \$15.393 billion. Under the GAA, \$684 million of sales tax revenue would be dedicated to the MBTA. The GAA directly appropriates \$22.96 billion in

fiscal 2003. This does not include approximately \$350 million in Medicaid related health care spending that was moved off-budget. After accounting for this off-budget spending, the GAA is \$23.3 billion or 2% over estimated fiscal 2002 spending.

On July 29, 2002 the Acting Governor vetoed approximately \$355 million of spending from the GAA. On July 31, 2002 the Legislature overrode approximately \$77 million of the Acting Governor's vetoes, including \$41 million at the Group Insurance Commission, \$27.9 million for Kindergarten Expansion Grants, \$5 million for Community Health Center Grants, and \$2.3 million for State Police Patrols.

The fiscal 2003 GAA eliminated Medicaid eligibility for approximately 50,000 long term unemployed adults as of April 1, 2003. This change resulted in a spending reduction of \$52 million, however, the Division of Medical Assistance estimates that the shift of this population from MassHealth to emergency health services could result in increased costs to the "free care pool" of approximately \$30 million in fiscal 2003, or approximately \$140 million on an annualized basis. The GAA also adjusted the pharmacy reimbursement methodology for pharmacy providers under Medicaid, for a savings of \$60 million in fiscal 2003. Some major pharmacy chains as well as some independent pharmacies, representing in the aggregate over 50% of the Medicaid pharmacy network, stated their intent to withdraw from the Medicaid program if the reduced reimbursement rates became effective. The Acting Governor agreed to maintain pharmacy reimbursement rates at previous levels for 60 days. Division of Health Care Finance and Policy announced a new pharmacy reimbursement methodology on October 2, 2002, which reduced the savings to \$6 million in fiscal 2003. The two largest pharmacy chains in the Commonwealth have stated their intent to continue to participate in the Medicaid program under the revised reimbursement methodology. The Commonwealth's expenditures for Medicaid pharmacy benefits are 50% reimbursable by the federal government.

The GAA also utilized 100% of the fiscal 2003 annual tobacco settlement payment, which is estimated by the Executive Office for Administration and Finance to be approximately \$290 million, as well as \$917 million in reserves from the following sources: \$790 million from the Stabilization Fund, \$75 million from the Caseload Mitigation Fund, \$32 million from the Ratepayer Parity Trust and \$20 million from the Clean Elections Fund. The Acting Governor vetoed the transfer of \$790 million from the Stabilization Fund to the General Fund and reduced the transfer to \$550 million.

On July 29, 2002 the Acting Governor filed a technical corrections bill related to the fiscal 2003 GAA. This bill would establish a three-tiered, income-based contribution system for state employee health benefit premiums and would transfer the ending fiscal 2003 balances of the Tobacco Settlement Fund and the Health Protection Fund to the General Fund.

On October 17, 2002, the Secretary of Administration and Finance reduced the official fiscal 2003 tax revenue estimate by \$247 million to \$15.145 billion, including \$43 million anticipated to be collected from the fiscal 2003 tax amnesty program. The Executive Office for Administration and Finance now expects that the Massachusetts economy will recover more slowly than was projected at the time the consensus revenue estimate was agreed upon in July 2002. The delayed economic recovery will result in lower tax revenue collections over the remainder of fiscal 2003 than was projected. The reduction to the fiscal 2003 tax revenue estimate is composed of a \$115 million reduction in withholding collections, a \$102 million reduction in estimated capital gains tax revenues, and a \$44 million reduction in sales tax revenues, offset in part by smaller increases in other tax revenue sources. The net reduction affects both baseline tax revenue projections and the July 19, 2002 tax increase legislation discussed above. The Executive Office for Administration and Finance estimates that the tax revenue decline, legislative overrides of the Acting Governor's vetoes to the GAA and other budgetary deficiencies including Medicaid costs in the aggregate will amount to an approximately \$297 million statutory deficit against the budget adopted in the fiscal 2003 GAA.

In response to the lower tax revenue estimate, the Acting Governor reduced allotments to certain budgetary accounts pursuant to her authority under Chapter 29, Section 9C of the Massachusetts General Laws in the amount of approximately \$98 million to partially address the anticipated revenue shortfall.

On October 23, 2002, the Acting Governor filed legislation that included technical corrections and other proposals to improve the financial condition of the Commonwealth. The legislation provides for maximizing federal reimbursements that are funded through Temporary Assistance to Needy Families, Child Care Development and Social Services block grants, which are projected to generate an additional \$23 million in federal reimbursements to the Commonwealth in the aggregate. The legislation was enacted on October 30, 2002.

The Acting Governor has also asked the Legislature to reconsider a number of the Administration's proposals including reducing the lottery prize payout ratio, setting up a three tiered health insurance contribution system for state employees, accelerating the implementation of Medicaid reductions and introducing a second round of early retirement incentives. The Acting Governor is also considering additional savings initiatives that would not require legislative approval.

The following table shows the tax revenue collections for each month through October 2002 and the change from tax collections in the same month in the prior year, both in dollars and as a percentage. The table also notes the amount of tax collections in each month which are dedicated to the MBTA.

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

<u>Month</u>	<u>Tax Collections</u>	<u>Change from Year Prior</u>	<u>Percentage Change</u>	<u>MBTA Portion</u>
July	\$1,013	(\$13)	(1.3%)	\$57.5
August	1,064	(49)	(4.4)	54.1
September	1,558	34	2.2	59.5(1)
October	932	(37)	(3.8)	55.1
<b>Total</b>	<b><u>\$4,567</u></b>	<b><u>(\$66)</u></b>	<b><u>(1.4%)</u></b>	<b><u>\$226.1</u></b>

SOURCE: Executive Office for Administration and Finance.

(1) Includes estimated adjustment to bring revenues up to MBTA base amount for first quarter of fiscal 2003.

On November 5, 2002, the Commonwealth elected a new Governor, W. Mitt Romney, a new Lieutenant Governor, Kerry Healey and a new Treasurer and Receiver-General, Timothy Cahill, to take office in January 2003.

**Cash Flow**

On August 23, 2002 the State Treasurer and the Secretary of Administration and Finance released the most recent cash flow projection for fiscal 2003. The cash flow projection for fiscal 2003 was based on the GAA, including the value of all vetoes and subsequent overrides, and supplemental appropriations enacted through the date of the submission. It reflects authorized transfers between budgeted funds and certain reserve funds as provided for in the GAA and in subsequent legislation. The cash flow projection incorporates a tax revenue estimate for fiscal 2003 of \$15.350 billion, including the value of recently enacted tax increases and sales tax revenues dedicated to the MBTA. After factoring in \$265 million of fiscal 2002 tax refunds that were paid in July and August of 2002 and \$43 million in increased revenues anticipated from a tax amnesty program, the tax estimate for cash flow purposes is \$15.127 billion. The cash flow projection also incorporates significant use of cash reserves, resulting in a net cash inflow of \$1.093 billion, including \$730 million from the Commonwealth's Stabilization Fund (\$550 million related to fiscal 2003 and \$180 million related to closing the books for fiscal 2002) and \$363 million from various other funds.

On June 30, 2002 the Commonwealth had a cash balance of \$2.010 billion, including \$412 million ear-marked to pay issued but outstanding checks. The cash flow projection (which excludes such ear-marked amounts) shows a beginning balance for fiscal 2003 of \$1.598 billion, including \$1.206 billion in segregated bond funds. The cash flow projects an ending balance of \$1.057 billion, including \$733 million in segregated bond funds. Excluding segregated bond funds, the beginning and ending cash balances for fiscal 2003 would be \$391 million and \$324 million, respectively, exclusive of amounts ear-marked for unpaid checks. The projection also excludes amounts available in the Commonwealth's Stabilization Fund and certain other reserve funds totaling approximately \$840 million.

The Commonwealth maintains a commercial paper program supported by lines and a letter of credit from commercial banks. The program allows for the periodic issuance of commercial paper as either bond anticipation notes or revenue anticipation notes for operating purposes. The overall capacity of the Commonwealth's commercial paper program was increased from \$600 million to \$1.0 billion during fiscal 2002.

The Commonwealth issued \$200 million in commercial paper as bond anticipation notes on August 1, 2002, which were retired by proceeds of the Commonwealth's General Obligation Bonds, Consolidated Loan of 2002, Series D in September 2002. In September, 2002 the Commonwealth issued \$700 million of commercial paper as revenue anticipation notes in advance of the Commonwealth's local aid payment on September 30, 2002. Some \$650 million remains outstanding as of October 3, 2002. The Commonwealth expects that this amount will be retired before the end of November 2002. The Commonwealth anticipates several cash flow borrowings for operating purposes during the remainder of fiscal 2003 similar to those in the prior year. In particular, the Commonwealth anticipates issuing \$725 million of commercial paper in December 2002, to be repaid before the end of March 2003, and \$670 million issued at the end of March 2003, to be repaid by the end of April 2003. The pattern of the Commonwealth's cash flow borrowings is largely the result of temporary cash imbalances caused by quarterly local aid payments to cities and towns, which total approximately \$1.1 billion on the last day of each calendar quarter.

All commercial paper of the Commonwealth issued for operating purposes in a fiscal year is required by State finance law to be paid not later than June 30 of such year.

Net proceeds of long-term debt issuance during fiscal 2003 are projected to total \$1.82 billion (not including refunding bonds). This includes some \$420 million in bonds ear-marked for the Central Artery Project. Some \$820 million of this amount was issued through the end of October 2002. An additional \$734 million of bonds are expected to be delivered in December 2002. Additional bond sales of \$250 million each are projected for March 2003 and June 2003. The Commonwealth also expects to issue \$135 million in bond anticipation notes during fiscal 2003 related to the Boston Convention and Exhibition Center.

The Commonwealth's next cash flow projection, which is due November 25, 2002, will incorporate projected changes to the Commonwealth's fiscal situation. These include (but are not limited to) recently announced reductions in the official fiscal 2003 tax revenue estimate and certain actions and proposals by the Acting Governor intended to improve the financial condition of the Commonwealth. See "RECENT DEVELOPMENTS—Fiscal 2003." The Commonwealth anticipates that its short-term cash position may be strained by the timing of certain spending reduction and revenue enhancement measures, which, although expected to mitigate the fiscal 2003 budget shortfall, may not be realized as cash to the Commonwealth until later in fiscal 2003.

## **Fiscal 2002**

*Fiscal Year-End Balance.* After the date of the March Information Statement, Commonwealth tax collections continued to lag behind the prior year by substantial margins, resulting in reduced tax revenue estimates and budget adjustments. On April 15, 2002 the Acting Governor and legislative leaders announced an agreement to address the fiscal 2002 budget shortfall as then estimated. The April 15, 2002 plan was based on a fiscal 2002 consensus tax revenue estimate of \$14.750 billion and a deficit then identified to be \$689 million.

On April 23, 2002, the Acting Governor filed a capital outlay bill that moved approximately \$102 million of pay-as-you-go capital projects to bond funding. The Commonwealth had used surplus operating revenues from fiscal 1998-2000 to create several capital project funds. The proposed legislation would transfer monies from those capital project funds into the General Fund, and allow for the capital projects to be funded by bond proceeds instead of operating funds. The capital outlay bill was enacted on July 31, 2002. The affected capital projects will be absorbed under the \$1.2 billion annual administrative bond cap. The Executive Office for Administration and Finance will also make a one-time transfer of \$25 million to \$50 million of bond cap from fiscal 2002 to fiscal 2003. See "COMMONWEALTH CAPITAL SPENDING AND LONG-TERM LIABILITIES—Proposed Capital Spending Authorizations."

On May 8, 2002, the Acting Governor proposed supplemental appropriations in the amount of approximately \$24.2 million to fund various deficiencies, including the account from which judgments and settlements against the Commonwealth are paid, emergency cash assistance and food stamps through the Department of Transitional Assistance, energy-related costs in correctional facilities and prenatal care for low-income uninsured women through the Department of Public Health. The proposal included a \$24 million transfer from the MBTA Infrastructure Renovation Fund to the General Fund. The proposal also included recommendations for funding for programs that would carry into fiscal 2003.

On May 17, 2002, the Acting Governor signed into law a bill that included approximately \$371 million of supplemental appropriations and authorized the use of approximately \$408 million in reserves to balance the fiscal 2002 budget. These reserves include \$200 million from the Stabilization Fund, \$115 million from pay-as-you-go capital funds, \$56 million from the Caseload Mitigation Fund, \$35 million from the Medical Security Trust, and \$1.4 million from the Voting Equipment Revolving Loan Fund. The legislation also extended the Commonwealth's pension funding schedule to 2023, and reduced the fiscal 2002 pension funding payment by \$134 million. It also drew \$60 million from the fiscal 2002 tobacco settlement and reduced the Capital Needs Investment Trust by \$23 million in fiscal 2002. This legislation was intended to give effect to the April 15 agreement among the Acting Governor and legislative leaders. In addition to this legislation, the agreement called for \$40 million in savings resulting from management initiatives relating to the Commonwealth's debt and \$24 million in unspecified savings, to be identified through further review and negotiation.

Based on continuing tax revenue shortfalls, in May 2002 the Executive Office for Administration and Finance reduced the fiscal 2002 tax revenue estimate by an additional \$470 million to \$14.280 billion. On May 23, 2002, the Acting Governor filed legislation that proposed using approximately \$509 million of certain reserve funds for the purposes of balancing the current fiscal year budget. These fund transfers included up to \$310 million from the Stabilization Fund to the General Fund, \$90 million from the Health Care Security Trust Fund to the General Fund and \$109 million from the Health Care Security Trust Fund to the Children's and Seniors' Health Care Assistance Fund. On June 25, 2002 the Acting Governor signed into law a bill authorizing the transfer of up to \$300 million from the Stabilization Fund to the General Fund.

On August 30, 2002, the Acting Governor signed a final fiscal 2002 supplemental appropriation in the amount of \$49 million, which included \$9.5 million for public safety costs relating to September 11<sup>th</sup>, \$7 million for the Department of Mental Retardation, \$6.4 million for the Division of Youth Services, \$3.5 million for a new state police class, \$2.5 million for the Registry of Motor Vehicles, \$2.5 million for brownfields, \$1.5 million for the Children's Medical Security Plan and \$1.3 million for the Judgments and Settlements account. The legislation also authorized the state comptroller to use up to \$180 million of additional Stabilization Fund monies to close out fiscal 2002, transferred \$24 million of MBTA infrastructure fund monies to the General Fund and continued approximately \$54 million of additional fiscal 2002 appropriations into fiscal 2003.

*Tax Revenue.* Tax collections in fiscal 2002 were significantly less than those in fiscal 2001. The following table shows the tax collections for each month of fiscal 2002 the decrease from tax collections in the same month in the prior year, both in dollars and as a percentage. The table also notes the amount of tax collections in each month which are dedicated to the MBTA.

**Fiscal 2002 Budgeted Tax Collections (in millions)**

<u>Month</u>	<u>Tax Collections</u>	<u>Decrease from Year Prior</u>	<u>Percentage Decrease</u>	<u>MBTA Portion</u>
July	\$1,026	\$38	3.6%	\$56.7
August	1,113	30	2.6	56.8
September	1,524	220	12.6	45.9
October	969	116	10.7	60.2
November	1,043	43	4.0	51.7
December	1,329	95	6.6	46.6
January	1,580	357	18.4	83.5(3)
February	802	110	2.1	40.6
March	1,295	155	0.7	50.5
April	1,350	204	3.1	60.2(3)
May	1,083	394	26.7	53.6
June (1)	<u>1,173</u>	<u>679</u>	<u>36.7</u>	<u>58.3</u>
Total (2)	<u>\$14,287</u>	<u>\$2,441</u>	<u>14.6%</u>	<u>\$664.4(3)</u>

SOURCE: Executive Office for Administration and Finance.

- (1) June total includes the amount of personal income tax refunds for tax returns received on or before June 30, 2002, but which were classified as deposits during the fiscal 2002 accounts payable period, which extended to September 15, 2002.
- (2) Detail may not add to totals due to rounding.
- (3) The Commonwealth is required to transfer a minimum of \$664.4 million to the MBTA. January, April and June figures include quarterly adjustments of \$14.5 million, \$6.0 million and \$5.6 million, respectively to raise the MBTA portion to the minimum level. The \$5.6 million was paid to the MBTA during the Commonwealth's "accounts payable" period. See the March Information Statement under the heading "FINANCIAL RESULTS - Massachusetts Bay Transportation Authority - Financial Restructuring."

Due to workforce reductions resulting from cuts to the Department of Revenue's administrative budget, processing of tax year 2001 income tax returns was delayed. Over the January to June 2002 period, approximately \$265 million in income tax refunds and approximately \$9 million in tax payments were delayed, compared to the same period in 2001. The State Comptroller has accrued the tax refund liability and related receivables in fiscal 2002, although payments and deposits were processed in early fiscal 2003. However, it is uncertain what the impact of similar delays may be on total fiscal 2003 tax collections, as delays in refund processing could recur in the January to June 2003 period if Department of Revenue staff reductions remain in place during all of fiscal 2003. On May 17, 2002 the Acting Governor signed legislation that included \$1 million to help the Department of Revenue deal with the processing backlog. It is not expected that the ongoing delay in processing tax year 2001 income tax returns will have a material impact on the timely deposit of payments enclosed with those returns during fiscal 2003.

On March 9, 2002 federal tax legislation was enacted that allows an additional first-year depreciation deduction for corporations equal to 30 percent of the cost of certain types of property purchased on or after September 11, 2001 and before September 11, 2004. Under Massachusetts law, corporations (including insurance, public utilities, and financial institutions organized as corporations) had been taxed on the basis of their net income as calculated for federal taxation purposes, after depreciation allowances are deducted. Unincorporated businesses also were allowed depreciation allowances based on the federal tax code. As a result, the taxable income of corporations and unincorporated businesses subject to Massachusetts tax was expected to be reduced in tax years 2001 through 2003 by the new federal depreciation deduction, be increased for approximately 11 years thereafter, and in the long-run be approximately revenue neutral. On April 18, 2002, the Acting Governor signed into law a bill that "decoupled" the Massachusetts revenue code from federal depreciation provisions. The law effectively repealed the additional depreciation deduction for the purposes of Massachusetts state tax. However, since corporate taxpayers had already adjusted their payments due on March 15, 2002, the Department of Revenue estimates that the impacts of the federal provision were to reduce fiscal 2002 tax revenue collections by \$30 million, and increase fiscal 2003 tax collections by the same amount.

### **Selected Financial Data – Statutory Basis**

The revenues and expenditures of the budgeted operating funds presented in the following table are derived from the Commonwealth's audited statutory basis financial statements for fiscal 1998 through 2003, but have been adjusted to reflect the impact of the MBTA forward funding legislation. See March Information Statement under the heading "FINANCIAL RESULTS - Massachusetts Bay Transportation Authority." The financial information presented includes all budgeted operating funds of the Commonwealth. When the status of a fund has changed during this period, prior years have been restated to conform to the fiscal 2001 budget. See the March Information Statement under the heading "FINANCIAL RESULTS." The Commonwealth's audited statutory basis financial statements for the year ended June 30, 2002 were released on October 25, 2002.

**Budgeted Operating Funds Operations -- Statutory Basis**  
(in millions)(1)

	Fiscal 1998	Fiscal 1999	Fiscal 2000	Fiscal 2001(2)	Fiscal 2002	Estimated Fiscal 2003(6)
<u>Beginning Fund Balances</u>						
Reserved or Designated	\$ 225.1	\$ 286.3	\$ 330.2	\$ 278.5	\$ 895.3	\$ 195.2
Tax Reduction Fund	91.8	367.7	6.8	7.2	33.6	-
Stabilization Fund	799.3	1,159.6	1,388.5	1,608.4	1,715.0	881.8
Undesignated	277.8	378.5	386.9	391.3	369.5	311.0
Fund Balance Restatement	--	--	--	1.0	--	--
Total	<u>1,394.0</u>	<u>2,192.1</u>	<u>2,112.4</u>	<u>2,286.4</u>	<u>3,013.3</u>	<u>1,388.0</u>
<u>Revenues and Other Sources</u>						
Taxes	14,026.3	14,291.5	15,688.6	16,074.7(4)	13,622.7(4)	14,460.7(4)(5)
Federal Reimbursements	3,361.2	3,442.9	3,645.6	3,974.2	4,334.9	4,613.5
Departmental and Other Revenues	1,286.4	1,297.8	1,359.9	1,425.9	1,485.2	1,395.2
Interfund Transfers from Non-budgeted Funds and Other Sources	<u>1,125.9</u>	<u>1,132.8</u>	<u>1,893.0</u>	<u>1,385.9</u>	<u>1,732.0</u>	<u>1,440.1</u>
Budgeted Revenues and Other Sources	<u>19,799.8</u>	<u>20,165.0</u>	<u>22,587.1</u>	<u>22,860.6</u>	<u>21,174.9</u>	<u>21,909.5</u>
Mass Transit Assessments from Municipalities	155.6	159.9	15.8	--	--	--
Interfund Transfers among Budgeted Funds and Other Sources	<u>1,449.2</u>	<u>1,242.0</u>	<u>3,618.2(3)</u>	<u>931.0</u>	<u>1,874.4</u>	<u>927.2</u>
Total Revenues and Other Sources	<u>21,404.6</u>	<u>21,566.9</u>	<u>26,221.1</u>	<u>23,797.6</u>	<u>23,049.3</u>	<u>22,836.7</u>
<u>Expenditures and Uses</u>						
Programs and Services	16,238.6	17,341.1	19,330.7	19,448.8	20,412.7	20,538.3
Debt Service	1,213.4	1,173.8	1,193.3	695.2	1,304.7	1,417.7
Pensions	1,069.8	990.2	986.3	1,040.1	795.8	813.5
Interfund Transfers to Non-budgeted Funds and Other Uses	<u>479.9</u>	<u>739.6</u>	<u>903.8</u>	<u>949.7</u>	<u>287.1</u>	<u>74.7</u>
Budgeted Expenditures and Other Uses	<u>19,001.7</u>	<u>20,244.7</u>	<u>22,414.1</u>	<u>22,133.7</u>	<u>22,800.3</u>	<u>22,844.2</u>
Payment of Municipal Mass Transit Assessments to the MBTA and RTA's	155.6	159.9	15.8	--	--	--
Interfund Transfers among Budgeted Funds and Other Uses	<u>1,449.2</u>	<u>1,242.0</u>	<u>3,618.2</u>	<u>931.0</u>	<u>1,874.4</u>	<u>927.2</u>
Total Expenditures and Other Uses	<u>20,606.5</u>	<u>21,646.6</u>	<u>26,048.1</u>	<u>23,064.7</u>	<u>24,674.7</u>	<u>23,771.4</u>
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	<u>798.1</u>	<u>(79.7)</u>	<u>173.0</u>	<u>726.9</u>	<u>(1,625.3)</u>	<u>(934.7)</u>
<u>Ending Fund Balances</u>						
Reserved or Designated	286.3	330.2	278.5	895.3	195.2	26.1
Tax Reduction Fund	367.7	6.8	7.2	33.6	--	--
Stabilization Fund	1,159.6	1,388.5	1,608.4	1,715.0	881.8	341.7
Undesignated	<u>378.5</u>	<u>386.9</u>	<u>391.3</u>	<u>369.5</u>	<u>311.0</u>	<u>85.5</u>
Total	<u>\$ 2,192.1</u>	<u>\$ 2,112.4</u>	<u>\$ 2,285.4</u>	<u>\$ 3,013.3</u>	<u>\$ 1,388.0</u>	<u>\$ 453.3</u>

SOURCE: Fiscal 1998-2002, Office of the Comptroller; fiscal 2003, Executive Office for Administration and Finance.

- (1) Totals may not add due to rounding.
- (2) Beginning balance restated for comparison purposes due to the reclassification of the Mosquito and Greenhead Fly Control Fund from a budgeted to a non-budgeted fund as of July 1, 2002.
- (3) Reflects legislation in the final supplemental appropriations act for fiscal 2000 requiring the Comptroller to transfer funds from the General Fund to the Local Aid Fund and Highway Fund at the end of fiscal 2000, eliminating deficits in these funds.
- (4) Net of \$654.6 million in fiscal 2001, \$664.4 million in fiscal 2002 and a projected \$684.3 million in fiscal 2003 of dedicated sales tax to be transferred to the MBTA that were moved outside of the budget (are no longer budgeted) beginning in fiscal 2001.
- (5) Includes \$43 million in fiscal 2003 revenue estimated to result from a tax amnesty authorized in the budget, to be implemented in fiscal 2003.
- (6) Estimated, subject to change. Estimate based on preliminary analysis of fiscal 2003. The Executive Office for Administration and Finance estimates that approximately \$350 million in Medicaid related health care spending was moved off-budget by the fiscal 2003 General Appropriation Act. See "Fiscal 2003."

In the following table, to facilitate comparison, the revenues and expenditures for fiscal 1998 to 2000, inclusive, have been reduced by the actual amount paid to the MBTA in each of those fiscal years to reflect the transfer off-budget of MBTA subsidies beginning in fiscal 2001.

**Budgeted Operating Funds -- Adjusted for MBTA Operations**  
(in millions)(1)(2)

	<u>Fiscal 1998</u>	<u>Fiscal 1999</u>	<u>Fiscal 2000</u>	<u>Fiscal 2001</u>	<u>Fiscal 2002(3)</u>	Estimated <u>Fiscal 2003(6)</u>
<u>Beginning Fund Balances</u>						
Reserved or Designated	\$ 225.1	\$ 286.3	\$ 330.2	\$ 278.5	\$ 895.3	\$ 195.2
Tax Reduction Fund	91.8	367.7	6.8	7.2	33.6	-
Stabilization Fund	799.3	1,159.6	1,388.5	1,608.4	1,715.0	881.8
Undesignated	277.8	378.5	386.9	391.3	369.5	311.0
Fund Balance Restatement	--	--	--	1.0	--	--
Total	<u>1,394.0</u>	<u>2,192.1</u>	<u>2,112.4</u>	<u>2,286.4</u>	<u>3,013.3</u>	<u>1,388.0</u>
<u>Revenues and Other Sources</u>						
Taxes	14,026.3	14,291.5	15,688.6	16,074.7(4)	13,622.7(4)	14,460.7(4)(5)
Federal Reimbursements	3,361.2	3,442.9	3,645.6	3,974.2	4,334.9	4,613.5
Departmental and Other Revenues	1,286.4	1,297.8	1,359.9	1,425.9	1,485.2	1,395.2
Interfund Transfers from Non-budgeted Funds and Other Sources (6)	<u>1,125.9</u>	<u>1,132.8</u>	<u>1,893.0</u>	<u>1,385.9</u>	<u>1,732.0(7)</u>	<u>1,440.1</u>
Budgeted Revenues and Other Sources	<u>19,799.8</u>	<u>20,165.0</u>	<u>22,587.1</u>	<u>22,860.6</u>	<u>21,174.9</u>	<u>21,909.5</u>
MBTA Adjustment (2)	(491.1)	(499.1)	(561.9)	NA	NA	NA
Adjusted Budgeted Revenues and Other Sources	<u>19,308.7</u>	<u>19,665.9</u>	<u>22,025.2</u>	<u>22,860.6</u>	<u>21,174.9</u>	<u>21,909.5</u>
<u>Expenditures and Uses</u>						
Programs and Services	16,238.6	17,341.1	19,330.7	19,448.8	20,412.7	20,538.3
Debt Service	1,213.4	1,173.8	1,193.3	695.2	1,304.7	1,417.7
Pensions	1,069.8	990.2	986.3	1,040.1	795.8	813.5
Interfund Transfers to Non-budgeted Funds and Other Uses	<u>479.9</u>	<u>739.6</u>	<u>903.8</u>	<u>949.6</u>	<u>287.1</u>	<u>74.7</u>
Budgeted Expenditures and Other Uses	<u>19,001.7</u>	<u>20,244.7</u>	<u>22,414.1</u>	<u>22,133.7</u>	<u>22,800.3</u>	<u>22,844.2</u>
MBTA Adjustment (2)	(491.1)	(499.1)	(561.9)	NA	NA	NA
Adjusted Expenditures and Other Uses	<u>18,510.6</u>	<u>19,745.6</u>	<u>21,852.2</u>	<u>22,133.7</u>	<u>22,800.3</u>	<u>22,844.2</u>
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	<u>798.1</u>	<u>(79.7)</u>	<u>172.9</u>	<u>726.8</u>	<u>(1,625.4)</u>	<u>(934.7)</u>
<u>Ending Fund Balances</u>						
Reserved or Designated	286.3	330.2	278.5	895.3	195.2	26.1
Tax Reduction Fund	367.7	6.8	7.2	33.6	--	--
Stabilization Fund	1,159.6	1,388.5	1,608.4	1,715.0	881.8	341.7
Undesignated	<u>378.5</u>	<u>386.9</u>	<u>391.3</u>	<u>369.5</u>	<u>311.0</u>	<u>85.5</u>
Total	<u>\$ 2,192.1</u>	<u>\$ 2,112.4</u>	<u>\$ 2,285.4</u>	<u>\$ 3,013.3</u>	<u>\$ 1,388.0</u>	<u>\$ 453.3</u>

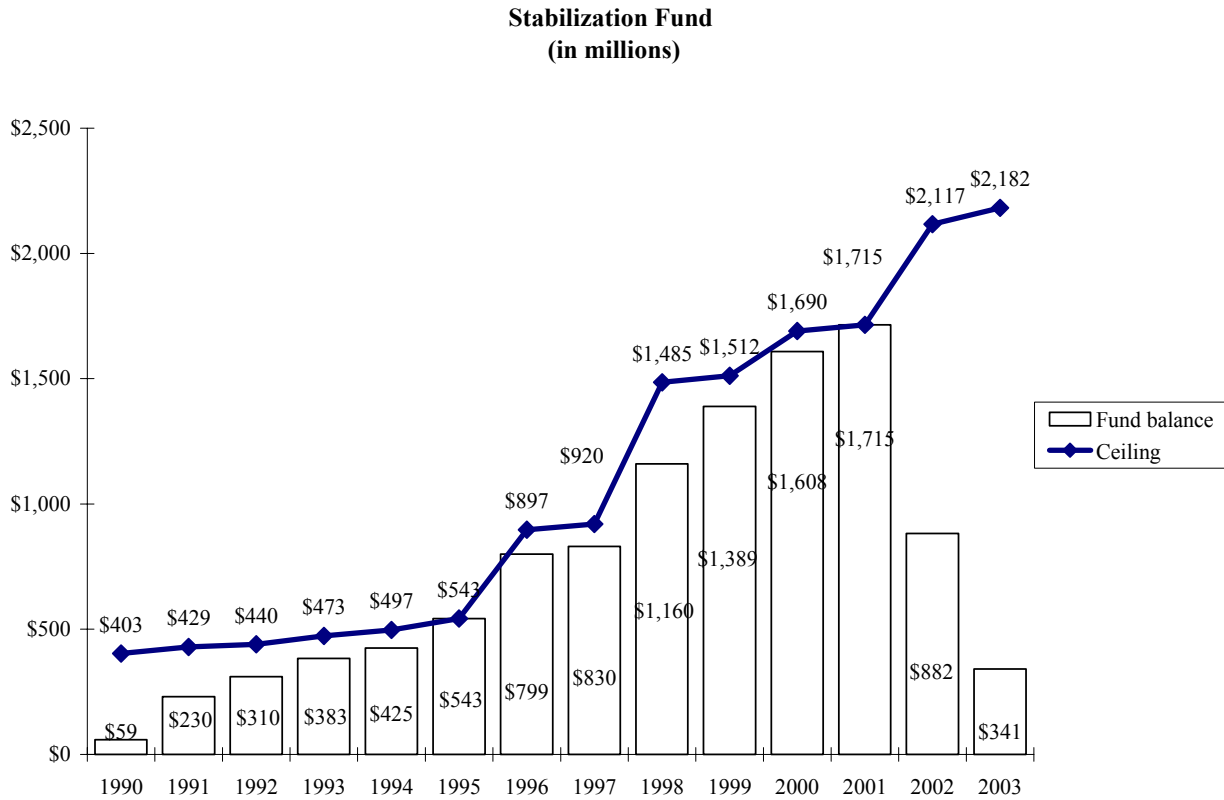
SOURCE: Executive Office for Administration and Finance and Office of the State Treasurer.

- (1) Totals may not add due to rounding. The table does not reflect interfund transfers among budgeted funds and other sources, which have no effect on the ending balance of the table. The amounts of the transfers were \$1,449.2 million, \$1,242.0 million, \$3,618.2 million, \$931.0 million and \$1,874.4 million in fiscal 1998-2002 respectively, and is estimated to be \$1,027.5 million for fiscal 2003.
- (2) To facilitate comparison, the table has been adjusted for fiscal 1998 through fiscal 2000, inclusive, to reflect a transfer off-budget of MBTA operations that began in fiscal 2001 by subtracting the amount of Commonwealth payments to the MBTA in each of those fiscal years.
- (3) Estimated fiscal 2002 is based on the General Appropriation Act, as supplemented to date, and certain transfers from reserves that were proposed by the Acting Governor but have not yet been authorized by the Legislature, including the use of other reserve funds instead of certain stabilization fund monies to achieve statutory balance in fiscal 2002. See "RECENT DEVELOPMENTS - Fiscal 2002" above.
- (4) Net of \$654.6 million in fiscal 2001, \$664.4 million in fiscal 2002 and a projected \$684.3 million in fiscal 2003 of dedicated sales tax to be transferred to the MBTA that were moved outside of the budget (are no longer budgeted) beginning in fiscal 2001.
- (5) Includes \$43 million in fiscal 2003 revenue estimated to result from a tax amnesty authorized in the budget, to be implemented in fiscal 2003.
- (6) Estimated, subject to change. Estimate is based on preliminary analysis of fiscal 2003. The Executive Office for Administration and Finance estimates approximately \$350 million in Medicaid related health care spending was moved off-budget by the fiscal 2003 General Appropriation Act. See "Fiscal 2003."



## Stabilization Fund and Disposition of Year-End Surpluses

The following graph sets forth the balance in the Stabilization Fund for fiscal 1990 through 2002 and the estimate for fiscal 2003:



SOURCE: Fiscal 1990-2002, Office of the Comptroller; fiscal 2003, Executive Office for Administration and Finance.

## Initiative Petitions

A voter initiative petition to abolish the state personal income tax commencing July 1, 2003 failed in the Commonwealth's general election on November 5, 2002. Another petition relating to bilingual education was passed by voters on November 5, 2002. The Department of Education is analyzing the budgetary impact of the new law.

## COMMONWEALTH REVENUES

### Commonwealth Revenues - Budgeted Operating Funds Adjusted for MBTA Operations (in millions)(1)

	Fiscal 1998	Fiscal 1999	Fiscal 2000	Fiscal 2001(5)	Fiscal 2002	Est. Fiscal 2003
<b>Tax Revenues:</b>						
Alcoholic Beverages	\$ 60.2	\$ 61.0	\$ 63.1	\$ 64.2	\$65.4	\$65.1
Banks	156.0	108.5	92.9	179.6	137.0	139.0
Cigarettes	300.8	284.4	279.9	270.5	275.0	458.2
Corporations	1,066.9	1,008.9	1,130.5	945.3	586.7	676.8
Deeds	79.7	98.0	116.0	129.6	134.3	132.4
Income	8,031.9	8,036.6	9,041.9	9,902.7	7,912.9	8,468.2
Inheritance and Estate	191.3	173.9	166.5	203.4	200.6	125.4
Insurance	310.8	336.3	334.6	356.5	382.9	392.8
Motor Fuel	621.3	636.5	652.6	659.9	666.8	686.0
Public Utilities	131.9	132.5	83.0	86.7	88.4	73.2
Racing	9.2	8.3	7.8	7.5	2.7	-
Room Occupancy	96.2	119.4	137.0	149.6	123.3	136.5
Sales - Regular	2,122.0	2,351.2	2,552.1	2,705.8(4)	2,601.4	2,674.8
Sales - Meals	392.5	436.2	456.8	482.0	500.9	525.4
Sales - Motor Vehicles	448.0	482.4	556.4	568.0(4)	593.6	574.2
Transfer to MBTA	--	--	--	(654.6)	(664.3)	(684.3)
Sub-Total-Sales	<u>2,962.5</u>	<u>3,269.8</u>	<u>3,565.3</u>	<u>3,101.2</u>	<u>3,031.6</u>	<u>3,090.1</u>
Miscellaneous	<u>7.6</u>	<u>17.4</u>	<u>17.5</u>	<u>17.9</u>	<u>15.1</u>	<u>16.9</u>
<b>Total</b>	<u>14,026.3</u>	<u>14,291.5</u>	<u>15,688.6</u>	<u>16,074.6</u>	<u>13,622.7</u>	<u>14,460.6(6)</u>
<b>Non-Tax Revenues:</b>						
Federal Reimbursements (2)	3,361.2	3,442.9	3,645.6	3,974.2	4,334.9	4,613.5
Departmental and Other Revenues	1,286.4	1,297.8	1,359.9	1,425.9	1,485.2	1,395.2
Interfund Transfers from Non - Budgeted Funds and Other Sources (3)	<u>1,125.9</u>	<u>1,132.8</u>	<u>1,893.0</u>	<u>1,385.9</u>	<u>1,732.0</u>	<u>1,440.1</u>
<b>Budgeted Non-Tax Revenues and Other Sources</b>	<u>5,773.6</u>	<u>5,873.5</u>	<u>6,898.5</u>	<u>6,786.0</u>	<u>7,552.1</u>	<u>7,448.8</u>
<b>Budgeted Revenues and Other Sources</b>	<u>19,799.8</u>	<u>20,165.0</u>	<u>22,587.0</u>	<u>22,860.6</u>	<u>21,174.8</u>	<u>21,909.4</u>
MBTA Adjustment (4)	<u>(491.1)</u>	<u>(499.1)</u>	<u>(561.9)</u>	NA	NA	NA
<b>Adjusted Revenues and Other Sources</b>	<u>\$19,308.7</u>	<u>\$19,665.9</u>	<u>\$22,035.7</u>	<u>\$22,860.6</u>	<u>\$21,174.8</u>	<u>\$21,909.4</u>

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

- (1) Totals may not add due to rounding. The table does not reflect interfund transfers among budgeted funds and other sources that have no effect on ending balances. The amounts of the transfers in fiscal 1998-2002 were \$1,449.2 million, \$1,242.0 million, \$3,618.2 million and \$931.0 million, respectively. In addition, the table does not reflect the receipt and payment of certain municipal mass transit assessments totaling \$155.6 million, \$159.9 million and \$15.8 million in fiscal 1998 through 2001, respectively.
- (2) Includes \$265.5 million, \$184.7 million, \$179.0 million, \$187.4 million and an estimated \$199 million in fiscal 1998-2001 respectively, resulting from claims for federal reimbursement of certain uncompensated care for Massachusetts hospitals.
- (3) Interfund transfers represent accounting transfers reallocating resources among funds. See the March Information Statement under the heading "COMMONWEALTH REVENUES—Federal and Other Non-Tax Revenues." Includes transfers between Stabilization Fund and budgeted operating funds. Transfers to Stabilization Fund were \$317.4 million, \$165.6, \$114.9 million and \$51.7 million in fiscal 1998-2001 respectively. No funds were transferred in fiscal 2002 to the Stabilization Fund, however, \$1.03 billion was transferred from the Stabilization Fund to the General Fund to balance the fiscal 2002 budget. August 10, 1998, Acting Governor Cellucci approved legislation providing for the transfer of \$200 million to Tax Reduction Fund as of June 30, 1998. Additional transfers in 2000 included transfer of \$500 million to Debt Defeasance Fund and transfer of \$3.0 billion to eliminate fund deficits in Highway and Local Aid Funds. Additional transfers in 2001 included \$579.2 million to Transitional Escrow Fund, \$624.2 million for debt defeasance, \$25.9 million to Tax Reduction Fund, \$53.9 million to Sewer Rate Relief Fund and \$34.4 million for Capital Projects.
- (4) To facilitate comparison, the revenues have been reduced to reflect the transfer off-budget of MBTA operations in fiscal 2001 by subtracting the actual amount of Commonwealth payments to the MBTA in fiscal 1996 to fiscal 2000, inclusive. In fiscal 2002, the Executive Office for Administration and Finance transferred \$664 million of dedicated sales tax to the MBTA. For fiscal 2003, the Executive Office for Administration and Finance projects transferring \$684 million of dedicated sales tax to the MBTA. The amount of sales tax receipts to be transferred to the MBTA could be greater based on higher overall sales tax receipts. See the March Information Statement under the heading "FINANCIAL RESULTS - Massachusetts Bay Transportation Authority - Financial Restructuring."
- (5) Beginning balance restated for comparison purposes due to the reclassification of the Mosquito and Greenhead Fly Control Fund from a budgeted to a non-budgeted fund as of July 1, 2002.
- (6) Includes \$43 million in fiscal 2003 revenue estimated to result from a tax amnesty authorized in the budget, to be implemented in fiscal 2003.

## STATE WORKFORCE

### Employee Retirement Incentive Plan

On March 20, 2002 the Governor signed Chapter 62, the main provision of which extended the Early Retirement Incentive Program (“ERIP”) to employees whose positions are funded from capital, federal or trust accounts. There were 712.7 full-time equivalent employees who applied for the expanded incentive before the April 19, 2002 deadline, of whom 46.5 are funded from the operating budget. The expected budgetary impact is minimal since the bulk of the positions are funded from non-budgetary accounts. However, the additional liability resulting from the retirement of employees who received the incentive must be amortized as part of the annual pension appropriation.

As required under Section 15 of Chapter 219 of the Acts of 2001, the Secretary of Administration and Finance filed a report with the Legislature on October 1, 2002, detailing fiscal 2002 and 2003 savings estimates achieved from the ERIP. The findings show that Executive Branch and Higher Education retirees from the operating budget total 3,240, saving the Commonwealth \$30.8 million in fiscal 2002 and \$165.8 million in fiscal 2003. The savings are offset in part by the costs of filling positions vacated by those retirees, which are estimated to be \$1.4 million in fiscal 2003 and \$29.0 million in fiscal 2003. The report did not provide cost or savings estimates for Constitutional Officers, the Courts, or the Legislature, nor did it attempt to summarize the total spent on sick and vacation time buy-out costs, which were evenly spread among fiscal 2003, 2004 and 2005.

The following table sets forth information regarding the Commonwealth’s workforce as of the end of fiscal years 1997 through 2002.

	<u>June 1997</u>	<u>June 1998</u>	<u>June 1999</u>	<u>June 2000</u>	<u>June 2001</u>	<u>June 2002</u>
Executive Office	83	80	93	89	79	72
Office of the Comptroller	107	113	110	106	109	107
Executive Departments						
Administration and Finance	3,145	3,080	3,153	3,225	3,429	2,974
Environmental Affairs	2,441	2,442	2,484	2,583	2,586	2,312
Housing and Community Development	104	118	113	111	115	109
Health and Human Services	22,918	23,125	23,164	23,483	23,745	21,803
Transportation and Construction	1,234	1,262	1,303	1,284	1,216	843
Board of Library Commissioners	17	20	17	20	20	18
Labor and Workforce Development	402	379	392	386	374	357
Economic Development	96	100	92	92	88	80
Consumer Affairs and Business Regulation	664	666	706	682	708	657
Department of Education	198	220	272	270	271	277
Board of Higher Education	13,813	14,184	14,840	15,251	15,560	14,038
Public Safety	8,885	9,115	9,520	9,409	9,685	9,567
Elder Affairs	33	35	36	38	44	43
Subtotal under Governor’s authority	<u>54,140</u>	<u>54,939</u>	<u>56,295</u>	<u>57,029</u>	<u>58,030</u>	<u>53,257</u>
Judiciary	6,711	7,309	7,829	8,013	8,204	7,379
Other (2) (3)	<u>3,994</u>	<u>4,766</u>	<u>6,403</u>	<u>7,171</u>	<u>7,421</u>	<u>7,119</u>
<b>Total</b>	<u><b>64,845</b></u>	<u><b>67,014</b></u>	<u><b>70,527</b></u>	<u><b>72,213</b></u>	<u><b>73,654</b></u>	<u><b>67,755</b></u>

SOURCE: Executive Office for Administration and Finance

- (1) Excludes employees whose positions are established in accounts funded by capital projects funds, direct federal grants, expendable trusts and other non-appropriated funds, as well as seasonal help, members of boards and commissions, and staff of independent authorities. Numbers represent full-time equivalent positions (FTEs), not individual employees. Total may not add due to rounding.
- (2) Other includes staff of the Legislature and Executive Council, the office of the State Treasurer, Secretary, Auditor, and Attorney General, the eleven District Attorneys, and other agencies independent from the Governor; it excludes elected members of the Legislature and Executive Council.
- (3) Starting in 1998, this includes the offices of several former county sheriffs which have become state agencies. FTE’s from former county sheriffs’ offices totaled 1,986 in 1998, 2,743 in 1999, 3,011 in 2000, 2,961 in 2001 and 2,936 in 2002.

## COMMONWEALTH CAPITAL SPENDING AND LONG-TERM LIABILITIES

### Capital Spending Plan

The following table sets forth Commonwealth capital spending for fiscal 1997 through 2001 and the Commonwealth's five-year capital plan for fiscal 2002 through 2006. Historical spending is presented in a manner consistent with the five-year plan. See the March Information Statement under the heading "COMMONWEALTH CAPITAL SPENDING AND LONG-TERM LIABILITIES – Commonwealth Historical and Proposed Capital Spending."

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

USES:	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001(12)</u>	<u>2002</u>	<u>Est. 2003</u>	<u>Est. 2004</u>	<u>Est. 2005</u>	<u>Est. 2006</u>	<u>Est. 2007</u>
Information technology	\$ 86	\$ 111	\$ 68	\$ 64	\$ 86	\$ 86	\$ 115	\$ 105	\$ 105	\$ 105
Infrastructure	237	224	197	179	241	270	270	252	252	252
Environment	141	132	142	140	156	122	124	125	125	125
Housing	80	82	80	79	83	110	113	101	101	101
Public Safety	16	12	15	23	8	41	29	21	21	21
Transportation(2)	1,969	2,029	2,006	1,990	1,908	2,032	1,632	1,290	923	710
Economic development(3)	119	98	98	226	250	319	182	59	44	54
Reserve(4)(5)	--	--	--	--	--	32	21	114	117	107
<b>Total Uses</b>	<b><u>\$ 2,648</u></b>	<b><u>\$ 2,687</u></b>	<b><u>\$ 2,606</u></b>	<b><u>\$ 2,701</u></b>	<b><u>\$ 2,732</u></b>	<b><u>\$ 3,011</u></b>	<b><u>\$ 2,486</u></b>	<b><u>\$ 2,067</u></b>	<b><u>\$ 1,688</u></b>	<b><u>\$ 1,475</u></b>
<b>SOURCES:</b>										
Long-Term Debt										
GO Debt Subject to Statutory Limit	\$ 1,000(7)	\$ 1,000(8)	\$ 1,000	\$ 1,007	\$ 1,152(5)	\$ 1,225	\$ 1,200	\$ 1,200	\$ 1,200	\$ 1,200
GO Debt Not Subject to Statutory Limit	--	26	133	482	695	547	101	100	--	--
Special Obligation Debt	--	--	--	176	139(11)	230	109	12	--	--
Grant Anticipation Notes	295	412	408	353	9	24	--	--	--	--
Operating Revenues(9)(10)	159	252	96	141	195	67	476	270	--	--
Third-Party Payments	405	412	481	82	52	245	117	134	185	--
Federal Reimbursements	<u>788</u>	<u>586</u>	<u>487</u>	<u>460</u>	<u>490</u>	<u>672</u>	<u>483</u>	<u>351</u>	<u>303</u>	<u>275</u>
<b>Total Sources</b>	<b><u>\$ 2,648</u></b>	<b><u>\$ 2,687</u></b>	<b><u>\$ 2,606</u></b>	<b><u>\$ 2,701</u></b>	<b><u>\$ 2,732</u></b>	<b><u>\$ 3,011</u></b>	<b><u>\$ 2,486</u></b>	<b><u>\$ 2,067</u></b>	<b><u>\$ 1,688</u></b>	<b><u>\$ 1,475</u></b>

SOURCES: Fiscal 1998-2002, Office of the Comptroller; Fiscal 2003-2007, Executive Office for Administration and Finance. Breakdown of CA/T Project, CA/T Project.

- (1) Totals may not add due to rounding. Uses include statutory basis expenditures including applicable fringe benefits and the transfer to Affordable Housing Trust in the amount of \$20 million per year as mentioned in footnote (10) below, but exclusive of other transfers. Fiscal 2000 includes \$325 million of one-time transfers to "forward-fund" the MBTA.
- (2) Includes CA/T Project spending of \$1.428 billion, \$1.515 billion, \$1.464 billion, \$1.303 billion and \$1.187 billion in fiscal 1998 through fiscal 2002, respectively. CA/T Project estimated spending from fiscal 2003-2006 is \$1.254 billion, \$907 million, \$588 million and \$221 million, respectively. See "COMMONWEALTH CAPITAL SPENDING AND LONG-TERM LIABILITIES—Central Artery/Ted Williams Tunnel Project; *CA/T Project Cash Flow*".
- (3) Includes amounts formerly labeled "Wastewater Treatment." For fiscal 2001 through fiscal 2005, also includes approximately \$669 million for convention centers in Boston, Worcester and Springfield that are expected to be funded permanently by special obligation bonds.
- (4) Reserve for unanticipated capital spending needs within a given fiscal year, to be allocated among the listed categories. Fiscal 2002 includes \$91 million in pay-as-you-go funds. Fiscal 2003 reserve includes \$31 million of pay-as-you-go funds.
- (5) Legislation was enacted which converted \$115 million of pay-as-you-go projects to bond projects. The legislation resulted in a transfer of \$115 million to the Commonwealth's General Fund for the purpose of balancing the fiscal 2002 operating budget. Most of the affected projects were to be absorbed under fiscal 2002 administrative bond cap.
- (6) Includes \$100 million in spending that was anticipated to be funded by payments from the Turnpike Authority; such payments were received June 28, 1998.
- (7) Includes \$19 million for the Worcester Convention Center expected to be funded permanently by special obligation bonds. See footnote 3.
- (8) Includes \$11 million for convention center payments expected to be funded permanently by special obligation bonds. See footnote 3.
- (9) Estimates for fiscal 2003 through 2007, inclusive, include funds on deposit and certain dedicated fees and earnings.
- (10) Tax revenue in the amount of \$45 million is scheduled to be transferred to the Capital Needs Investment Trust annually through fiscal 2005. This pay as you go money is not included in the above chart, but includes annual payments of \$20 million to the Affordable Housing Trust, \$11 million for information technology improvements and projects at the Department of Education, and \$14 million for deferred maintenance at state facilities. The fiscal 2003 General Appropriation Act reduces funding for the Capital Needs Investment Trust ("CNIT") from \$45 million to \$23 million. Payments will be as follows: \$20 million to the Affordable Housing Trust, \$3 million is to be expended by the Department of Education.
- (11) Includes \$74.0 million subject to the Statutory Debt Limit. See the March Information Statement under the heading "COMMONWEALTH CAPITAL SPENDING AND LONG-TERM LIABILITIES – Statutory Debt Limit on Direct Debt."
- (12) Fiscal 2001 has been restated to conform to the presentation of fiscal 2002.

## Central Artery/Ted Williams Tunnel Project

*Progress/Schedule Update.* As of September 30, 2002, CA/T Project construction was 84.3% complete. As of that date, approximately \$12.7 billion was under contract or agreement and approximately 90% of all construction scope was under contract. Current trends indicate the following opening dates for the CA/T Project:

	<u>Current Trend</u>
I-90 opening:	December 2002
I-93 northbound opening:	January 2003
I-93 southbound opening:	January 2004

While later than milestone dates identified in the October 2002 Finance Plan, the above dates are covered by schedule cost contingency. The CA/T Project is targeting November 2004 for the full I-93 southbound opening and CA/T Project substantial completion for February 2005.

*October 2002 Finance Plan.* In the Turnpike Authority's annual cost and schedule update ("CSU 9"), the CA/T Project projected that its budget would remain at \$14.625 billion. The CSU 9 contingency account was budgeted at \$334.9 million, of which approximately \$62 million was allocated for unanticipated risks. CSU 9 is the basis for the budget and schedule portion of the Turnpike Authority's annual finance plan which was filed with the Federal Highway Administration ("FHWA") for approval on August 31, 2002 (the "October 2002 Finance Plan"). Federal approval has not yet been attained, with the result that commencing October 1, 2002, the U.S. Department of Transportation is withholding future obligation of federal funds for the CA/T Project. This withholding is not expected to adversely affect CA/T Project cash flow, assuming that federal approval is obtained by August 31, 2003.

The Executive Office for Administration and Finance engaged an independent auditor to review and evaluate CSU 9, as required for the U.S. Department of Transportation's approval of the October 2002 Finance Plan. In its final report dated September 30, 2002, the independent auditor did not recommend an increase to the overall CA/T Project budget of \$14.625 billion. However, the auditor found that an I-90 opening of January 2003, an I-93 northbound opening of March 2003 and an I-93 southbound opening of May 2004 are more likely than the projected opening dates stated by the Turnpike Authority in CSU 9.

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

The U.S. Department of Transportation Office of the Inspector General and the General Accounting Office have taken a position that monies realized from the resale of property originally purchased with federal funds should retain their federal character and not become state funds. FHWA, which has responsibility for issuing and interpreting regulations on the subject, disagrees with that interpretation and has taken a position that such monies become state funds upon resale of such property. The Turnpike Authority has budgeted \$87 million for CA/T Project costs from the projected resale of its Kneeland Street properties, which fall into this category, in the October 2002 Finance Plan. Senator John McCain has requested the U.S. Secretary of Transportation to abolish the federal rule allowing characterization of such monies as state funds. If FHWA changes its position, the CA/T Project would be required to replace approximately \$50-60 million of newly characterized federal funds with state funds in order to maintain compliance with the \$8.549 billion cap on federal funding for the CA/T Project. In the event this were to occur, the CA/T project would seek a reallocation by the Commonwealth of federal highway program funds so as not to increase the total cost of the CA/T Project or alter the cash flow of CA/T Project funding. Alternatively, the CA/T Project estimates that sale or lease of additional surface artery real estate could yield an additional \$84 million beyond the current estimated CA/T Project budget. If reallocation of federal funds or realization of additional revenues from surface artery real estate or other sources were not possible, the CA/T Project could potentially face a revenue shortfall.

*Claims and Economic Risks.* Each annual finance plan, including the October 2002 Finance Plan, budgets for the potential cost of change orders on all awarded and unawarded contracts. Any dollar amount associated with an individual claim or issue, or the sum of claims or issues, may not reflect the ultimate impact, if any, on the final

CA/T Project cost. The contract claim of Honeywell Technology Solutions, Inc. received on March 16, 2002 now totals \$123.9 million. As a result of negotiations between the CA/T Project and Honeywell on the claim, the parties have entered into an agreement dated October 18, 2002, reaffirming contract metrics and schedule milestone dates. The Honeywell contract includes installation of systems necessary to open the roadway. If Honeywell fails to perform work on an accelerated basis or if Honeywell were to abandon the contract, it might result in a substantial and material impact to CA/T Project cost and schedule.

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

*Bond Ratings.* On October 23, 2002, Fitch Ratings downgraded the Massachusetts Turnpike Authority's Metropolitan Highway System revenue bonds. The senior bonds went from a rating of A to BBB+ and the subordinate bonds went from a rating of A- to BBB. The rating outlook on these bonds is stable. This rating downgrade did not affect the Massachusetts Turnpike Authority's Western Turnpike revenue bonds, which are separate from the Metropolitan Highway System. Fitch Ratings affirmed the Western Turnpike revenue bonds rating of A+. For further information please consult Fitch Ratings.

*Toll Discount Program.* On July 1, 2002, a toll discount program for members of the FASTLANE Program who operate non-commercial two-axle passenger vehicles went into effect, providing a 50% discount on the amount of the July 1, 2002 toll rate increase to participants. To finance the toll discount program for six months, the Turnpike Authority board voted to transfer \$9 million from the Turnpike Authority's general fund to a special sub-account within the general fund. In order to fund the toll discount program beyond December 31, 2002, additional revenues must be secured. To generate additional revenues for the continuation of the toll discount program, the board has made several proposals, most of which would require legislation, study and hearings before implementation.

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

In July 2002, two individuals filed a purported class action against the Turnpike Authority alleging that the toll discount program violates the commerce clause of the U.S. Constitution because it favors Massachusetts residents. Plaintiffs are seeking injunctive relief as well as damages. The Court has not yet certified the class. The Turnpike Authority intends to oppose this claim, and expresses no opinion as to the merits and ultimate outcome of this case.

*October 2001 Finance Plan.* On June 13, 2002, the October 2001 finance plan was approved by FHWA, which approval enabled the CA/T Project to obligate federal funds for federal fiscal 2002.

*CA/T Project Cash Flow.* The table below provides cash flow estimates that were presented in the August 31, 2001, project management monthly report. The estimates extend to fiscal 2006, when the final project close-out process is expected to be completed. Actual amounts and timing of construction costs may differ significantly from current estimates.

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

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

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

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



## General Authority to Borrow and Types of Long-Term Liabilities

The following table sets forth the amount of Commonwealth debt and debt related to general obligation contract assistance liabilities outstanding as of October 1, 2002.

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

	<u>Long-Term (2)</u>	<u>Short-Term</u>
<b>COMMONWEALTH DEBT</b>		
General Obligation Debt (6)	\$12,975,008(3)	\$1,180,000(5)
Special Obligation Debt (7)	837,911	-
Federal Grant Anticipation Notes	<u>1,499,325(4)</u>	<u>-</u>
Subtotal Commonwealth Debt	<u>\$15,312,244</u>	<u>\$1,180,000</u>
<b>DEBT RELATED TO GENERAL OBLIGATION CONTRACT ASSISTANCE LIABILITIES (1)</b>		
Massachusetts Convention Center Authority	\$ 38,527	-
Massachusetts Development Finance Agency	53,670	-
Foxborough Industrial Development Financing Authority	<u>67,025</u>	<u>-</u>
Subtotal GO Contract Assistance Debt	<u>159,222</u>	<u>-</u>
<b>TOTAL</b>	<u>\$15,471,466</u>	<u>\$1,180,000</u>

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

- (1) Does not include general obligation contract assistance liabilities to the Massachusetts Water Pollution Abatement Trust and the Massachusetts Turnpike Authority. For such liabilities calculated as of January 1, 2002, see the March Information Statement under the heading "COMMONWEALTH CAPITAL SPENDING AND LONG-TERM LIABILITIES - General Obligation Contract Assistance Liabilities." These liabilities increased during fiscal 2002.
- (2) Long-term debt includes discount and costs of issuance.
- (3) Includes interest on Commonwealth general obligation capital appreciation bonds to be accrued from October 1, 2002 through their maturity in the amount of \$72.8 million.
- (4) Includes capital appreciation interest accrued from October 1, 2002 through their maturity in the amount of \$40.3 million.
- (5) Includes \$350 million of general obligation bond anticipation notes due September 1, 2003, which were issued to finance costs associated with the construction of the Boston Convention and Exhibition Center and other capital projects. (To the extent the proceeds of such notes are expended for the convention center, such notes are expected to be paid from the proceeds of special obligation bonds that can lawfully be issued regardless of the completion status of the convention center. See the March Information Statement under the heading "COMMONWEALTH CAPITAL SPENDING AND LONG-TERM LIABILITIES - Special Obligation Debt; *Boston Convention and Exhibition Center Fund*"). In addition, the total includes \$180 million bond anticipation notes issued in March 2002 in anticipation of certain payments to be received by the Commonwealth from the Massachusetts Port Authority to reimburse Commonwealth for capital costs of the Central Artery/Ted Williams Tunnel Project. See the March Information Statement under the heading "2002 FISCAL YEAR – Cash Flow." In addition, in September 2002, the Commonwealth issued \$700 million of commercial paper as revenue anticipation notes, of which \$650 million remains outstanding as of October 3, 2002.
- (6) On June 20, 2002 the Commonwealth sold \$2,274,665,000 of general obligation refunding and new money bonds. Bonds in the amount of \$1,828,230,000 were delivered on July 2, 2002, of which \$1,329,000,000 represents refunding bonds and \$499,230,000 represents new-money bonds. The remaining \$446,435,000 of bonds, which are refunding bonds, are expected to be delivered on November 5, 2002. On August 21, 2002 the Commonwealth sold \$882,390,000 of general obligation refunding and new money bonds. Refunding bonds and new money bonds in the amounts, respectively, of \$357,725,000 and \$313,020,000 were delivered on September 10, 2002. Refunding bonds in the amounts of \$102,820,000 and \$108,825,000 are expected to be delivered on November 5, 2002 and May 6, 2003, respectively. The Commonwealth expects to issue an additional \$5.1 million of general obligation bonds in November 2002 as part of the U. Plan program.
- (7) Includes \$190.1 million of bonds, which, while not legally defeased, will be paid in fiscal 2003, 2004, 2006 and 2008 from funds held in escrow by a third-party trustee.

The following table sets forth the amount of Commonwealth debt and debt related to general obligation contract assistance liabilities as of the end of the fiscal years indicated.

**Commonwealth Debt and Debt Related to General Obligation Contract Assistance Liabilities**  
(in thousands) (1)(2)

<u>June 30</u>	<u>General Obligation Bonds (3)</u>	<u>Dedicated Income Tax Debt</u>	<u>Special Obligation Debt (6)</u>	<u>Federal Grant Anticipation Notes</u>	<u>Commonwealth Long-Term Debt Subtotal (2)</u>	<u>GO Contract Assistance Debt (4)</u>	<u>Total</u>
1997	\$ 9,620,633	\$ 129,900	\$ 520,760	--	\$ 10,271,293	\$ 145,314	\$ 10,416,607
1998	9,872,598	--	606,005	\$ 600,000	11,078,603	201,904	11,280,507
1999	10,301,011	--	585,730	921,720	11,808,461	174,884	11,983,345
2000	10,896,896	--	564,485	921,720	12,383,101	213,789	12,596,890
2001	11,957,934	--	542,195	1,499,325	13,999,454	189,489	14,188,940
2002	12,619,726	--	837,911	1,499,325	14,956,962	169,101	15,126,063
2002(5)	12,444,673	--	837,911	1,499,325	14,781,908	167,621	14,949,529
2003(7)	12,975,008	--	837,911	1,499,325	15,312,244	159,222	15,471,466

SOURCE: Office of the State Treasurer and Office of the Comptroller.

- (1) Totals may not add due to rounding.
- (2) Outstanding bond liabilities include discount and costs of issuance.
- (3) Does not include dedicated income tax debt issued in fiscal 1991 and retired in fiscal 1998, which was general obligation debt also secured by a special pledge of income tax receipts. Commonwealth general obligation bonds include interest on capital appreciation bonds yet to be accrued from the end of the fiscal year indicated through their maturity in the following approximate amounts; fiscal 1997 – \$198.6 million; fiscal 1998 – \$305.8 million; fiscal 1999 – \$315.4 million; fiscal 2000 – \$286.8 million; and fiscal 2001 - \$433.8 million, fiscal 2002 - \$359.1 million.
- (4) Includes bonds of the Massachusetts Convention Center Authority, the Massachusetts Development Finance Agency (as successor to the Massachusetts Government Land Bank) and the Foxborough Industrial Development Financing Authority.
- (5) As of July 1, 2002.
- (6) Includes \$190.1 million of bonds, which, while not legally defeased, will be paid in fiscal 2003, 2004, 2006 and 2008 from funds held in escrow by a third-party trustee.
- (7) As of October 1, 2002.

**Proposed Capital Spending Authorizations**

On July 31, 2002 the legislature passed the following bond bills in the respective appropriation amounts noted: \$752 million for Division of Capital Asset Management, \$301 million for Transportation, \$509 million for Housing, and \$754 million for Environmental Affairs.

The legislature also passed a \$101.8 million capital outlay bill. This legislation will allow for bond funds to be used in place of certain pay-as-you capital funds previously transferred to the General Fund. See “RECENT DEVELOPMENTS—Fiscal 2002.”

**Debt Service Requirements on Commonwealth Bonds**

The following table sets forth, as of October 1, 2002, the annual fiscal year debt service requirements on outstanding Commonwealth general obligation bonds, special obligation bonds and federal grant anticipation notes. For variable rate bonds with respect to which the Commonwealth is a fixed-rate payor under an associated interest rate exchange agreement, the debt service schedule assumes payment of the fixed rate due under such agreement. For other variable rate bonds and for auction rate securities, the schedule assumes a 5% interest rate.

## Debt Service Requirements on Commonwealth Bonds October 1, 2002

(in thousands)(1)

Fiscal Year	<i>General Obligation Bonds</i>				<i>Federal Grant Anticipation Notes</i>			<i>Special Obligation Bonds(1)</i>			Total Debt Service Commonwealth Bonds
	Principal	Interest on CABS at Maturity	Current Interest	Sub Total	Principal	Interest	Sub Total	Principal	Interest	Sub Total	
2003	\$349,109	\$13,595	\$438,768	\$801,472	-	\$74,822	\$74,822	\$24,865	\$43,657	\$68,522	\$944,816
2004	626,614	68,020	599,844	1,294,478	-	74,822	74,822	26,070	42,449	68,519	1,437,820
2005	785,453	9,338	569,897	1,364,688	-	74,822	74,822	27,370	41,156	68,526	1,508,037
2006	774,611	4,536	531,121	1,310,268	\$117,895	73,416	191,311	43,950	39,713	83,663	1,585,242
2007	725,844	5,999	491,571	1,223,413	123,825	67,486	191,311	46,775	37,566	84,341	1,499,065
2008	686,097	5,756	456,162	1,148,016	130,240	61,068	191,308	57,310	34,687	91,997	1,431,320
2009	706,322	6,490	421,321	1,134,133	137,230	54,077	191,307	42,020	31,833	73,853	1,399,293
2010	682,238	6,244	384,501	1,072,982	144,515	46,792	191,307	63,070	29,847	92,917	1,357,206
2011	742,896	6,643	315,616	1,065,154	152,230	39,080	191,310	46,190	26,585	72,775	1,329,240
2012	652,129	6,753	344,530	1,003,411	160,530	30,775	191,305	48,590	24,205	72,795	1,267,511
2013	691,058	7,477	276,785	975,321	168,470	22,837	191,307	51,115	21,653	72,768	1,239,395
2014	600,377	5,404	239,373	845,154	177,760	13,549	191,309	49,435	18,866	68,301	1,104,764
2015	560,992	4,669	221,126	786,788	186,630	4,674	191,304	78,525	16,298	94,823	1,072,915
2016	560,216	3,241	194,464	757,921	-	-	-	52,965	12,076	65,041	822,963
2017	608,136	1,903	171,884	781,923	-	-	-	43,710	9,265	52,975	834,898
2018	387,743	1,130	146,014	534,887	-	-	-	24,445	7,080	31,525	566,412
2019	374,482	568	125,616	500,666	-	-	-	25,755	5,766	31,521	532,187
2020	424,167	159	107,092	531,418	-	-	-	27,140	4,381	31,521	562,939
2021	494,002	78	84,912	578,992	-	-	-	28,590	2,931	31,521	610,513
2022	259,195	15	65,081	324,292	-	-	-	30,020	1,501	31,521	355,813
2023	128,955	-	54,008	182,963	-	-	-	24,865	43,657	68,522	182,963
2024	24,060	-	49,999	74,059	-	-	-	-	-	-	74,059
2025	30,059	-	48,627	78,686	-	-	-	-	-	-	78,686
2026	76,790	-	45,754	122,544	-	-	-	-	-	-	122,544
2027	125,660	-	40,678	166,338	-	-	-	-	-	-	166,338
2028	131,805	-	34,199	166,004	-	-	-	-	-	-	166,004
2029	192,485	-	25,917	218,402	-	-	-	-	-	-	218,402
2030	202,925	-	15,746	218,671	-	-	-	-	-	-	218,671
2031	212,570	-	5,062	217,632	-	-	-	-	-	-	217,632
2032	-	-	-	-	-	-	-	-	-	-	-
<b>TOTAL</b>	<b>\$12,816,988</b>	<b>\$158,021</b>	<b>\$6,505,669</b>	<b>\$19,480,678</b>	<b>\$1,499,325</b>	<b>\$638,221</b>	<b>\$2,137,546</b>	<b>\$837,911</b>	<b>\$451,514</b>	<b>\$1,289,424</b>	<b>\$22,907,649</b>

SOURCE: Office of the State Treasurer and Office of the Comptroller.

(1) Includes \$74.0 million not exempt from the Statutory Debt Limit. See the March Information Statement under the heading "COMMONWEALTH CAPITAL SPENDING AND LONG-TERM LIABILITIES – Statutory Debt Limit on Direct Debt."

## LEGAL MATTERS

### Update of Existing Litigation

*Sherwin-Williams Co. v. Commissioner of Revenue*, Supreme Judicial Court. On October 31, 2002, the Supreme Judicial Court issued its decision reversing the ruling of the Appellate Tax Board. The Appellate Tax Board had upheld a determination by the Commissioner of Revenue that certain royalties paid by Sherwin-Williams regarding transfer and licensing-back transactions between Sherwin-Williams and two wholly-owned subsidiaries were not properly deductible. Sherwin-Williams had requested an abatement in the amount of \$59,445.40 in corporate excise taxes. However, the holding of the Court may apply to other corporate excise taxpayers generally, and the Department of Revenue is currently analyzing the fiscal impact of the decision.

*Bates v. Director of the Office of Campaign and Political Finance*, Supreme Judicial Court. Plaintiffs alleged that the Director of the Office of Campaign and Political Finance was violating the Clean Elections law by declining to distribute public campaign finance funds to qualifying candidates absent a legislative appropriation for that purpose. On January 25, 2002, the Supreme Judicial Court ruled on the merits that the Legislature has a constitutional duty either to appropriate funds necessary to implement the Clean Elections law, or to repeal the law. On February 25, 2002, the Court ruled that candidates who have been certified under the Clean Elections law, but who have not received funding due to the lack of appropriated funds, are entitled to the entry of money judgments against the Commonwealth in amounts equal to the amount of Clean Elections funding due them. The Court accordingly ordered judgment for one plaintiff in the amount of \$811,050. That judgment was partially satisfied on February 28, 2002, out of an account appropriated for the payment of damages awards generally, but no further appropriated money is currently available to pay the remainder of the judgment. Plaintiffs moved for an order permitting them to execute the judgment on various funds in the state Treasury, notwithstanding the absence of an appropriation; that motion was denied by a single justice of the Supreme Judicial Court on March 12, 2002. On April 5, 2002 a single justice of the Supreme Judicial Court granted plaintiffs' motion for issuance of executions to be satisfied by levy and sale of the Commonwealth's real or personal property. Plaintiffs' motion to shorten the notice period for sales of real property, and to set aside any surplus proceeds of such sales to be used to satisfy future judgments, was denied. Subsequently, certain Commonwealth property has been sold at auction to satisfy some of the outstanding portion of the existing judgments, and plaintiffs have identified other Commonwealth property upon which to levy for the balance. On June 11, 2002, the Director of the Office of Campaign and Political Finance advised the Senate Ways and Means Committee that, given the number of candidates who had qualified or still could qualify for Clean Elections funding during the 2002 election cycle, the maximum amount required to fund the Clean Elections system for the 2002 election cycle was estimated at \$9,553,461.

*Massachusetts Ambulance Association v. Division of Medical Assistance*, Suffolk Superior Court No. 00-1262-B. The case has been settled on the following terms. Defendants have agreed to increase prospectively the rates paid to ambulance services under the Medicaid program. The rates will increase by approximately \$15-18 million per year, with half of the amount of the increase to be reimbursed by the federal government. The settlement does not provide relief for prior years.

*Massachusetts Extended Care Federation et al. v. Division of Health Care Finance and Policy and Division of Medical Assistance, et al.* A nursing home trade association along with eight individual nursing facilities have sued the Division of Medical Assistance and the Division of Health Care Finance and Policy seeking to preliminarily and permanently enjoin the existing Medicaid payment rates established for nursing facilities by the Division of Health Care Finance and Policy and to implement higher rates. Plaintiffs challenge several components of the nursing facility rate-setting regulation, including but not limited to the cost adjustment factor, the occupancy standard, standard payments for nursing, the Administrative & General allowance and the total payment adjustment. On February 11, 2002, a hearing on plaintiffs' motion for a preliminary injunction was held in Suffolk Superior Court. Following the hearing, the Court issued an order denying said motion, finding that the plaintiffs failed to show a risk of imminent, irreparable harm. The staff at the Division of Health Care Finance and Policy estimates that if the plaintiffs are successful on all claims, the Commonwealth's liability could exceed \$300 million annually, but that such an outcome is unlikely on the merits of the claims. A stipulation of dismissal without prejudice was filed on July 30, 2002.

*Tolman v. Finneran*, United States District Court, C.A. No. 01-10756-PBS. The appeal was dismissed the First Circuit as moot and the district court order was vacated as moot.

*Rolland v. Swift*, U.S. District Court C.A. No. 98-32208 KPN. On May 3, 2002, the court ruled that the Commonwealth is obligated to provide “active treatment” to plaintiffs and required the Commonwealth to take certain steps within specified periods to comply with such obligation. Defendants have appealed the order of May 3, 2002.

*New England Division of the American Cancer Society, et al. v. Sullivan, et al.*, Supreme Judicial Court for Suffolk County No. SJC-02-0092. On June 14, 2002 the Court issued a decision finding in favor of the Acting Governor.

*Boston & Maine Railroad v. Commonwealth*, Middlesex Superior Court C.A. No. 99-3928E. The plaintiff seeks \$29 million for a taking of land in Cambridge for the CA/T Project.

*Athol Memorial Hospital v. Commissioner of the Division of Medical Assistance*. On August 6, 2002, the Supreme Judicial Court held that the plaintiff hospitals, which had failed to exhaust their administrative remedies when their claims for Medicaid reimbursement were denied, could not later challenge the validity of the Division of Medical Assistance regulations via a breach of contract action.

*Massachusetts Hospital Association, et. al., v. Commissioner of the Division of Medical Assistance* (Suffolk Superior Court Nos. 99-2324-E and 99-0750-C). The Superior Court, on June 20, 2002, ruled in favor of the Division of Medical Assistance, finding that the Division of Medical Assistance complied with the mandate of the Supreme Judicial Court and that its new regulations were valid. To date, no appeal has been filed by the hospitals.

*Hancock v. Driscoll* (formerly *McDuffy v. Robertson*), Supreme Judicial Court. On June 27, 2002, the Single Justice transferred the case to the Superior Court for discovery and trial. A judge of the Superior Court has established a schedule for the case pursuant to which it will be tried. The amount of expenditures ultimately sought by the plaintiffs or required of the Commonwealth is uncertain but could be many hundreds of millions of dollars.

*Brown Rudnick v. Commonwealth*, Suffolk Superior Court. In an early ruling in the case, the Court found that Brown Rudnick’s arguments may ultimately inure to the benefit of all five law firms that represented the Commonwealth in the legal action against tobacco manufacturers. The effect of this ruling is to increase the potential exposure for the Commonwealth from \$500 million to approximately \$1.3 billion.

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

*Hingham Healthcare v. Division of Health Care Finance and Policy*, Suffolk Superior Court. This case challenges the capital component (approximately 11%) of the overall rate paid to nursing facilities by Medicaid. Should the plaintiffs be successful, potential liability would range from \$10-20 million per year in increased rates. The Superior Court granted the Commonwealth’s motion for summary judgment on July 19, 2002. Plaintiffs have filed a notice of appeal.

*In re Massachusetts Military Reservation* (pre-litigation). The Commonwealth, through the Executive Office of Environmental Affairs, the Department of Environmental Protection and the Attorney General’s Office, is engaged in preliminary discussions with federal Natural Resource Trustees, including the United States Army and Air Force, the Department of Interior and the National Oceanic and Atmospheric Administration regarding natural resource damages at the Massachusetts Military Reservation on Cape Cod. The Commonwealth’s Executive Office of Environmental Affairs is the State Natural Resources Trustee. Federal Trustees claim that the Commonwealth

and others are liable for natural resource damages due to widespread contamination primarily from past military activities at the Reservation. This asserted liability also may extend to response actions and related activities necessary to remediate the site. The assessment process for natural resource damages is set forth in federal regulations and is expected to take many months to complete. While no recent comprehensive estimate of natural resource damages and response actions is available, it is expected that the damages and response actions may cost at least tens of millions of dollars.

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

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

#### **CONTINUING DISCLOSURE**

On behalf of the Commonwealth, the State Treasurer will provide to each nationally recognized municipal securities information repository within the meaning of Rule 15c2-12 of the Securities and Exchange Commission, 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. 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.

## AVAILABILITY OF OTHER FINANCIAL INFORMATION

Questions regarding this Information Statement or requests for additional information concerning the Commonwealth should be directed to Jeffrey S. Stearns, Deputy Treasurer, Office of the Treasurer and Receiver-General, One Ashburton Place, 12th floor, Boston, Massachusetts 02108, telephone 617/367-3900 (ext. 564), or to Laura Guadagno, Assistant Secretary for Capital Resources and Chief Development Officer, 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 Lawrence D. Bragg, III, Ropes & Gray, One International Place, Boston, Massachusetts 02110, telephone 617/951-7000.

THE COMMONWEALTH OF MASSACHUSETTS

By /s/ Shannon P. O'Brien  
Shannon P. O'Brien  
Treasurer and Receiver-General

By /s/ Kevin J. Sullivan  
Kevin J. Sullivan  
Secretary of Administration and Finance

November 22, 2002

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## ECONOMIC INFORMATION

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

All information is presented on a calendar-year basis unless otherwise indicated. **Information is current as of October 2<sup>nd</sup>, 2002.** Sources of information are indicated in the text or immediately following the charts and tables. Although the Commonwealth considers the sources to be reliable, the Commonwealth has made no independent verification of the information presented herein and does not warrant its accuracy.

<b><u>Statistical Overview</u></b>		
	<b><u>Massachusetts</u></b>	<b><u>United States</u></b>
<b><u>Population</u></b> (p. A-2)		
Percentage Change in Population, 2000–2001	0.3%	1.2%
<b><u>Personal Income, Consumer Prices, and Poverty</u></b> (p. A-7)		
Per Capita Personal Income, 2001	\$38,845	\$30,271
Average Annual Pay, 2000(p)	\$44,326	\$35,296
Percentage Change in CPI-U, 2000-2001**	4.3%	2.8%
Percentage Change in CPI-U, July 2001–July 2002**	1.9%	1.5%
Poverty Rate, 2000	10.9%	11.5%
Average Weekly Manufacturing Earnings, August 2002(p)	\$639.74	\$626.59
Percentage Change in Manufacturing Earnings, Aug. 2001-Aug. 2002(p)	3.1%	2.9%
<b><u>Employment</u></b> (p. A-18)		
Unemployment Rate, 2001	3.7%	4.8%
Unemployment Rate, Aug. 2002	5.2%	5.7%
<b><u>Economic Base and Performance</u></b> (p. A-28)		
Percentage Change in Gross State Product, 1999-2000	7.1%	4.5%
Percentage Change in International Exports, 2000-2001	-14.7%	-6.3%
Percentage Change in Housing Permits Authorized, 2000-2001	-4.0%	2.5%
<b><u>Human Resources and Infrastructure</u></b> (p. A-42)		
Expenditure Per Pupil, 2002 (estimate)	\$9,883	\$7,524
Percentage Adults with a Bachelor's Degree, March 2000	33.2%	24.4%
** Note: Percentage changes in CPI-U data are for Boston and the U.S.		



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

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

## **POPULATION CHARACTERISTICS**

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

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

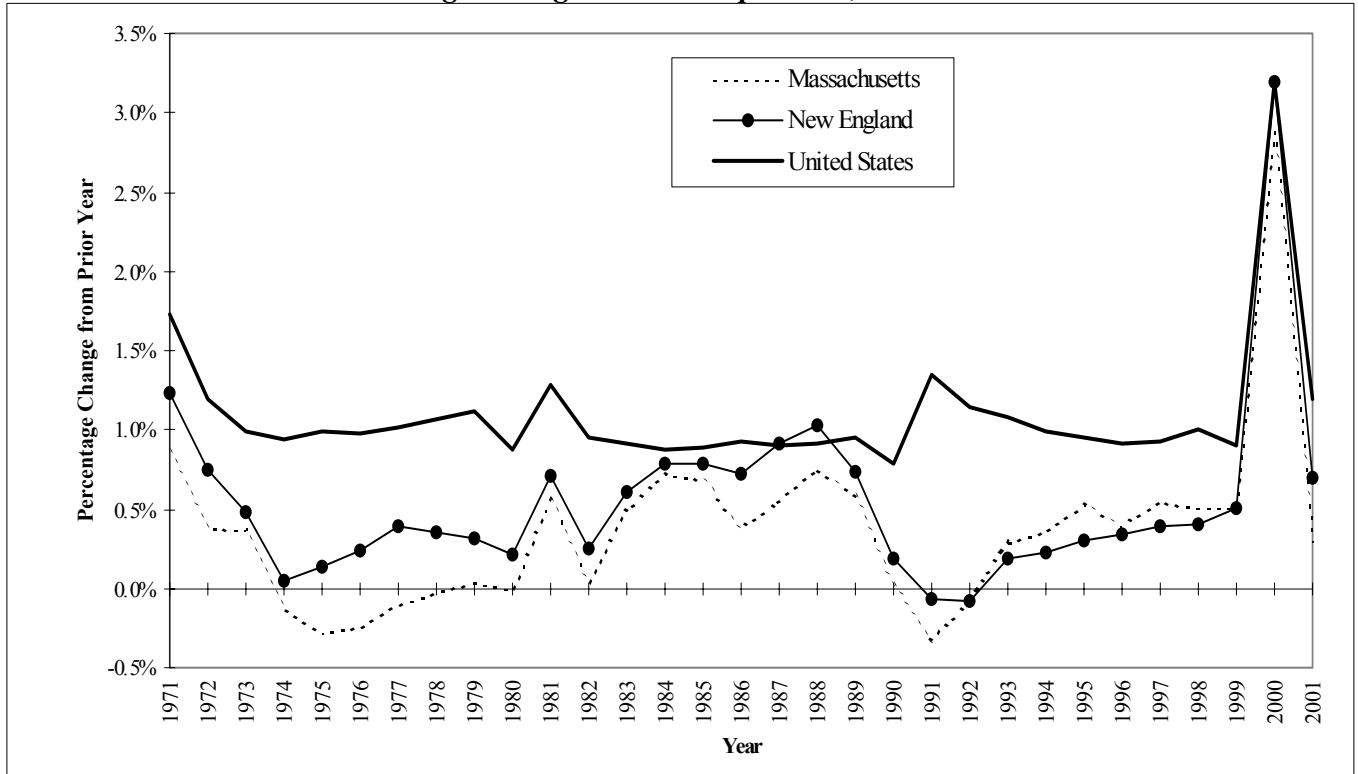
The second largest component of that CMSA is the Worcester, MA-CT PMSA, with a 2000 population of 511,389. Worcester, situated approximately 40 miles west of Boston with a 2000 population of 172,648, is the second largest city in New England. Its service, trade, and manufacturing industries combine for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

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

As the following chart indicates, the percentage change in population in Massachusetts since 1971 has been both lower and more erratic than the change in population for the United States as a whole. While this

trend is similar to that experienced by New England, it differs considerably from the steady growth rates for the United States over the same period of time.

*Percentage Change in Total Population, 1971-2001*



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

Note: 1980, 1990, and 2000 census counts are as of April 1; estimates for other years are as of July 1. Estimates for 1991 to 1999 have not been updated to reflect 2000 Census information, which may result in exaggerated changes in total population between 1999 and 2000.

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

**Population, 1970-2001**  
(in thousands)

Year	Massachusetts		New England		United States	
	Total	Percentage Change	Total	Percentage Change	Total	Percentage Change
1970	5,689		11,847		203,302	
1971	5,738	0.9%	11,993	1.2%	206,827	1.7%
1972	5,760	0.4%	12,082	0.7%	209,284	1.2%
1973	5,781	0.4%	12,140	0.5%	211,357	1.0%
1974	5,774	-0.1%	12,146	0.0%	213,342	0.9%
1975	5,758	-0.3%	12,163	0.1%	215,465	1.0%
1976	5,744	-0.2%	12,192	0.2%	217,563	1.0%
1977	5,738	-0.1%	12,239	0.4%	219,760	1.0%
1978	5,736	0.0%	12,283	0.4%	222,095	1.1%
1979	5,738	0.0%	12,322	0.3%	224,567	1.1%
1980	5,737	0.0%	12,348	0.2%	226,546	0.9%
1981	5,769	0.6%	12,436	0.7%	229,466	1.3%
1982	5,771	0.0%	12,468	0.3%	231,664	1.0%
1983	5,799	0.5%	12,544	0.6%	233,792	0.9%
1984	5,841	0.7%	12,642	0.8%	235,825	0.9%
1985	5,881	0.7%	12,741	0.8%	237,924	0.9%
1986	5,903	0.4%	12,833	0.7%	240,133	0.9%
1987	5,935	0.5%	12,951	0.9%	242,289	0.9%
1988	5,980	0.8%	13,085	1.0%	244,499	0.9%
1989	6,015	0.6%	13,182	0.7%	246,819	0.9%
1990	6,016	0.0%	13,207	0.2%	248,791	0.8%
1991	5,999	-0.3%	13,201	0.0%	252,153	1.4%
1992	5,993	-0.1%	13,188	-0.1%	255,030	1.1%
1993	6,109	1.9%	13,216	0.2%	257,783	1.1%
1994	6,031	-1.3%	13,243	0.2%	260,327	1.0%
1995	6,062	0.5%	13,283	0.3%	262,803	1.0%
1996	6,085	0.4%	13,328	0.3%	265,229	0.9%
1997	6,115	0.5%	13,378	0.4%	267,784	1.0%
1998	6,144	0.5%	13,429	0.4%	270,248	0.9%
1999	6,175	0.5%	13,496	0.5%	272,691	0.9%
2000	6,357	2.9%	13,923	3.2%	281,422	3.2%
2001	6,379	0.3%	14,022	0.7%	284,797	1.2%

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

Note: 1970, 1980, 1990, and 2000 census counts are as of April 1; estimates for other years are as of July 1. Estimates for 1991 to 1999 have not been updated to reflect 2000 Census information, which may result in exaggerated changes in total population between 1999 and 2000.

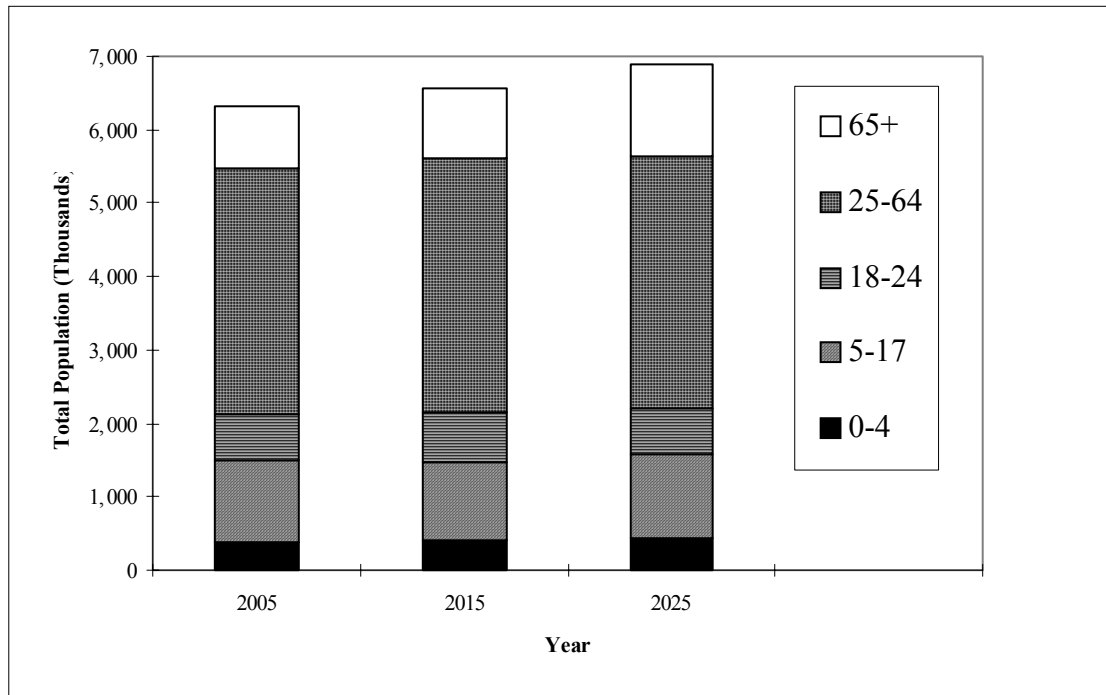
The next fifteen years are expected to bring about a considerable change in the age distribution of the Massachusetts population. As the following table and chart show, the population of Massachusetts is expected to be distributed more heavily in the 65 and over age groups in 2015 and in 2025. The chart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

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

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

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

***Projected Massachusetts Population By Age Group, 2005-2025***



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

**Massachusetts Population by County  
1990 and 2000 Census**

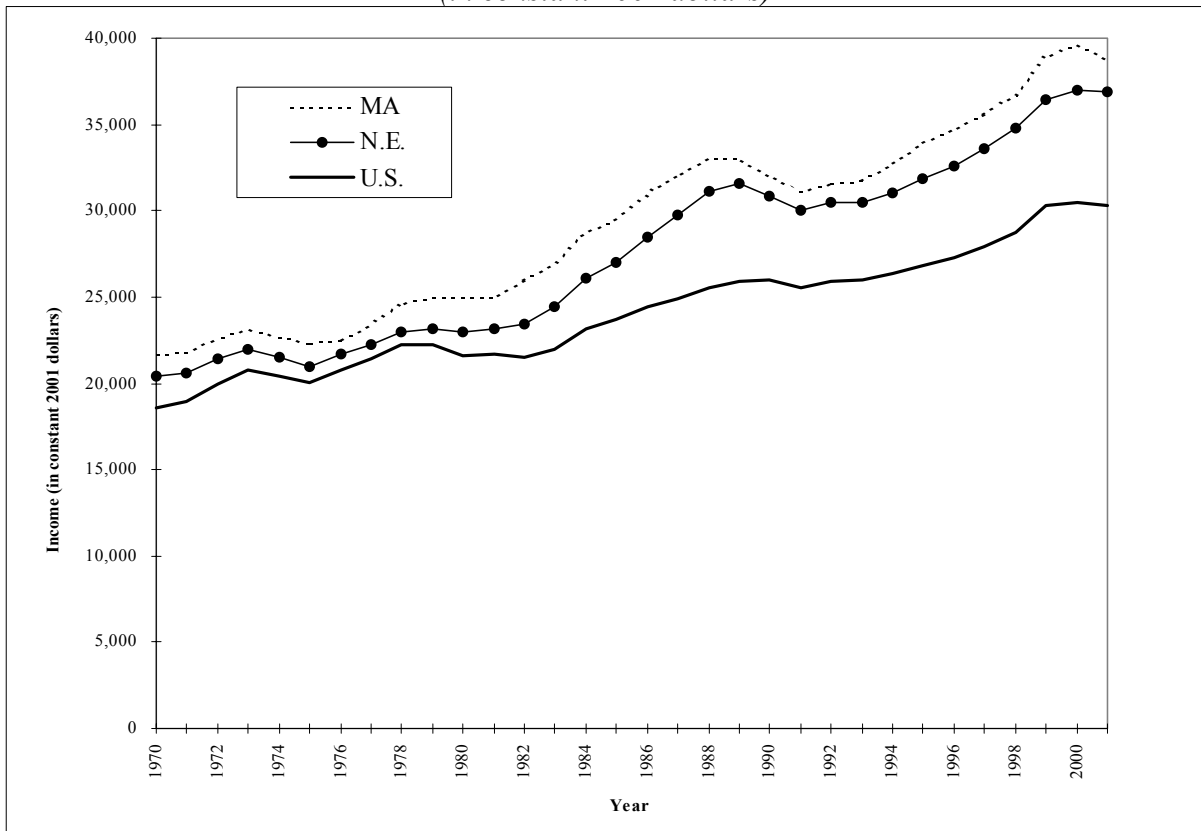
<b>County</b>	<b>1990 Census</b>	<b>2000 Census</b>	<b>% Change 1990-00</b>
Barnstable	186,605	222,230	19.1%
Berkshire	139,352	134,953	-3.2%
Bristol	506,325	534,678	5.6%
Dukes	11,639	14,987	28.8%
Essex	670,080	723,419	8.0%
Franklin	70,092	71,535	2.1%
Hampden	456,310	456,228	0.0%
Hampshire	146,568	152,251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

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

## PERSONAL INCOME, CONSUMER PRICES, AND POVERTY

**Personal Income.** Since 1970, real and nominal per capita income levels have been consistently higher in Massachusetts than in the United States. After growing at an annual rate higher than that for the United States between 1982 and 1988, real income levels in Massachusetts declined between 1989 and 1991. Real per capita income levels in Massachusetts have increased faster than the national average between 1993 and 1997, showing growth rates between 0.3 and 3.8 percent in this period. In 1999 Massachusetts had its highest per capita income growth in 15 years, exceeding the national growth rate by 1.6 percentage points. In 2001(p), nominal and real income in Massachusetts and the United States has shown a slight decline. Even with slight declines in income, both real and nominal income levels in Massachusetts remain well above the national average. Massachusetts had the third highest level of per capita personal income in the United States in 2001(p). The following chart illustrates real per capita personal income in Massachusetts, New England, and the United States since 1970.

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



Note: 2001 figure is a preliminary estimate.

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

### *Per Capita Personal Income, 1970-2001*

<i>Year</i>	<i>Nominal Income (in current dollars)</i>			<i>Real Income (in 2001 dollars)</i>			<i>Percentage Change in Real Income</i>		
	<i>MA</i>	<i>N.E.</i>	<i>U.S.</i>	<i>MA</i>	<i>N.E.</i>	<i>U.S.</i>	<i>MA</i>	<i>N.E.</i>	<i>U.S.</i>
1970	\$4,547	\$4,479	\$4,077	21,660	20,444	18,609			
1971	4,804	4,702	4,327	21,800	20,561	18,921	0.6%	0.6%	1.7%
1972	5,162	5,054	4,699	22,621	21,413	19,909	3.8%	4.1%	5.2%
1973	5,600	5,504	5,211	23,162	21,954	20,785	2.4%	2.5%	4.4%
1974	6,074	5,978	5,676	22,718	21,475	20,390	-1.9%	-2.2%	-1.9%
1975	6,495	6,375	6,100	22,290	20,985	20,080	-1.9%	-2.3%	-1.5%
1976	7,042	6,962	6,690	22,476	21,669	20,822	0.8%	3.3%	3.7%
1977	7,684	7,606	7,334	23,320	22,228	21,433	3.8%	2.6%	2.9%
1978	8,536	8,455	8,196	24,618	22,966	22,262	5.6%	3.3%	3.9%
1979	9,552	9,478	9,118	24,989	23,121	22,242	1.5%	0.7%	-0.1%
1980	10,780	10,705	10,062	24,992	23,008	21,626	0.0%	-0.5%	-2.8%
1981	11,978	11,899	11,144	24,987	23,183	21,712	0.0%	0.8%	0.4%
1982	12,945	12,787	11,715	25,958	23,467	21,500	3.9%	1.2%	-1.0%
1983	14,009	13,748	12,356	26,881	24,445	21,970	3.6%	4.2%	2.2%
1984	15,703	15,319	13,571	28,721	26,112	23,132	6.8%	6.8%	5.3%
1985	16,842	16,420	14,410	29,481	27,026	23,718	2.6%	3.5%	2.5%
1986	18,100	17,610	15,106	30,893	28,456	24,409	4.8%	5.3%	2.9%
1987	19,600	19,075	15,945	32,053	29,738	24,858	3.8%	4.5%	1.8%
1988	21,417	20,810	17,038	33,022	31,153	25,507	3.0%	4.8%	2.6%
1989	22,634	22,103	18,153	33,012	31,568	25,927	0.0%	1.3%	1.6%
1990	23,210	22,741	19,156	31,999	30,814	25,957	-3.1%	-2.4%	0.1%
1991	23,590	23,078	19,623	31,155	30,008	25,516	-2.6%	-2.6%	-1.7%
1992	24,538	24,150	20,547	31,622	30,484	25,936	1.5%	1.6%	1.6%
1993	25,333	24,903	21,220	31,728	30,521	26,007	0.3%	0.1%	0.3%
1994	26,433	25,934	22,056	32,679	30,991	26,357	3.0%	1.5%	1.3%
1995	28,097	27,439	23,059	33,925	31,886	26,796	3.8%	2.9%	1.7%
1996	29,591	28,872	24,164	34,701	32,589	27,275	2.3%	2.2%	1.8%
1997	31,239	30,427	25,288	35,630	33,574	27,903	2.7%	3.0%	2.3%
1998	32,902	32,007	26,482	36,696	34,776	28,773	3.0%	3.6%	3.1%
1999	35,733	34,264	28,518	38,880	36,423	30,315	6.0%	4.7%	5.4%
2000	37,992	35,983	29,676	39,627	37,007	30,520	1.9%	1.6%	0.7%
2001(p)	38,845	36,870	30,271	38,845	36,870	30,271	-2.0%	-0.4%	-0.8%

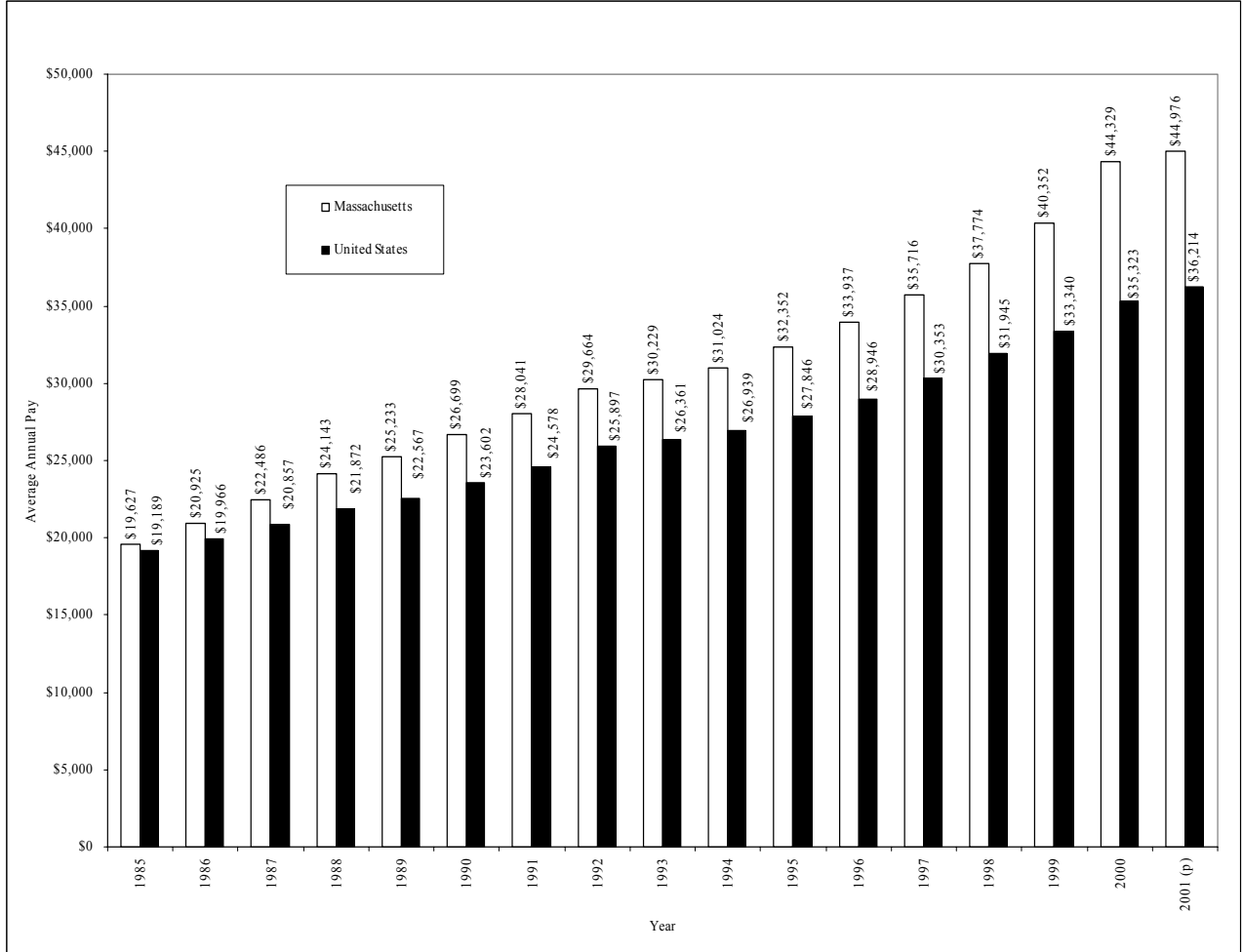
SOURCE: United States Department of Commerce, Bureau of Economic Analysis.

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

(p) = preliminary estimates.

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

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



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

NOTE: 2001 data is calculated using NAICS and therefore is not comparable to earlier data in this series.

(p)= preliminary estimates.



**Median Household Income Estimates, 1995-1998**  
(Small Area Income and Poverty Estimates)

<i>Year</i>	<i>MA</i>	<i>U.S.</i>	<i>Percent MA above U.S.</i>
1995	\$39,025	\$34,076	14.52%
1996	40,686	35,492	14.63%
1997	43,015	37,005	16.24%
1998	44,934	38,885	15.56%

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

**Wage and Salary Disbursements.** Wage and Salary Disbursements by place of work is a component of personal income and measures monetary disbursements to employees. This includes compensation of corporate officers, commissions, tips, bonuses, and receipts in-kind. Although the data is recorded on a place-of-work basis, it is then adjusted to a place-of-residence basis so that the income of the recipients whose place of residence differs from their place of work will be correctly assigned to their state of residence. The table below details Wage and Salary Disbursements since 1990. Since 1991, Massachusetts has accounted for a steadily increasing percentage of the overall New England total and in 2000 it accounted for 51.4 percent.

**Wage and Salary Disbursements, Yearly Averages, 1990-2000**  
(in millions of dollars)

<i>Year</i>	<i>U.S.</i>	<i>N.E.</i>	<i>MA</i>	<i>MA as a pct. of N.E.</i>
1990	\$ 2,743,643	\$171,476	\$83,145	48.5%
1991	2,812,323	170,387	82,342	48.3%
1992	2,974,791	177,918	86,074	48.4%
1993	3,079,080	183,355	89,111	48.6%
1994	3,232,379	190,869	93,272	48.9%
1995	3,421,108	202,237	99,350	49.1%
1996	3,623,084	214,074	105,794	49.4%
1997	3,885,685	230,761	113,977	49.4%
1998	4,189,579	248,473	123,408	49.7%
1999	4,469,290	267,956	134,307	50.1%
2000	4,835,800	294,636	151,352	51.4%

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

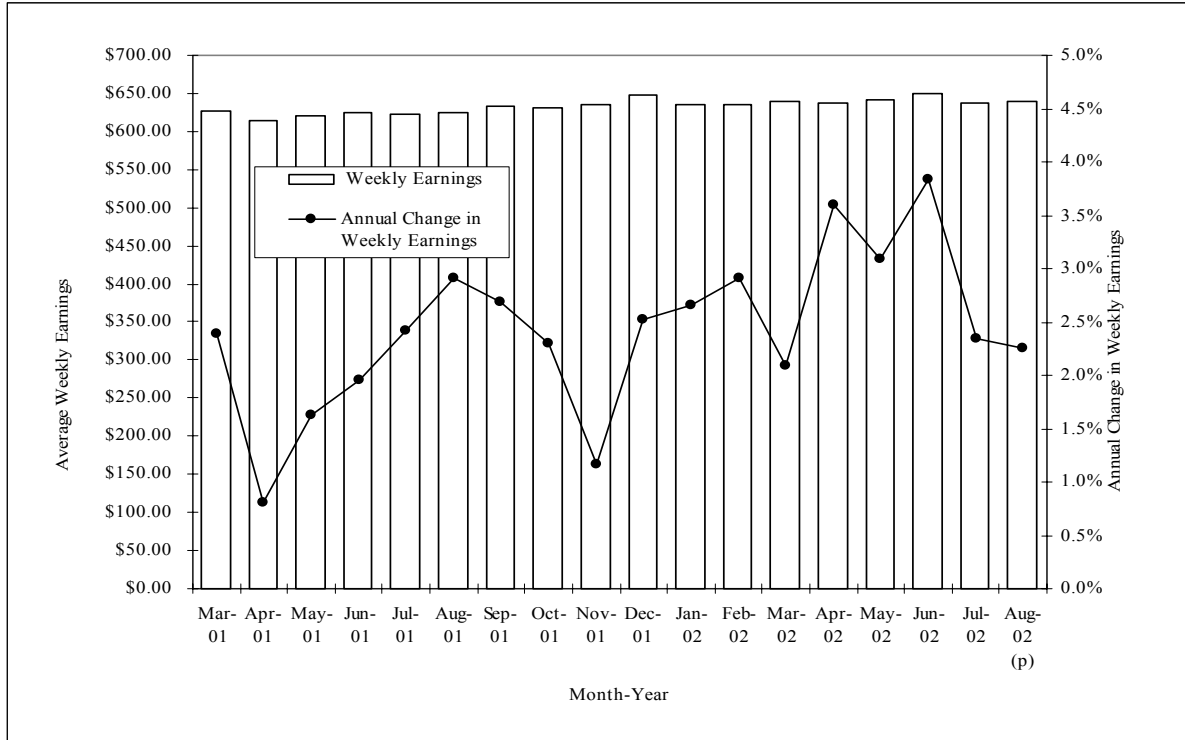
**Manufacturing Hours and Earnings.** Recent increases in manufacturing employment have been accompanied by increases in manufacturing earnings, with weekly earnings in the manufacturing sector growing at a rate of 2.3 percent over the past year. While this growth can be attributed largely to an increase in average hourly earnings (from \$15.41 in August 2001 to \$15.68 in August 2002(p)), it is important to note that employees in the manufacturing sector have averaged 41 or more work hours per week in 6 of the past 18 months. The following table shows average weekly hours, hourly earnings, weekly earnings, and the percentage change in weekly earnings compared to the same month in the previous year. Data are not adjusted to reflect seasonal variations in employment and compensation levels.

***Average Weekly Manufacturing Hours and Earnings in Massachusetts,  
March 2000 – August 2002 (p)  
(not seasonally adjusted)***

<i>Month</i>	<i>Weekly Hours</i>	<i>Hourly Earnings</i>	<i>Weekly Earnings</i>	<i>Annual Change in Weekly Earnings</i>
<b>Mar-01</b>	41.3	\$15.17	\$626.52	2.4%
<b>Apr-01</b>	40.4	15.19	615.20	0.8%
<b>May-01</b>	40.9	15.19	621.27	1.6%
<b>Jun-01</b>	41.0	15.26	625.60	2.0%
<b>Jul-01</b>	40.4	15.39	621.76	2.4%
<b>Aug-01</b>	40.6	15.41	625.65	2.9%
<b>Sep-01</b>	41.9	15.49	633.54	2.7%
<b>Oct-01</b>	40.7	15.50	630.85	2.3%
<b>Nov-01</b>	40.8	15.57	635.26	1.2%
<b>Dec-01</b>	41.4	15.65	647.91	2.5%
<b>Jan-02</b>	40.5	15.66	634.23	2.7%
<b>Feb-02</b>	40.7	15.62	635.73	2.9%
<b>Mar-02</b>	41.0	15.60	639.60	2.1%
<b>Apr-02</b>	40.8	15.62	637.30	3.6%
<b>May-02</b>	40.9	15.66	640.49	3.1%
<b>Jun-02</b>	41.4	15.69	649.57	3.8%
<b>Jul-02</b>	40.4	15.75	636.30	2.3%
<b>Aug-02 (p)</b>	40.8	15.68	639.74	2.3%

SOURCE: United States Department of Labor, Bureau of Labor Statistics.  
(p)=preliminary estimates.

**Average Weekly Manufacturing Earnings in Massachusetts,  
March 2001—August 2002**  
(not seasonally adjusted)



SOURCE: United States Department of Labor, Bureau of Labor Statistics.  
 Note: Vertical axis does not begin at zero.  
 (p)=preliminary estimate.

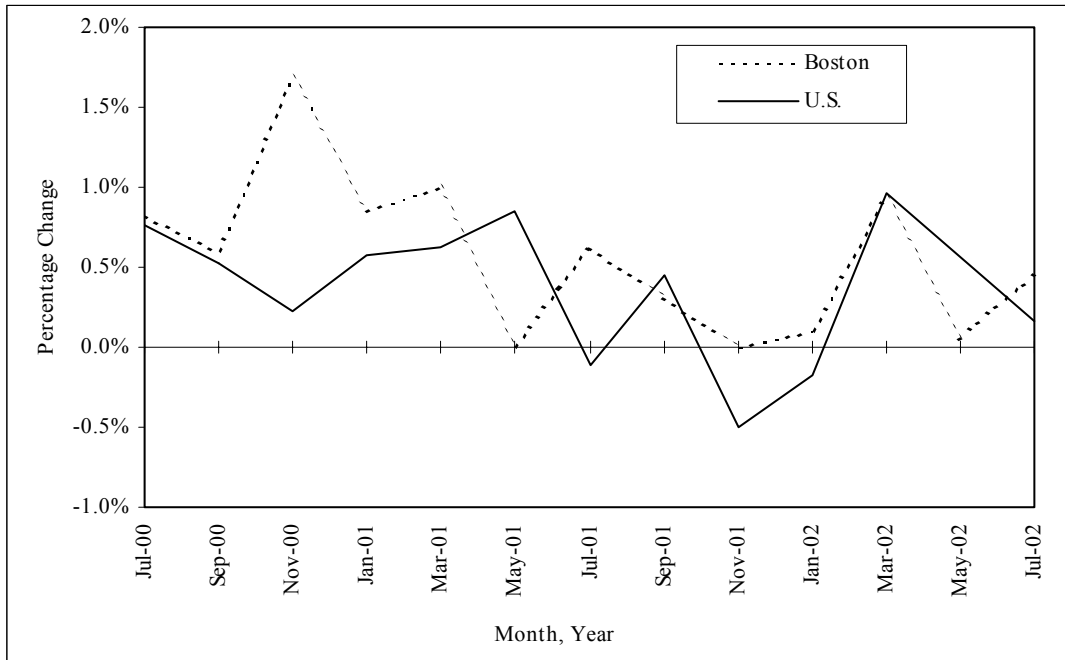
**Consumer Prices.** Higher income levels in Massachusetts relative to the rest of the United States are offset to some extent by the higher cost of living in Massachusetts. The following table presents consumer price trends for the Boston metropolitan area and the United States for the period between 1970 and 2001. Data reflect changes to methodology made by the Bureau of Labor Statistics in January 1998 and indicate the Consumer Price Index for all urban consumers (CPI-U) and the percentage change in the Consumer Price Index for all urban consumers from the previous year. In 2001, the CPI-U for Boston increased 4.3 percent compared to an increase of 2.8 percent for the United States as a whole. The latest available data for July 2002 show that the CPI-U for the Boston metropolitan area grew at a rate of 1.9 percent from July 2001 compared with 1.5 percent for the U.S.

**Consumer Price Index for all Urban Consumers (CPI-U), 1970-2001**  
(1982-1984=100)

<i>Year</i>	<b>Boston</b>		<b>U.S.</b>	
	<i>CPI-U</i>	<i>Pct. Change</i>	<i>CPI-U</i>	<i>Pct. Change</i>
<b>1970</b>	40.2		38.8	
<b>1971</b>	42.2	5.0%	40.5	4.4%
<b>1972</b>	43.7	3.6%	41.8	3.2%
<b>1973</b>	46.3	5.9%	44.4	6.2%
<b>1974</b>	51.2	10.6%	49.3	11.0%
<b>1975</b>	55.8	9.0%	53.8	9.1%
<b>1976</b>	60.0	7.5%	56.9	5.8%
<b>1977</b>	63.1	5.2%	60.6	6.5%
<b>1978</b>	66.4	5.2%	65.2	7.6%
<b>1979</b>	73.2	10.2%	72.6	11.3%
<b>1980</b>	82.6	12.8%	82.4	13.5%
<b>1981</b>	91.8	11.1%	90.9	10.3%
<b>1982</b>	95.5	4.0%	96.5	6.2%
<b>1983</b>	99.8	4.5%	99.6	3.2%
<b>1984</b>	104.7	4.9%	103.9	4.3%
<b>1985</b>	109.4	4.5%	107.6	3.6%
<b>1986</b>	112.2	2.6%	109.6	1.9%
<b>1987</b>	117.1	4.4%	113.6	3.6%
<b>1988</b>	124.2	6.1%	118.3	4.1%
<b>1989</b>	131.3	5.7%	124.0	4.8%
<b>1990</b>	138.9	5.8%	130.7	5.4%
<b>1991</b>	145.0	4.4%	136.2	4.2%
<b>1992</b>	148.6	2.5%	140.3	3.0%
<b>1993</b>	152.9	2.9%	144.5	3.0%
<b>1994</b>	154.9	1.3%	148.2	2.6%
<b>1995</b>	158.6	2.4%	152.4	2.8%
<b>1996</b>	163.3	3.0%	156.9	3.0%
<b>1997</b>	167.9	2.8%	160.5	2.3%
<b>1998</b>	171.7	2.3%	163.0	1.6%
<b>1999</b>	176.0	2.5%	166.6	2.2%
<b>2000</b>	183.6	4.3%	172.2	3.4%
<b>2001</b>	191.5	4.3%	177.1	2.8%
<b>Jul-01</b>	192.1		177.5	
<b>Jul-02</b>	195.7	1.9%	180.1	1.5%

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

***Bi-Monthly Percentage Change in Consumer Price Index  
for all Urban Consumers, July 2000 – July 2002***



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

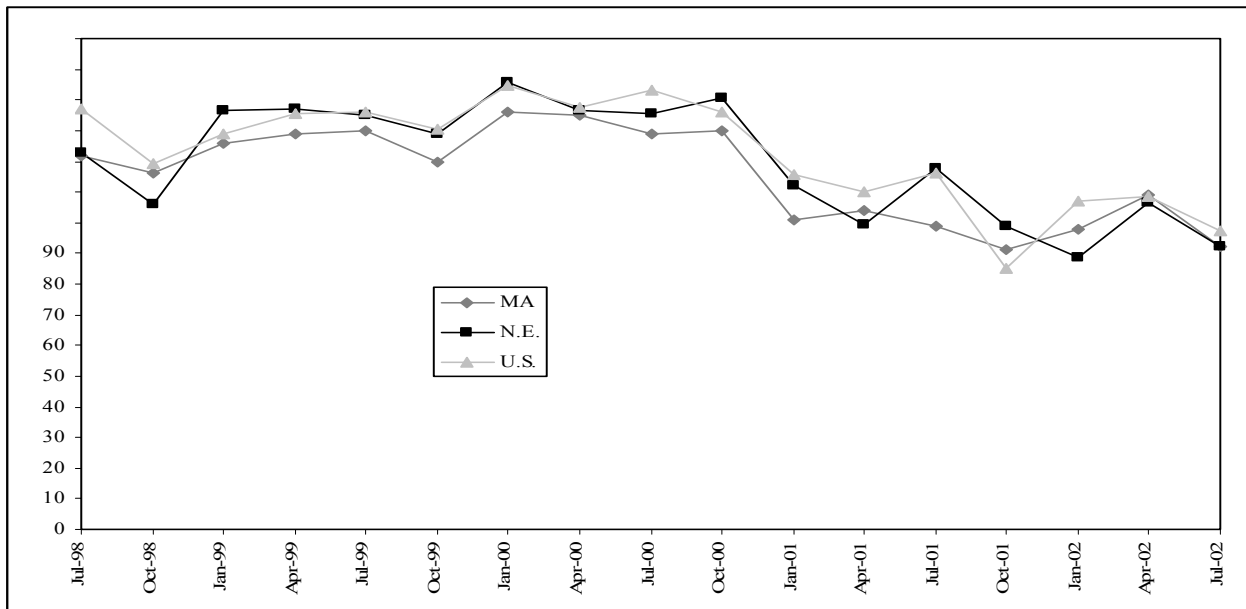
***Consumer Confidence, Present Situation, and Future Expectations.*** These three measures offer different insight into consumer attitudes. The U.S. and New England measures are compiled from a national monthly survey of 5,000 households and are published by The Conference Board, Inc. The measures for Boston are conducted in a similar manner and published by the New England Economic Project (NEEP), based on the polling of 500 adult residents of Massachusetts. “Consumer confidence” is a measure of consumer optimism regarding overall economic conditions. “Future expectations” focuses on consumers’ attitudes regarding business conditions, employment, and employment income for the coming six months. “Present situation” measures the same attitudes as future expectations but at the time of the survey. Although the U.S. and the New England measures are compiled by a different source than the Boston measures, according to the Federal Reserve Bank of Boston the numbers are generally comparable. The following table and chart detail these three measures since 1998.

**Tri-Monthly Consumer Confidence, Present Situation, and Future Expectations  
for Massachusetts, New England, and the U.S., 1998 – 2002**  
(Not Seasonally Adjusted, except United States (1985=100))

	<i>Consumer Confidence</i>			<i>Present Situation</i>			<i>Future Expectations</i>		
	<i>MA</i>	<i>N.E.</i>	<i>U.S.</i>	<i>MA</i>	<i>N.E.</i>	<i>U.S.</i>	<i>MA</i>	<i>N.E.</i>	<i>U.S.</i>
<b>Jul-98</b>	122.0	122.7	137.2	145.0	166.9	172.9	107.0	93.2	113.4
<b>Oct-98</b>	116.0	106.1	119.3	141.0	170.4	165.2	101.0	63.3	88.7
<b>Jan-99</b>	126.0	136.8	128.9	148.0	173.2	172.9	111.0	112.6	99.6
<b>Apr-99</b>	129.0	136.9	135.5	148.0	185.4	175.5	116.0	104.6	108.8
<b>Jul-99</b>	130.0	135.1	136.2	150.0	194.9	179.2	116.0	95.3	107.6
<b>Oct-99</b>	120.0	128.8	130.5	154.0	181.6	173.9	98.0	93.6	101.5
<b>Jan-00</b>	136.0	145.9	144.7	151.0	193.1	183.1	125.0	114.5	119.1
<b>Apr-00</b>	135.0	136.5	137.7	155.0	195.7	179.8	122.0	97.0	109.7
<b>Jul-00</b>	129.0	135.4	143.0	156.0	196.9	186.8	111.0	94.4	113.7
<b>Oct-00</b>	130.0	140.7	135.8	157.0	195.5	176.8	111.0	104.1	108.4
<b>Jan-01</b>	101.0	111.9	115.7	139.0	173.9	170.4	76.0	70.5	79.3
<b>Apr-01</b>	104.0	99.5	109.9	124.0	161.7	156.0	91.0	58.0	79.1
<b>Jul-01</b>	99.0	117.5	116.3	108.0	170.8	151.3	93.0	82.0	92.9
<b>Oct-01</b>	91.0	98.6	85.3	94.0	105.6	107.2	90.0	64.0	70.7
<b>Jan-02</b>	97.8	88.5	107.0	98.1	85.5	72.0	97.6	90.5	130.0
<b>Apr-02</b>	109.0	106.7	108.5	84.0	115.5	106.8	125.0	100.8	109.6
<b>Jul-02</b>	92.0	92.4	97.4	68.0	96.3	99.4	108.0	89.9	96.1

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

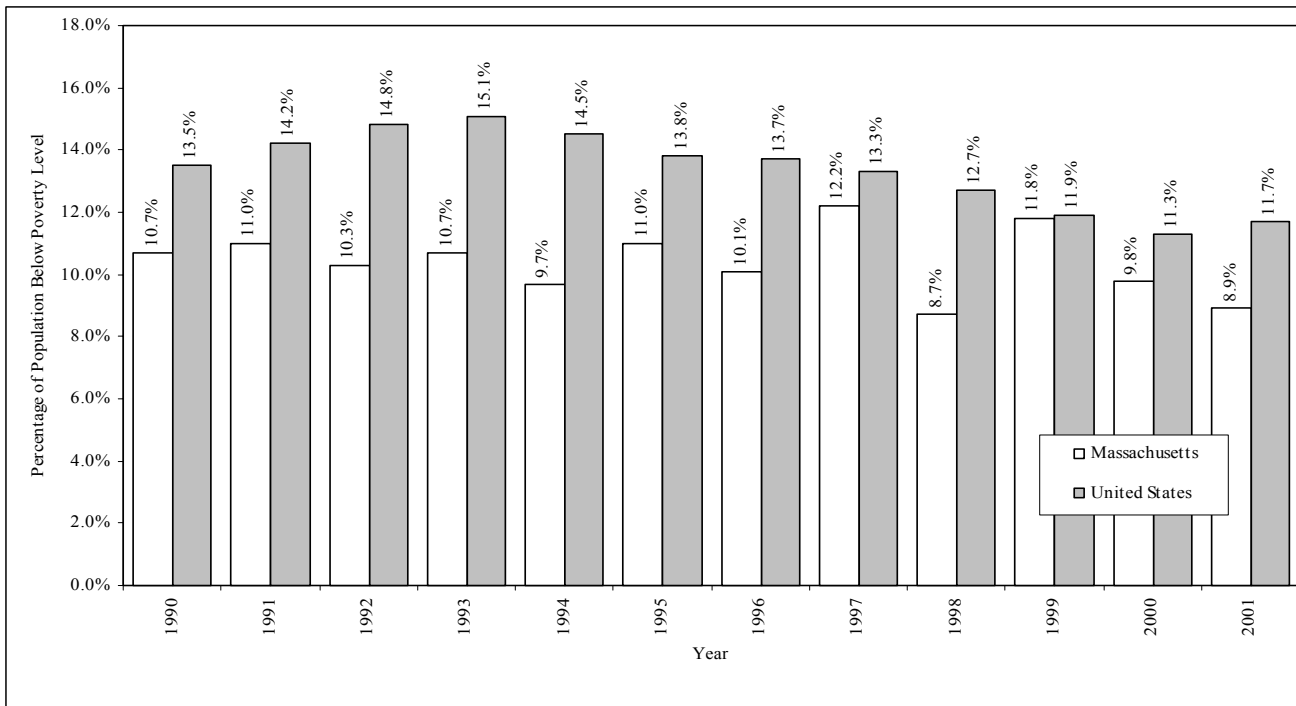
**Consumer Confidence for Massachusetts, New England, and the U.S.  
July 1998 - July 2002**  
(Not Seasonally Adjusted, except United States (1985=100))



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

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

### Poverty Rate, 1990-2001



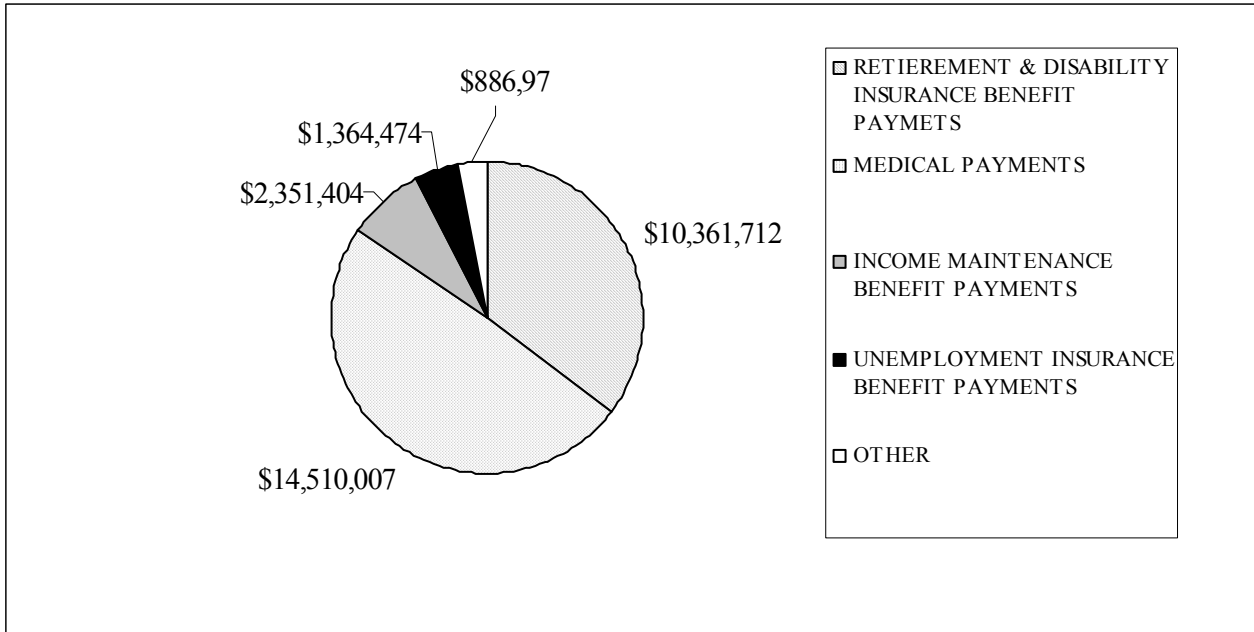
SOURCE: United States Department of Commerce, Bureau of the Census.

### Estimates for Related Children, Age 5-17, in Families in Poverty for U.S. and Massachusetts, 1995-1998 (Small Area Income and Poverty Estimates)

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

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

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



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

Note: The category "other" includes payments for: veterans benefit payments, federal education and training assistance payments, and other payments to individuals.

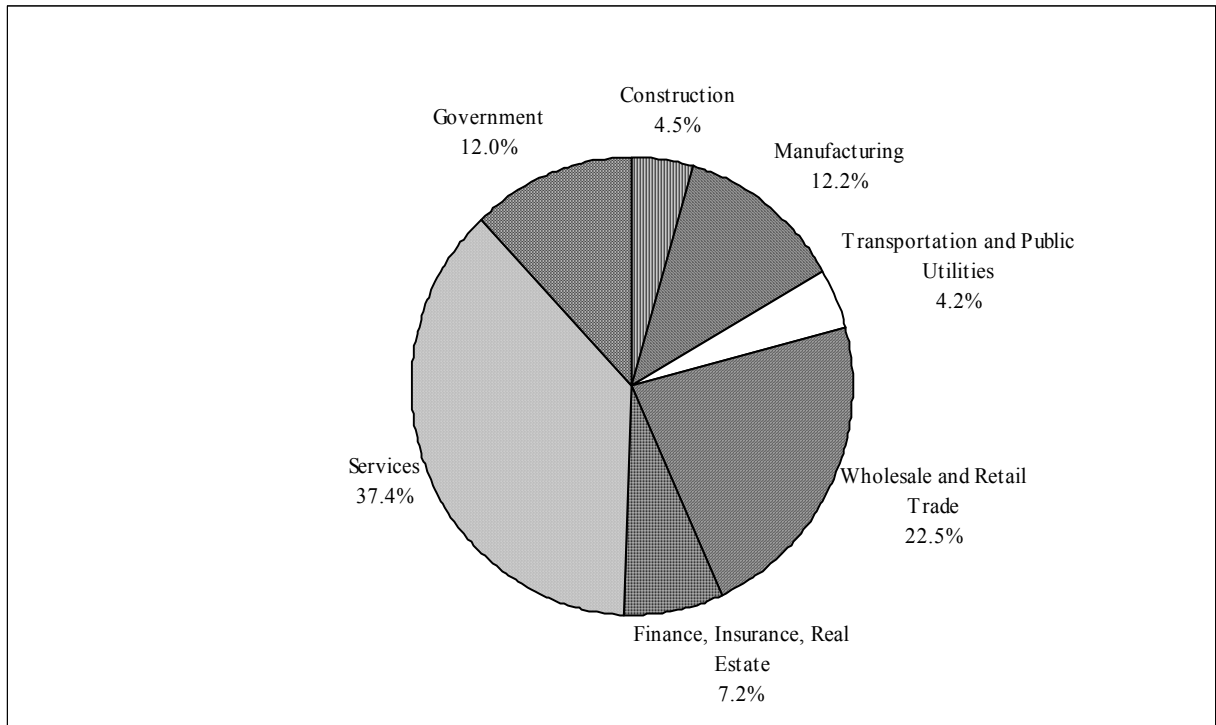
***Transfer Payments to Individuals.*** Transfer payment income is payment to individuals from the federal government for which no current services are performed. They are payments by government to individuals and nonprofit institutions serving individuals. These payments accounted for more than 13 percent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



## EMPLOYMENT

**Employment by Industry.** The Massachusetts services sector, with 37.4 percent of the non-agricultural work force in August 2002(p), is the largest employment sector in the Massachusetts economy, followed by wholesale and retail trade (22.5 percent), manufacturing (12.2 percent), and government (12.0 percent). The following chart shows the distribution of non-agricultural employment by industry in Massachusetts for August 2002 (preliminary).

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



SOURCE: Massachusetts Division of Employment and Training.

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

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

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

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

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

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

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

Employment Sector	August 2001	Pct. of Total	August 2002	Pct. of Total	Pct. Change Aug. 2001-Aug. 2002
Mining	1.6	0.0%	1.6	0.0%	0.0%
Construction	144.7	4.4%	146.9	4.5%	1.5%
Manufacturing	418.0	12.6%	399.8	12.2%	-4.4%
Transportation and Public Utilities	142.3	4.3%	136.1	4.2%	-4.4%
Wholesale and Retail Trade	751.8	22.6%	735.7	22.5%	-2.1%
Finance, Insurance, Real Estate	235.3	7.1%	235.4	7.2%	0.0%
Services	1,231.3	37.1%	1,223.9	37.4%	-0.6%
Government	396.2	11.9%	391.4	12.0%	-1.2%
<b>Total Employment</b>	<b>3,321.2</b>	<b>100.0%</b>	<b>3,270.8</b>	<b>100.0%</b>	<b>-1.5%</b>

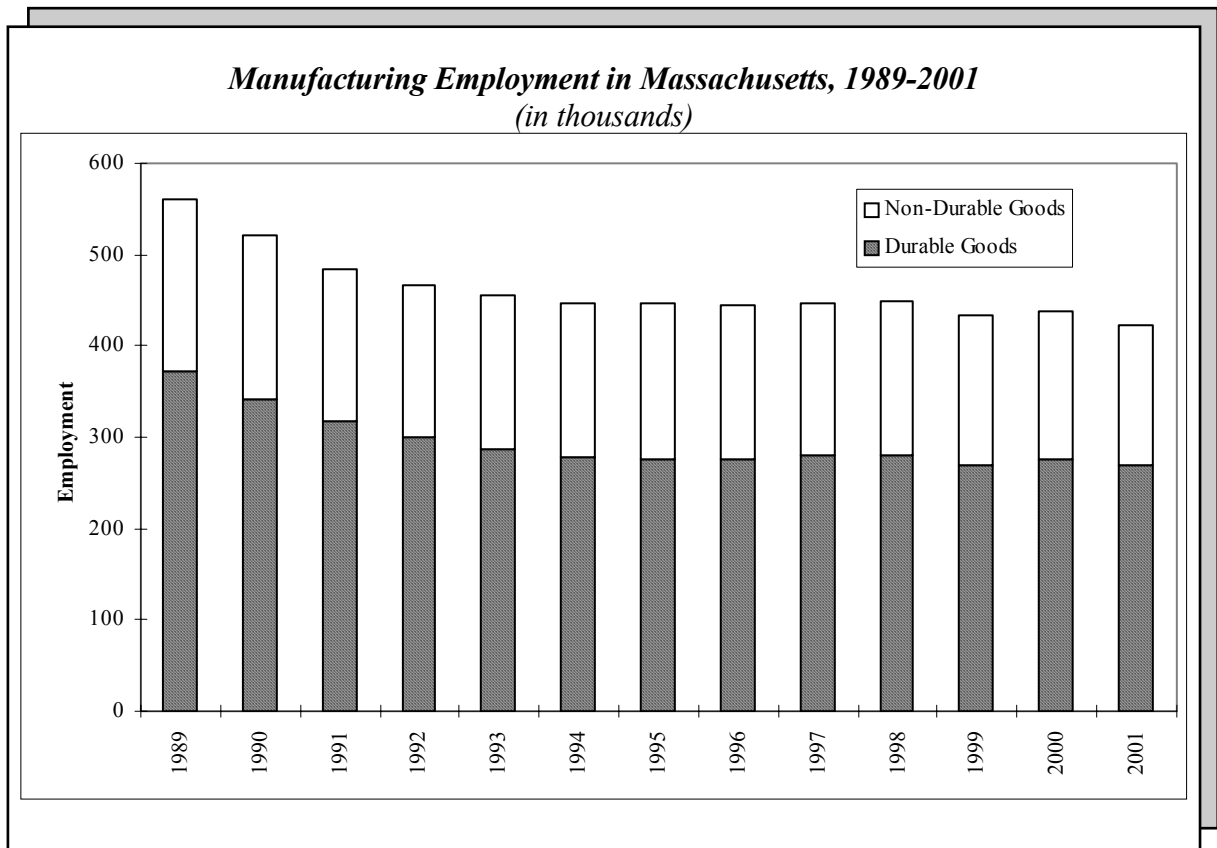
SOURCE: Massachusetts Division of Employment and Training.

Notes: 2002 figures are preliminary and subject to revision. Sum of the parts may not equal totals due to rounding. Figures are not seasonally adjusted.

**Services Employment.** The services sector is the largest sector in the Massachusetts economy in terms of number of employees. This sector includes the categories of health services, business services, educational services, engineering and management services, and social services. After moderate declines in 1990 and 1991, employment levels in the services sector reached consecutive new highs in each year between 1993 and 2001. Between August 2001 and August 2002, the services sector saw a decrease in employment of 0.6 percent, and in August 2002, services sector employment (not seasonally adjusted) was 1,223,900, representing 37.4 percent of total non-agricultural employment.

**Wholesale and Retail Trade Employment.** In the mid-1980s the trade sector was an area of strong job growth, boosted by a growing export sector. Trade employment declined between 1990 and 1992 but has increased in eight of the last nine years. In August 2002, wholesale and retail trade was the second largest employment sector in Massachusetts with 735,700 employees, 2.1 percent below August 2001 levels.

**Manufacturing Employment.** Like many industrial states, Massachusetts has seen a steady diminution of its manufacturing jobs base over the last decade. Total employment in the manufacturing sector declined in every year between 1984 and 1996, falling a total of 33.4 percent. Recent growth rates have fluctuated with 1997, 1998, and 2000 showing small improvements and 1999 and 2001 showing the largest declines since 1992. Between August 2001 and August 2002, manufacturing employment declined 4.4 percent.



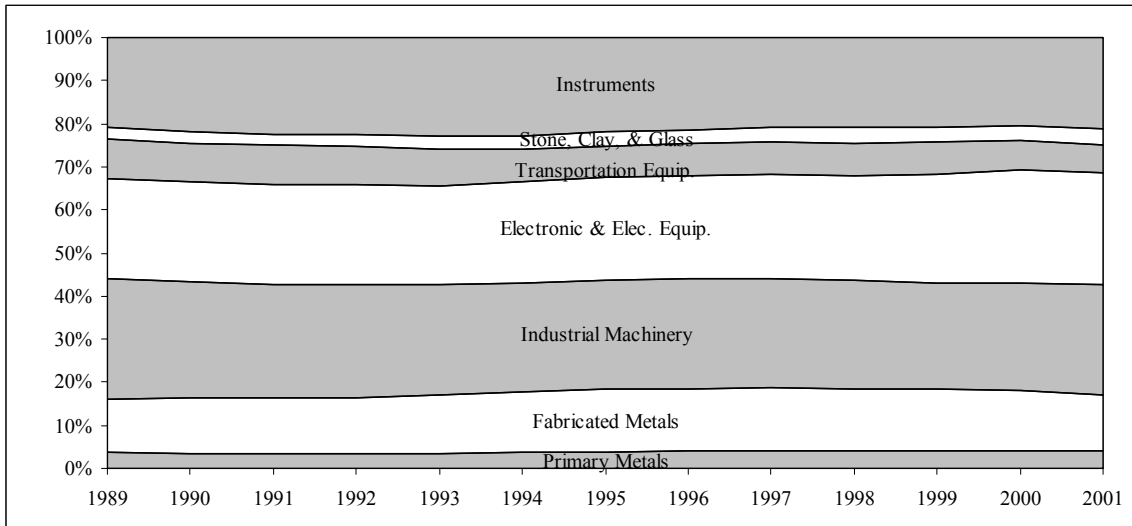
**Manufacturing Establishment Employment by Industry in Massachusetts, 1989-2001**  
(selected industries, in thousands)

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

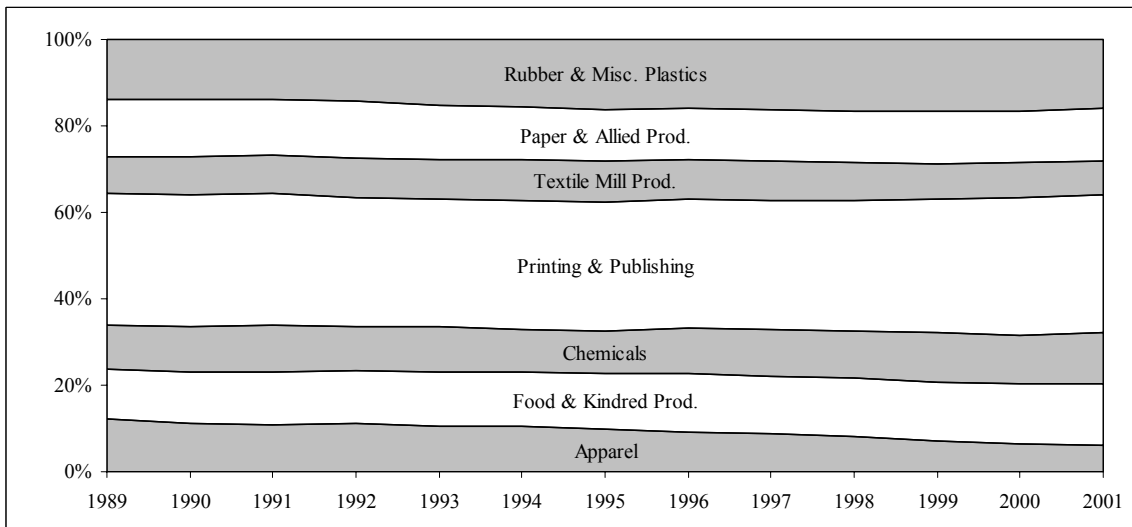
SOURCE: Massachusetts Division of Employment and Training.

**Percentage of Manufacturing Employment by Industry,  
Durable and Non-durable Goods 1989-2001**  
(selected industries)

*Durable Goods*



*Non-Durable Goods*



SOURCE: Massachusetts Division of Employment and Training

**Government Employment.** Federal, state, and local government employment declined 1.2 percent over the last year and employed 391,400 workers in August 2002, which accounted for 12.0 percent of total non-agricultural employment in Massachusetts.

**Finance, Insurance, and Real Estate Employment.** While the Finance, Insurance and Real Estate sector experienced 23.7 percent growth in employment between 1984 and 1988, there was an 11.2 percent decline in employment between 1988 and 1992. Since that time, the sector has experienced modest annual growth rates. With an increase of 2.2 percent in 1998 and a 3.7 increase in 1999, employment levels in this sector rose above 1988 levels for the first time. As of August 2002, total employment in the FIRE sector was 235,400, a slight increase from August 2001.

**Construction Employment.** Fueled by the general growth of the rest of the Massachusetts economy, employment in the construction industry experienced dramatic growth in the first part of the 1980s, increasing by more than 80 percent between 1982 and 1988. This trend reversed direction between 1988 and 1992, when employment in the construction industry declined nearly 50 percent. Increased economic growth in the Massachusetts economy since 1993 has contributed to a rebound in employment levels in the construction industry, which grew at annual rates in excess of 4 percent between 1993 and 2001. In August 2002, the construction sector employed 146,900 people, an increase of 1.5 percent over August 2001 levels.

**Largest Employers in Massachusetts.** The following table lists the twenty-five largest employers in Massachusetts based upon employment data for June 2001. The compiled list excludes government agencies but does include non-profit organizations. New to this list is the Children's Hospital Corporation which replaces the Marsh & McLennan Company.

***Twenty-five Largest Massachusetts Employers in June 2001  
(Listed Alphabetically)***

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

SOURCE: Massachusetts Division of Employment and Training.

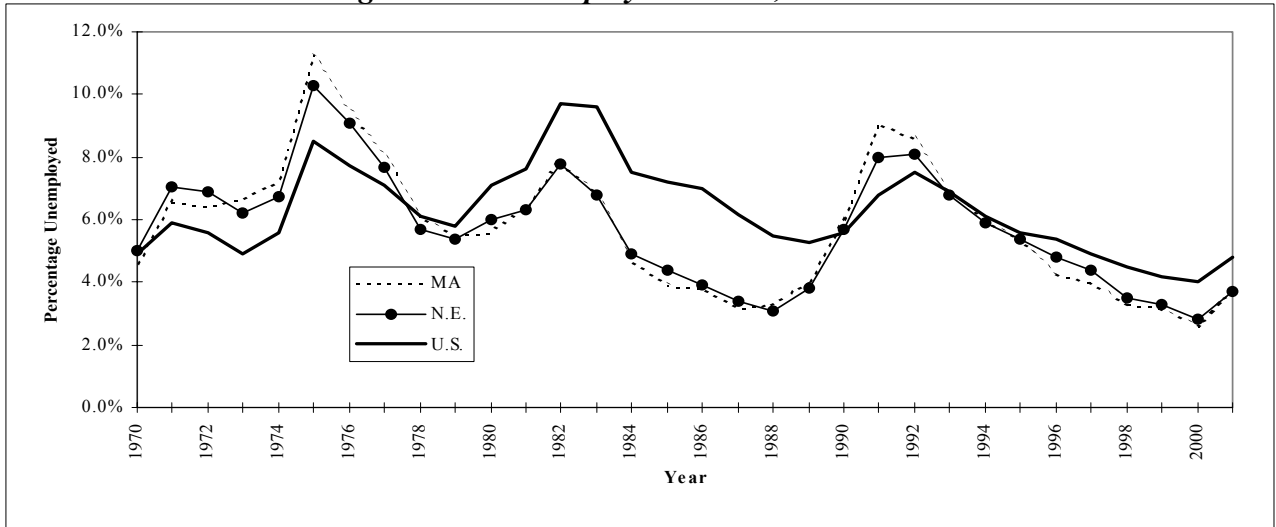
**Unemployment.** While the Massachusetts unemployment rate was significantly lower than the national average between 1979 and 1989, the economic recession of the early 1990s caused unemployment rates in Massachusetts to rise significantly above the national average. However, the economic recovery that began in 1993 has caused unemployment rates in Massachusetts to decline faster than the national average. As a result, since 1994 the unemployment rate in Massachusetts has been below the national average. The following table compares the annual civilian labor force, the number unemployed, and unemployment rate averages of Massachusetts, the New England states, and the United States between 1970 and 2001.

**Annual Average Civilian Labor Force and Unemployment, 1970-2001**  
(in thousands)

Year	Civilian Labor Force			Unemployed			Unemployment Rate			MA Rate as Pct. of U.S.
	MA	N.E.	U.S.	MA	N.E.	U.S.	MA	N.E.	U.S.	
1970	2,458	5,129	82,771	114	256	4,093	4.6%	5.0%	4.9%	93.9%
1971	2,447	5,157	84,382	161	364	5,016	6.6%	7.1%	5.9%	111.9%
1972	2,475	5,261	87,034	160	363	4,882	6.4%	6.9%	5.6%	114.3%
1973	2,549	5,387	89,429	171	336	4,365	6.7%	6.2%	4.9%	136.7%
1974	2,622	5,512	91,949	189	369	5,156	7.2%	6.7%	5.6%	128.6%
1975	2,700	5,634	93,775	306	581	7,929	11.2%	10.3%	8.5%	131.8%
1976	2,727	5,717	96,158	259	519	7,406	9.5%	9.1%	7.7%	123.4%
1977	2,753	5,816	99,009	223	447	6,991	8.1%	7.7%	7.1%	114.1%
1978	2,816	5,908	102,251	171	340	6,202	6.1%	5.7%	6.1%	100.0%
1979	2,871	6,100	104,962	159	332	6,137	5.5%	5.4%	5.8%	94.8%
1980	2,867	6,167	106,940	162	367	7,637	5.6%	6.0%	7.1%	78.9%
1981	2,947	6,260	108,670	187	397	8,273	6.4%	6.3%	7.6%	83.4%
1982	2,993	6,339	110,204	237	495	10,678	7.9%	7.8%	9.7%	81.3%
1983	2,977	6,365	111,550	205	434	10,717	6.9%	6.8%	9.6%	71.5%
1984	3,047	6,549	113,544	145	318	8,539	4.8%	4.9%	7.5%	63.5%
1985	3,051	6,632	115,461	120	292	8,312	3.9%	4.4%	7.2%	54.2%
1986	3,056	6,721	117,834	118	265	8,237	3.8%	3.9%	7.0%	54.3%
1987	3,086	6,829	119,865	99	229	7,425	3.2%	3.4%	6.2%	51.8%
1988	3,155	6,914	121,669	103	216	6,701	3.3%	3.1%	5.5%	60.1%
1989	3,180	6,998	123,869	127	269	6,528	4.0%	3.8%	5.3%	76.2%
1990	3,228	7,147	125,840	195	408	7,047	6.0%	5.7%	5.6%	107.1%
1991	3,162	7,082	126,346	286	569	8,628	9.1%	8.0%	6.8%	133.8%
1992	3,145	7,057	128,105	269	568	9,613	8.6%	8.1%	7.5%	114.7%
1993	3,164	7,025	129,200	219	479	8,940	6.9%	6.8%	6.9%	100.0%
1994	3,173	6,964	131,056	191	412	7,996	6.0%	5.9%	6.1%	98.4%
1995	3,164	6,955	132,304	170	373	7,404	5.4%	5.4%	5.6%	96.4%
1996	3,174	6,996	133,943	137	335	7,236	4.3%	4.8%	5.4%	79.6%
1997	3,260	7,121	136,297	131	314	6,739	4.0%	4.4%	4.9%	81.6%
1998	3,273	7,113	137,673	109	250	6,210	3.3%	3.5%	4.5%	73.3%
1999	3,275	7,171	139,368	105	236	5,880	3.2%	3.3%	4.2%	76.2%
2000	3,237	7,194	140,863	86	199	5,655	2.6%	2.8%	4.0%	65.0%
2001	3,284	7,212	141,815	121	264	6,742	3.7%	3.7%	4.8%	77.1%

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

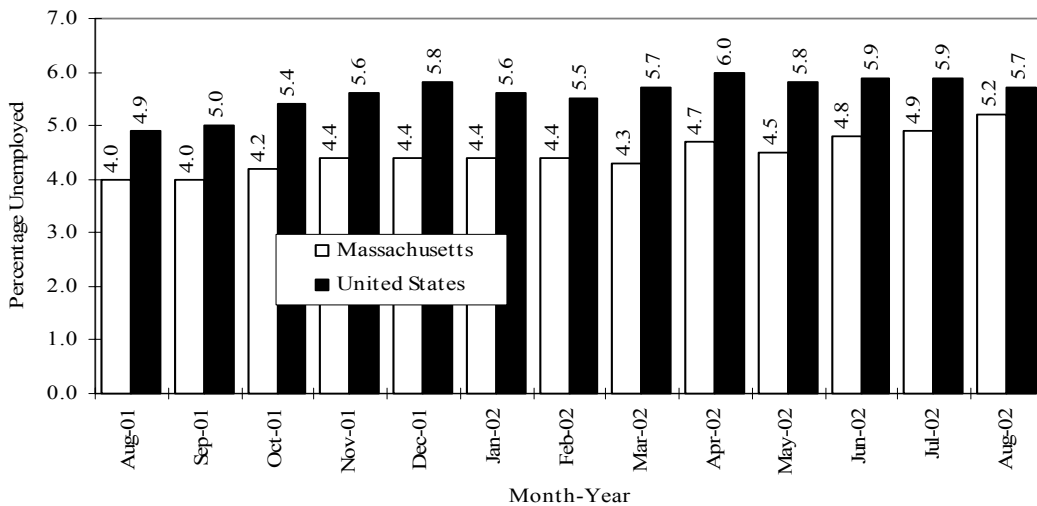
### Average Annual Unemployment Rate, 1970-2001



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

The unemployment rate in Massachusetts has been consistently below that of the United States over the past twelve months. Unemployment levels in the United States as a whole and in the New England region have shown similar patterns in the last year. The unemployment rate in Massachusetts increased from 4.0 percent in August of 2001 to 5.2 percent in August of 2002, and the United States unemployment rate also increased from 4.9 percent to 5.7 percent between these same months. The following chart shows the unemployment rates for Massachusetts and the United States for each of the past twelve months.

### Monthly Unemployment Rate, August 2001—August 2002 (seasonally adjusted)



SOURCE: Massachusetts Division of Employment and Training.



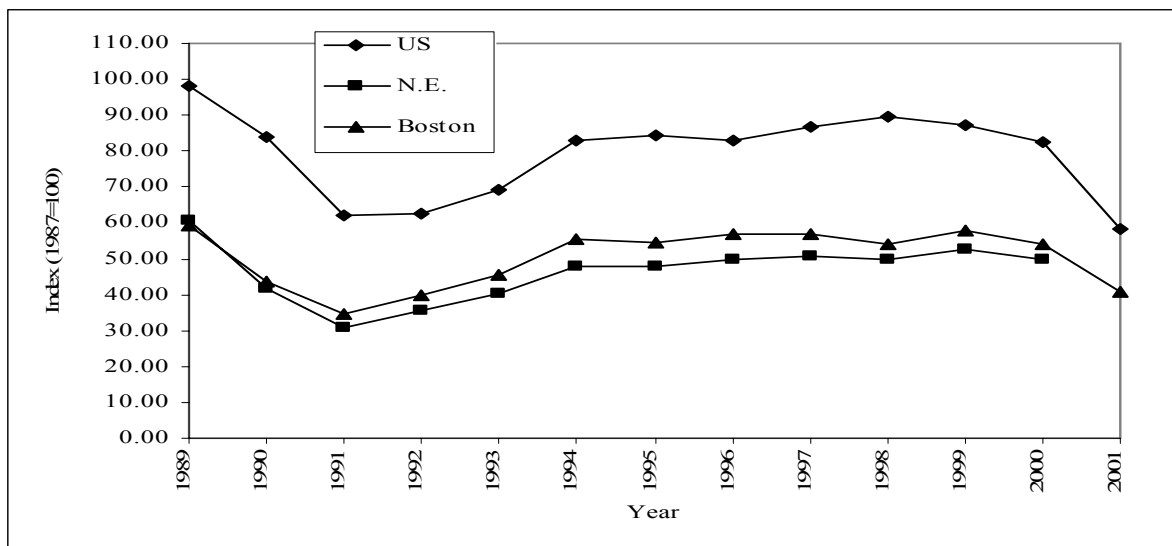
**Help Wanted Advertising Index, 1989-2001**  
(Seasonally Adjusted), 1987=100)

	US	% Change	N.E.	% Change	Boston	% Change
<b>1989</b>	98.00		60.83		59.50	
<b>1990</b>	83.83	-14.46%	41.50	-31.78%	43.50	-26.89%
<b>1991</b>	62.00	-26.04%	31.00	-25.30%	34.67	-20.31%
<b>1992</b>	62.50	0.81%	35.75	15.32%	39.92	15.14%
<b>1993</b>	69.42	11.07%	40.25	12.59%	45.42	13.78%
<b>1994</b>	82.92	19.45%	48.08	19.46%	55.42	22.02%
<b>1995</b>	84.25	1.61%	47.75	-0.69%	54.50	-1.65%
<b>1996</b>	83.17	-1.29%	49.75	4.19%	56.83	4.28%
<b>1997</b>	87.00	4.61%	50.58	1.68%	56.67	-0.29%
<b>1998</b>	89.42	2.78%	50.00	-1.15%	54.00	-4.71%
<b>1999</b>	87.25	-2.42%	52.42	4.83%	57.83	7.10%
<b>2000</b>	82.42	-5.54%	50.00	-4.61%	54.08	-6.49%
<b>2001</b>	58.25	-29.33%	37.65	-24.70%	40.92	-24.33%
<b>Dec-00</b>	79.00		50.00		57.00	
<b>Dec-01</b>	47.00	-40.51%	30.00	-40.00%	34.00	-40.35%

SOURCE: The Conference Board, Inc.

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

**Help Wanted Advertising Index, 1989-2001**

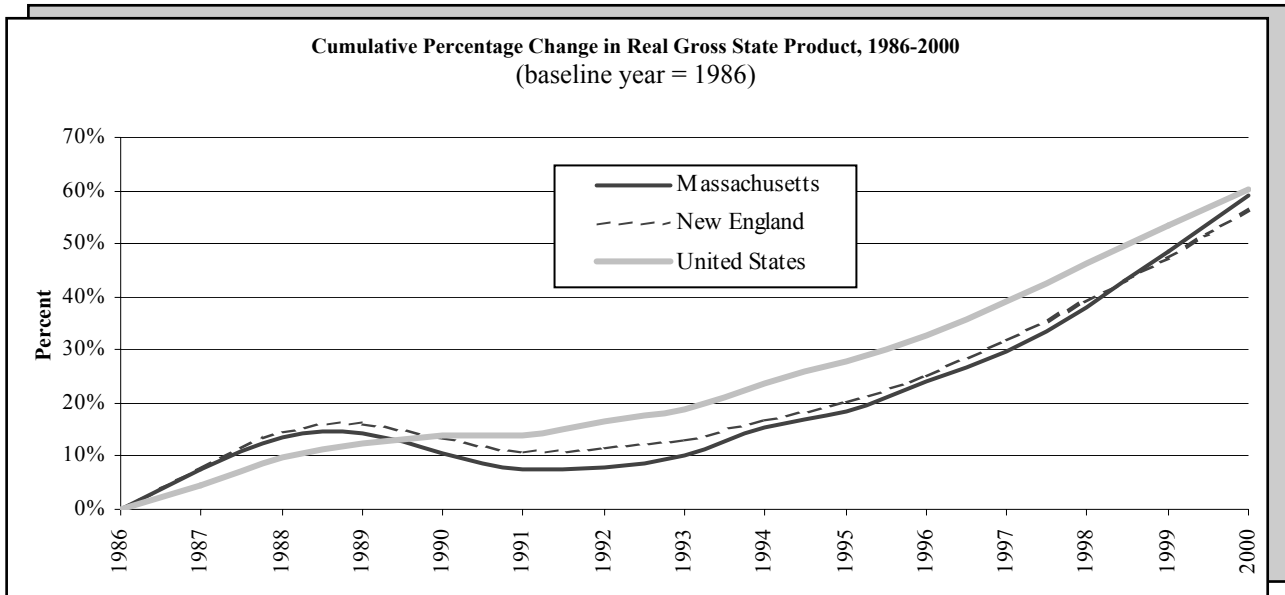


SOURCE: The Conference Board, Inc.

***Unemployment Compensation Trust Fund.*** The unemployment insurance system is a federal-state cooperative program established by the Social Security Act and the Federal Unemployment Tax Act to provide for the payment of benefits to eligible individuals when they are unemployed through no fault of their own. Benefits are paid from the Commonwealth's Unemployment Compensation Trust Fund, financed through employer contributions. The assets and liabilities of the Commonwealth Unemployment Compensation Trust Fund are not assets and liabilities of the Commonwealth. As of August 31, 2002, the private contributory sector of the Massachusetts Unemployment Trust Fund had a surplus of \$1.209 billion, and the Division of Employment and Training's August 2002 quarterly report indicates that the contributions provided by current law should result in trust fund system reserves of \$1.543 billion by the end of 2006.

## ECONOMIC BASE AND PERFORMANCE

In 1987 and 1988, the economies of Massachusetts and New England were among the strongest performers in the nation, with growth rates considerably higher than those for the national economy as a whole. Between 1989 and 1992, however, Massachusetts and New England experienced growth rates significantly below the national average. From 1992 to 1997, growth rates in Massachusetts and New England tracked the U.S. growth rate quite closely. In 1999 and 2000, the economies of both the Commonwealth and the region grew at a faster pace than the nation as a whole. However, both the U.S. and Massachusetts experienced slower growth in 2000 than in 1999, while New England's growth accelerated. Over the last decade, growth of the Massachusetts economy has averaged 3.8 percent, while New England and the nation have experienced average growth of 3.3 percent and 3.5 percent, respectively. The Massachusetts economy is the largest in New England, making up an average of 47.6 percent of New England's total Gross State Product and an average of 2.7 percent of the nation's economy over the past decade.



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

**Gross State Product, 1986-2000**  
(millions of chained 1996 dollars)

Year	Massachusetts		New England		United States	
	GSP	Percentage Change	GSP	Percentage Change	Total GSP	Percentage Change
1986	\$169,338		\$350,747		\$5,816,661	
1987	181,855	7.4%	378,136	7.8%	6,072,815	4.4%
1988	192,255	5.7%	401,698	6.2%	6,386,132	5.2%
1989	193,839	0.8%	407,229	1.4%	6,538,634	2.4%
1990	187,125	-3.5%	398,368	-2.2%	6,630,740	1.4%
1991	181,855	-2.8%	388,577	-2.5%	6,615,685	-0.2%
1992	182,789	0.5%	391,385	0.7%	6,774,505	2.4%
1993	186,680	2.1%	397,470	1.6%	6,918,388	2.1%
1994	195,171	4.5%	410,014	3.2%	7,203,002	4.1%
1995	200,537	2.7%	422,524	3.1%	7,433,965	3.2%
1996	210,127	4.8%	439,596	4.0%	7,715,901	3.8%
1997	219,716	4.6%	463,498	5.4%	8,093,396	4.9%
1998	233,981	6.5%	488,637	5.4%	8,502,663	5.1%
1999	251,482	7.5%	517,174	5.8%	8,915,954	4.9%
2000	269,308	7.1%	549,304	6.2%	9,314,279	4.5%

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

The commercial base of Massachusetts is anchored by the thirteen 2002 *Fortune* 500 industrial and service firms with headquarters within the state, as the following table indicates. The *Fortune* 500 firms are ranked according to total revenues in 2001. All but one of the companies listed in the 2001 *Fortune* 500 are also on the 2002 list, with Thermo Electron dropping off the list to number 522 while Nstar ascended to number 481. Fleet Bank lost its top ranking in Massachusetts as Mass. Mutual's revenues increased by \$8 billion to vault the company into the leading slot.

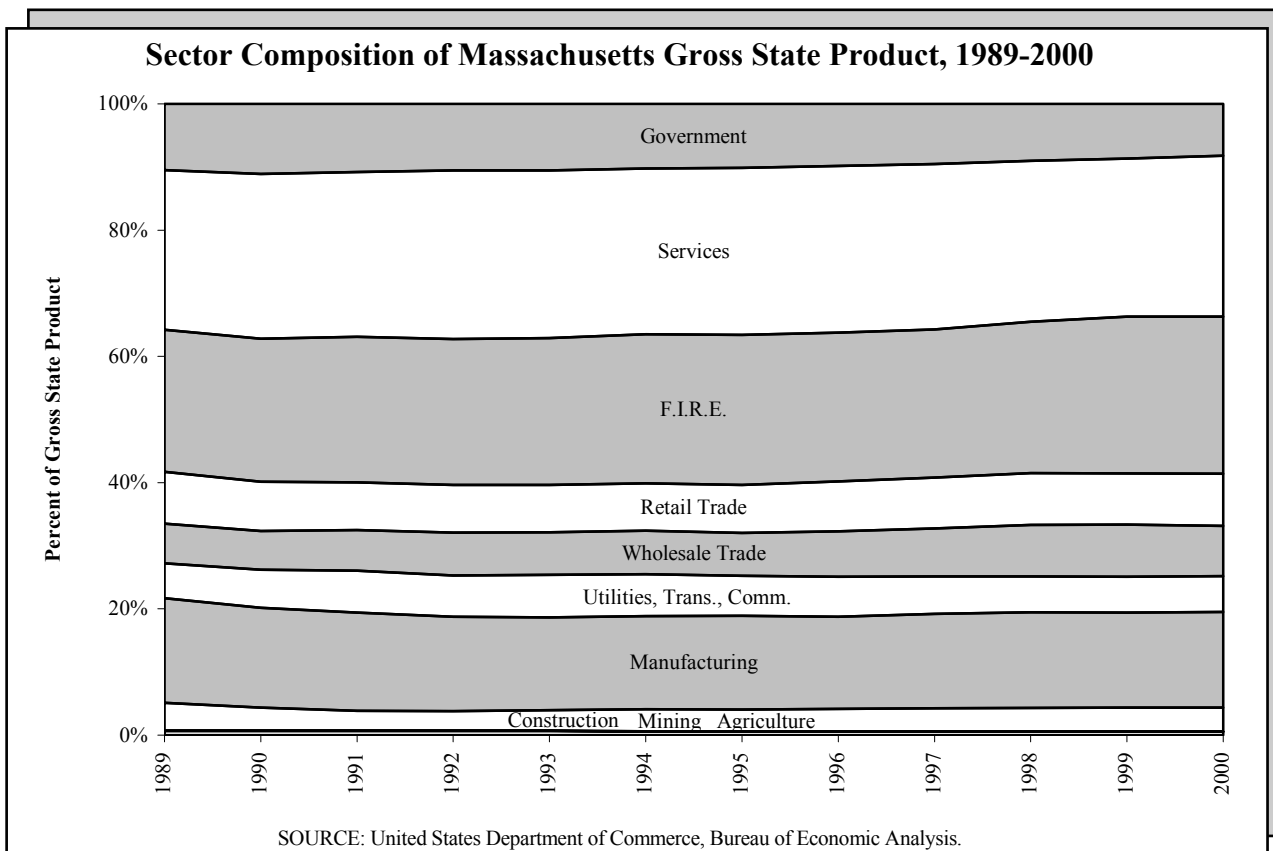
<b>Massachusetts Companies in the 2002 Fortune 500, By Rank</b>				
<b>2002</b>	<b>2001</b>	<b>Company</b>	<b>Industry</b>	<b>2001 revenues (in millions)</b>
<b>104</b>	173	Mass. Mutual Life Insurance (Springfield)	Insurance: Life and Health (Mutual)	\$19,340
<b>106</b>	80	Fleet (Boston)	Commercial Banks	19,190
<b>119</b>	82	Raytheon (Lexington)	Aerospace	16,867
<b>142</b>	111	Liberty Mutual Group (Boston)	Insurance: Property and Casualty (Mutual)	14,256
<b>178</b>	192	Staples (Framingham)	Specialty Retailers	10,744
<b>179</b>	196	TJX (Framingham)	Specialty Retailers	10,709
<b>209</b>	233	John Hancock Financial Services (Boston)	Insurance: Life and Health (Stock)	9,361
<b>240</b>	172	Gillette (Boston)	Metal Products	8,084
<b>263</b>	260	EMC (Hopkinton)	Computer Peripherals	7,091
<b>313</b>	345	State Street Boston Corp. (Boston)	Commercial Banks	5,637
<b>331</b>	377	BJ's Wholesale Club (Natick)	Specialty Retailers	5,278
<b>471</b>	440	Allmerica Financial (Worcester)	Insurance: Property and Casualty (Stock)	3,312
<b>481</b>	N/A	Nstar (Boston)	Utilities: Gas & Electric	3,192

Source: *Fortune*, April 15, 2002.

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

## Economic Base and Performance – Sector Detail

The economy of Massachusetts remains diversified among several industrial and non-industrial sectors. The three largest sectors of the economy contributed roughly the same percentage of the total Massachusetts Gross State Product in 2000 as they did in 1989. In 2000, the three largest sectors of the Massachusetts economy (services, F.I.R.E., and manufacturing) contributed 65.6 percent of the total Massachusetts Gross State Product while the remaining seven sectors contributed 34.4 percent. In 1990, these same three largest sectors contributed 64.5 percent of the total Massachusetts Gross State Product. The data below show the contributions to the Massachusetts real Gross State Product of several industrial and non-industrial sectors.



### **Gross State Product by Industry in Massachusetts, 1990-2000**

(millions of chained 1996 dollars)

<b>Industrial Sector</b>	<b>1989</b>	<b>1990</b>	<b>1991</b>	<b>1992</b>	<b>1993</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>
<b>Ag., Forestry, Fishing</b>	\$1,269	\$1,210	\$1,231	\$1,173	\$1,194	\$1,124	\$1,098	\$1,143	\$1,280	\$1,263	\$1,371	\$1,454
<b>Mining</b>	86	71	74	99	94	107	97	94	82	88	79	94
<b>Construction</b>	8,497	6,832	5,655	5,696	6,130	6,753	6,933	7,477	8,026	8,780	9,576	10,271
<b>Manufacturing</b>	32,078	29,620	28,344	27,281	27,402	28,789	29,835	30,687	32,813	35,486	37,906	40,752
<b>Trans., Util., Comm.</b>	10,676	11,295	12,062	11,940	12,621	13,035	12,683	13,334	13,063	13,245	14,207	15,284
<b>Wholesale Trade</b>	12,130	11,461	11,706	12,457	12,548	13,367	13,645	15,100	16,677	19,131	20,887	21,507
<b>Retail Trade</b>	15,832	14,619	13,673	13,791	13,996	14,695	15,163	16,591	17,683	19,228	20,414	22,296
<b>F.I.R.E.</b>	43,511	42,293	41,881	42,213	43,415	46,077	47,742	49,536	51,595	56,158	62,564	67,115
<b>Services</b>	48,819	48,841	47,421	48,822	49,610	51,261	53,055	55,508	57,576	59,717	62,993	68,734
<b>Government</b>	20,299	20,749	19,646	19,285	19,690	19,969	20,315	20,657	20,968	21,135	21,838	22,080
<b>Total GSP</b>	\$193,839	\$187,167	\$181,901	\$182,789	\$186,680	\$195,171	\$200,537	\$210,127	\$219,716	\$233,981	\$251,482	\$269,308

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

**Services.** The services sector remains the largest contributor to the Massachusetts Gross State Product, comprising 25.5 percent of the Commonwealth's Gross State Product in 2000. After a period of stagnation and slight decline from 1989 to 1991, the sector has grown in every year since then. Growth accelerated strongly in 1999 and 2000, with respective yearly growth rates of 5.5 percent and 9.1 percent. Much of this growth is due to a rapid rise in business services, which now account for 29.5 percent of all services, and 7.5 percent of GSP. Health services ranks second with a 23.6 percent share of the service sector and 6.0 percent of GSP.

**Finance, Insurance, Real Estate.** The F.I.R.E. sector has been the second largest contributor to the Massachusetts Gross State Product over the last decade. In 2000, it contributed 24.0 percent of the Gross State Product. The sector has experienced yearly growth since the declines of 1989 to 1991, and accelerated growth from 1997 to 1999, when growth peaked at 11.4 percent. In 2000, FIRE was up 7.3 percent over 1999.

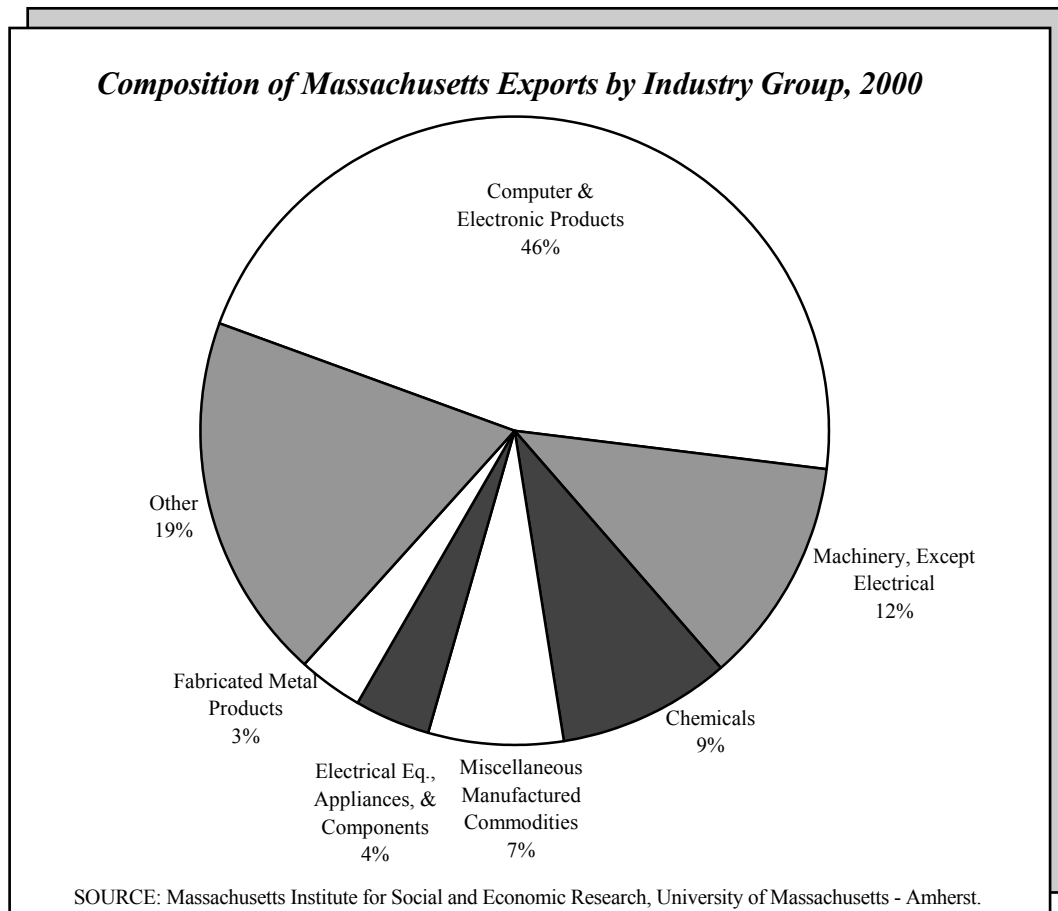
**Manufacturing.** The manufacturing sector was the third largest contributor to the Massachusetts Gross State Product in 2000, contributing 15.2 percent of the Gross State Product. Manufacturing in New England was hit hard during the recession of 1989-1991, and posted only moderate growth during the mid-nineties. From 1997 to 2000, however, the manufacturing sector has grown at least 6.9 percent annually, including a gain of 7.5 percent in 2000.

**Wholesale and Retail Trade.** Taken together, the wholesale and retail trade sectors contributed 16.4 percent of the Massachusetts Gross State Product in 2000, with each sub-sector contributing almost equally to the total. Growth in the wholesale trade sector rebounded in 1991 and varied through the early 1990s but was very strong in the 1996, 1997, and 1998, with rates of 10.7 percent, 10.4 percent, and 14.7 percent, respectively. Wholesale sector growth tapered to 9.2 percent in 1999 and 3.0 percent in 2000. The retail sector was harder hit during the 1989-1991 recession, and did not rebound as quickly, with growth not exceeding 1.5 percent until 1994. In the last five years, however, retail growth has ranged from 6.2 percent to 9.4 percent, including strong growth of 9.2 percent in 2000.

**Trade and International Trade.** A significant portion of what Massachusetts produces is exported internationally. Massachusetts ranked tenth in the United States, and first in New England, with \$17.5 billion in international exports in 2001. This represents a 14.7 percent decrease from the previous year's exports from the Commonwealth, while national exports decreased by 6.3 percent in the same period. Through July of 2002, Massachusetts exports totaled \$9.2 billion, a decrease of 15.2 percent over exports in the first seven months of 2001. National exports were down 9.5 percent in the same period. It is not possible to provide balance of trade comparisons for Massachusetts because import data are not compiled on a state-by-state basis.

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

Massachusetts' five most important trading partners for 2001 were: Canada, which purchased \$2.84 billion worth of products; Japan, which purchased \$1.96 billion; the United Kingdom, which bought \$1.85 billion; Germany, which purchased \$1.40 billion; and France, which bought \$0.86 billion worth of products. Between 2000 and 2001, the most significant growth in Massachusetts exports among its top ten trading partners was in exports to Germany and Ireland, which increased 2.5 percent and 5.36 percent, respectively.



**Value of International Shipments from Massachusetts, 1997-2001**  
(top ten industry groups ranked by value of 2001 sales, in millions)

<b>Major Industry Group</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>
<b>Computer and Electronic Products</b>	\$7,856.6	\$7,458	\$8,056	\$10,215	\$8,122
<b>Machinery, Except Electrical</b>	1,885.3	1,694.1	1,704.7	2,545.1	2,043.7
<b>Chemicals</b>	1,174.5	1,223.0	1,356.7	1,600.2	1,533.5
<b>Miscellaneous Manufactured Commodities</b>	768.1	834.8	925.4	1,053.5	1,213.0
<b>Electrical Eq., Appliances, &amp; Components</b>	569.9	596.0	720.0	834.0	691.4
<b>Fabricated Metal Products</b>	748.3	597.0	601.4	649.3	568.9
<b>Transportation Equipment</b>	655.4	636.8	697.8	658.9	449.0
<b>Plastics and Rubber Products</b>	322.6	357.3	389.3	373.6	399.9
<b>Paper</b>	311.4	334.0	363.5	434.6	386.4
<b>Food and Kindred Products</b>	233.7	219.6	211.5	232.9	286.1
<b>Total Exports, Top 10 Massachusetts Industries</b>	14,292.1	\$13,731	\$14,815	\$18,364	\$15,408
<b>Total Massachusetts Exports</b>	16,526.2	\$15,878	\$16,805	\$20,514	\$17,490
<b>Percentage Change from Prior Year</b>	n/a	-3.9%	5.8%	22.1%	-14.7%

SOURCE: Massachusetts Institute for Social and Economic Research, University of Massachusetts - Amherst. These figures reflect the changeover in export statistics reporting to the NAICS system from the SIC system. Categories and state totals are not comparable between systems, so pre-1997 data are no longer suitable for this report.

**Construction and Housing.** In 2000, construction activity contributed 3.8 percent of the Massachusetts Gross State Product. This sector experienced a significant decline between 1989 and 1991, with declines as large as 19.6 percent and 17.2 percent in 1990 and 1991. Beginning in 1992, however, the sector rebounded and has grown every year since, and by at least 7 percent in each year from 1995 to 2000.

The following table shows the number of housing permits authorized on an annual basis in Massachusetts, New England, and the United States. Between 1983 and 1986, both Massachusetts and New England experienced strong growth in the number of housing permits authorized. This period was followed by a prolonged decline between 1986 and 1991 during which the number of housing permits authorized in Massachusetts declined by 71.2 percent. While the growth in the number of permits authorized in Massachusetts declined each year between 1992 and 1995, the number of housing permits authorized grew each year between 1995 and 1999 in Massachusetts, New England, and in the United States, reaching its highest level in Massachusetts since 1989. 1999 proved to be a plateau year in authorizations, with all three regions experiencing declines in 2000. Massachusetts and New England were harder hit and saw continuing, if milder, decreases in authorizations, whereas the national statistic increased for 2001.



### *Housing Permits Authorized, 1969-2001*

<i>Year</i>	<i>Massachusetts</i>		<i>New England</i>		<i>United States</i>	
	<i>Total Permits</i>	<i>Percentage Change</i>	<i>Total Permits</i>	<i>Percentage Change</i>	<i>Total Permits</i>	<i>Percentage Change</i>
1969	33,572		70,539		1,330,161	
1970	38,330	14.2%	74,068	5.0%	1,354,746	1.8%
1971	52,116	36.0%	97,801	32.0%	1,913,601	41.3%
1972	48,261	-7.4%	96,517	-1.3%	2,138,862	11.8%
1973	41,422	-14.2%	82,306	-14.7%	1,782,526	-16.7%
1974	24,397	-41.1%	52,718	-35.9%	1,067,065	-40.1%
1975	17,697	-27.5%	41,645	-21.0%	934,511	-12.4%
1976	19,190	8.4%	47,441	13.9%	1,286,942	37.7%
1977	24,872	29.6%	58,658	23.6%	1,678,629	30.4%
1978	20,315	-18.3%	55,733	-5.0%	1,657,933	-1.2%
1979	20,164	-0.7%	53,654	-3.7%	1,533,436	-7.5%
1980	16,055	-20.4%	40,195	-25.1%	1,171,763	-23.6%
1981	15,599	-2.8%	38,067	-5.3%	985,600	-15.9%
1982	15,958	2.3%	39,470	3.7%	1,000,500	1.5%
1983	22,950	43.8%	57,567	45.9%	1,605,221	60.4%
1984	28,471	24.1%	72,356	25.7%	1,689,667	5.3%
1985	39,360	38.2%	96,832	33.8%	1,732,335	2.5%
1986	43,877	11.5%	108,272	11.8%	1,771,832	2.3%
1987	40,018	-8.8%	101,222	-6.5%	1,542,499	-12.9%
1988	31,766	-20.6%	82,123	-18.9%	1,450,583	-6.0%
1989	21,634	-31.9%	53,543	-34.8%	1,345,084	-7.3%
1990	15,276	-29.4%	36,811	-31.2%	1,125,583	-16.3%
1991	12,624	-17.4%	31,111	-15.5%	953,834	-15.3%
1992	16,346	29.5%	36,876	18.5%	1,105,083	15.9%
1993	17,715	8.4%	39,225	6.4%	1,210,000	9.5%
1994	18,302	3.3%	40,459	3.1%	1,366,916	13.0%
1995	15,946	-12.9%	37,357	-7.7%	1,335,835	-2.3%
1996	17,360	8.9%	40,425	8.2%	1,419,083	6.2%
1997	17,554	1.1%	42,047	4.0%	1,442,251	1.6%
1998	18,958	8.0%	47,342	12.6%	1,619,500	12.3%
1999	18,977	0.1%	47,379	0.1%	1,663,916	2.7%
2000	17,342	-8.6%	43,735	-7.7%	1,598,332	-3.9%
2001	16,654	-4.0%	42,786	-2.2%	1,638,499	2.5%

SOURCE: Massachusetts Institute for Social and Economic Research; Federal Reserve Bank of Boston; US Department of Commerce.

Both the economic recession of 1989-1991 and the subsequent economic recovery were reflected in the housing sector. Significant declines in existing home sales in Massachusetts in 1989 and 1990 (of 10.9 percent and 28.8 percent, respectively) were followed by rapid sales growth between 1991 and 1993, when home sales in Massachusetts increased at a yearly rate substantially higher than the national average. Following this period of rapid growth, the growth in existing home sales slowed to a rate of 0.7 percent in 1994 and declined 2.6 percent in 1995. In 1996, 1997, and 1998, however, growth in existing home sales in Massachusetts was significant, outpacing the national average in 1996 and 1997 with rates of 16.6 percent and 11.0 percent, respectively. This strong growth ended in 1999 when existing home sales in the Commonwealth declined 1.3 percent while growth in existing home sales nationally was 6.0 percent. In 2000, existing home sales in Massachusetts declined by 4.6 percent, but a slight rebound of 2.0 percent occurred in 2001. On a seasonally adjusted annual rate basis, existing home sales for the Commonwealth, New England, and the United States appear in the following table.

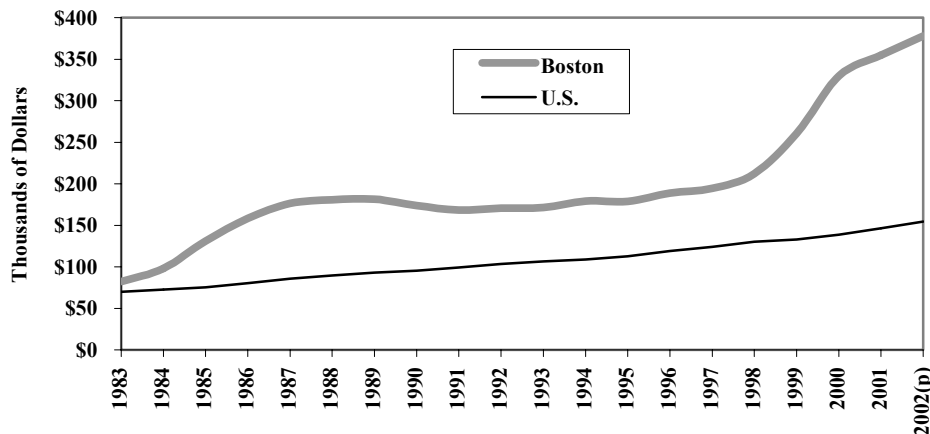
**Existing Home Sales, 1981-2001**  
(seasonally adjusted annual rates, in thousands)

Year	Massachusetts		New England		United States	
	Sales	% Change	Sales	% Change	Sales	% Change
1981	43.0		105.8		2,575.0	
1982	42.6	-0.8%	98.6	-6.9%	2,117.5	-17.8%
1983	59.2	39.0%	141.3	43.3%	2,875.0	35.8%
1984	54.9	-7.3%	140.7	-0.4%	3,027.5	5.3%
1985	60.2	9.7%	157.0	11.6%	3,382.5	11.7%
1986	67.0	11.3%	169.2	7.8%	3,772.5	11.5%
1987	76.4	14.1%	174.5	3.1%	3,767.5	-0.1%
1988	76.6	0.2%	178.5	2.3%	3,882.5	3.1%
1989	68.2	-10.9%	163.0	-8.7%	3,672.0	-5.4%
1990	48.6	-28.8%	134.0	-17.8%	3,603.5	-1.9%
1991	53.4	10.0%	140.5	4.9%	3,533.3	-1.9%
1992	62.5	17.0%	170.6	21.4%	3,889.5	10.1%
1993	70.9	13.4%	193.8	13.6%	4,220.3	8.5%
1994	71.4	0.7%	200.3	3.4%	4,409.8	4.5%
1995	69.6	-2.6%	185.7	-7.3%	4,342.3	-1.5%
1996	81.2	16.6%	200.7	8.1%	4,705.3	8.4%
1997	90.1	11.0%	219.4	9.3%	4,908.8	4.3%
1998	99.9	10.8%	248.3	13.2%	5,585.3	13.8%
1999	98.5	-1.3%	253.3	2.0%	5,922.8	6.0%
2000	95.3	-4.6%	261.3	5.2%	5,831.8	4.4%
2001	97.2	2.0%	262.7	0.5%	6,071.5	4.1%

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

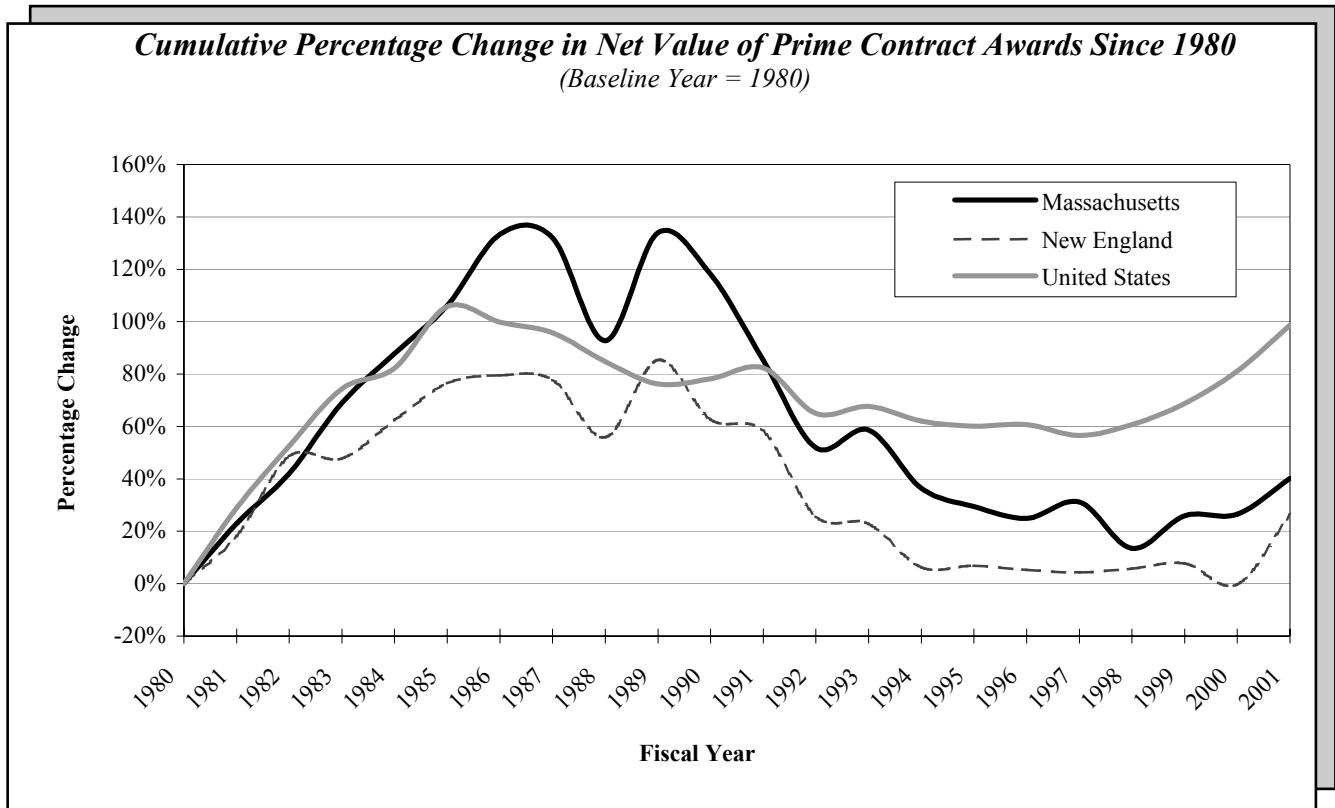
Single family home prices for the Boston Metropolitan area (not seasonally adjusted) appear below. While Boston housing prices were 18.1 percent higher than the U.S. average in 1983, by 1987 Boston housing prices as a percentage of the national average had reached a peak of 205.7 percent. After dipping to 60.9 percent higher than the national average in 1993 and remaining as low as 62.9 percent above the national average in 1998, Boston home prices soared 141.7 percent above the national average in 2001. The average Boston area home price in 2002 (through June) rose to \$377,900, 144.8% of the national average.

**Boston Area and U.S. Average Annual Home Prices, 1983-2001**  
(in thousands of current dollars)



SOURCES: National Association of Realtors; Federal Reserve Bank of Boston.  
(p = projected based on results for first two quarters).

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



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

**Net Value of Department of Defense Prime Contract Awards, 1980-2001**  
(in million of real dollars)

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

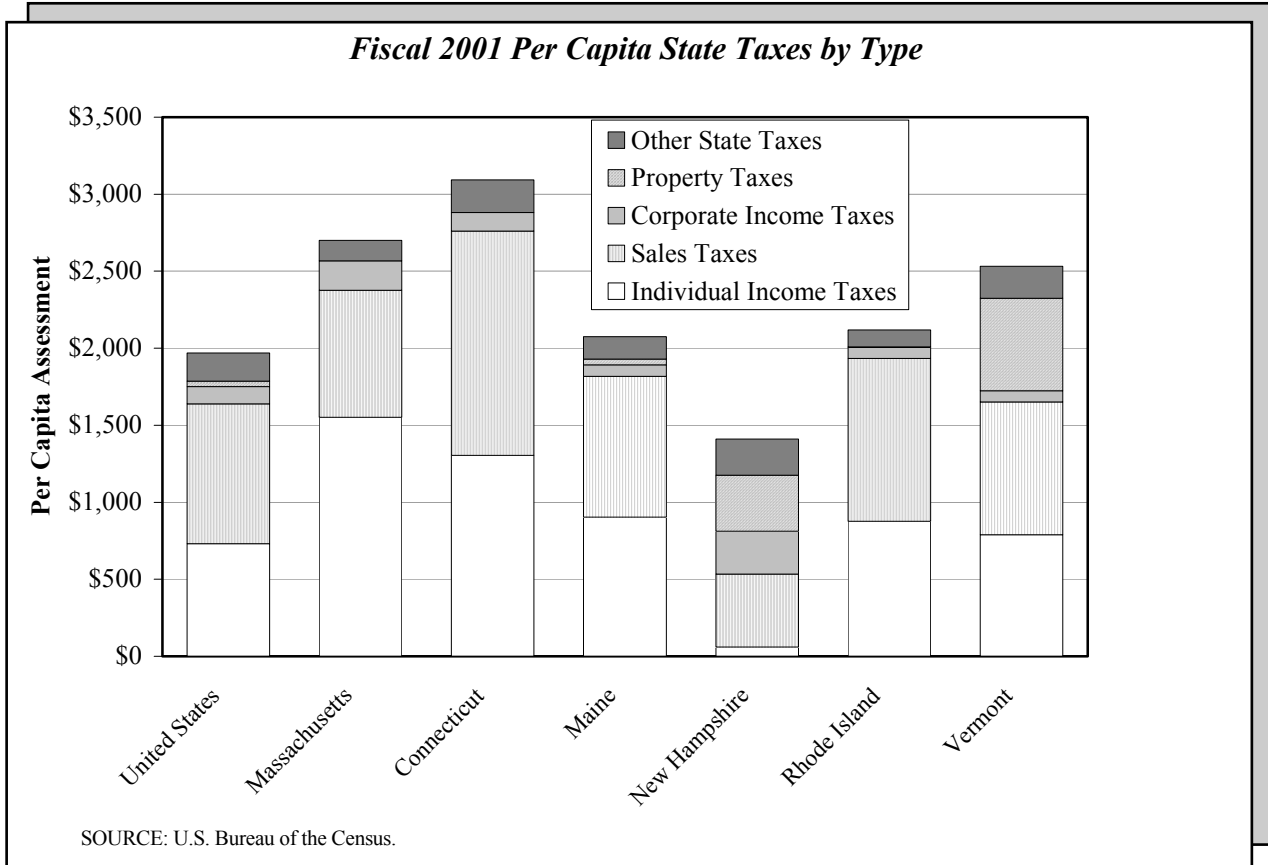
SOURCE: United States Department of Defense.

\* Prime Contract is defined as \$10,000 and above for these years; beginning in 1983 it is defined as \$25,000 and above.

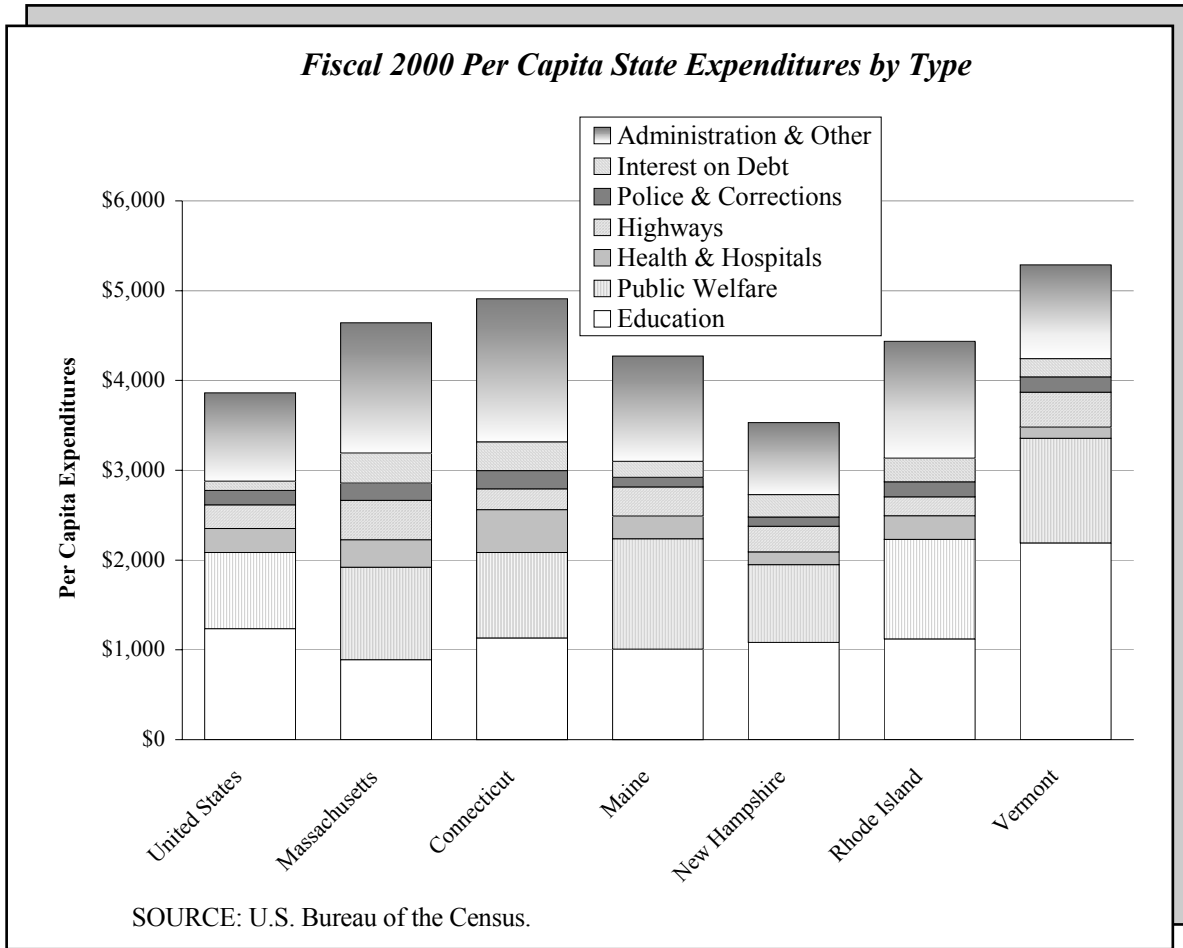
**Travel and Tourism.** The travel and tourism industry represents a substantial component of the overall Massachusetts economy. Massachusetts is one of the nation's most popular tourist and travel destinations for both domestic and international visitors. The greater Boston area is New England's most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

The Massachusetts Office of Travel and Tourism estimates that 26.1 million domestic travelers traveled to or within the Commonwealth in 2001, an increase of 5.2 percent from 2000. Additionally, 2.1 million international travelers visited Massachusetts in 2001. The latest available economic impact data indicates that spending by visitors to Massachusetts remains significant, with direct spending totaling \$13.3 billion in 2000, an increase of 9.0 percent over the 1999 level. The tragic events of September 11, 2001 are expected to result in a reported loss of \$241 million for the lodging industry. As a result, the Governor has created a Travel and Tourism Recovery Task Force to create a business plan to help the travel industry recover.

**State Taxes.** State taxes in Massachusetts are significantly higher than the national average. In 2001, the total per capita state tax bill in the United States was \$1967. Citizens of the Commonwealth, however, paid \$2700 on average, the fifth highest rate in the nation. In New England, only citizens in Connecticut paid more per capita: \$3092. Over half of the state taxes in Massachusetts come from the state income tax. Per capita individual income taxes in Massachusetts were \$1552. Across the New England states, there is wide variation in both total per capita state taxes and in the breakdown of those taxes, as illustrated in the following chart.

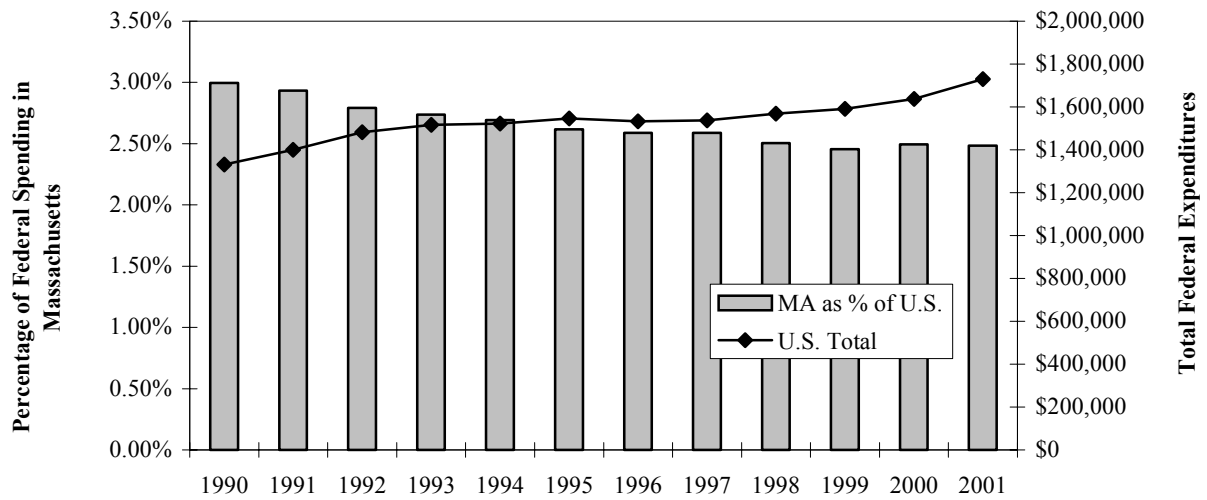


**State Government Spending in Massachusetts.** The following chart depicts fiscal 2000 per capita state expenditures by category for the six New England states and the U.S. average state expenditure. Massachusetts spent more state funds per capita on highways (\$439) and debt service (\$335) and less on educations (\$890) than any of its New England neighbors. The differences between states in per capita spending are similar to those in taxation, with intergovernmental transfers (to and from local and federal governments) accounting for the degree to which per capita spending exceeds per capita taxation. While all New England states used less than the national average of 30.2 percent for intergovernmental expenditures, the variation within the region is significant, with intergovernmental expenditures representing only 14.6 percent of Rhode Island expenditures, 21.6 percent of Massachusetts expenditures, and 28.9 percent of Vermont expenditures.



**Federal Government Spending in Massachusetts.** Federal government spending contributes a significant amount to the economy of Massachusetts. In fiscal 2001, Massachusetts ranked thirteenth among states in per capita distribution of federal funds, with total spending of \$6,926 per person. Massachusetts' share of total federal spending declined steadily between 1990 and 1999, and has stabilized in the range of 2.45 percent to 2.49 percent between 1999 and 2001. The following chart shows total federal expenditures and the percentage of federal expenditures in Massachusetts. Total federal spending data were converted to 1999 dollars by MISER using Consumer Price Index data for the United States. Federal spending includes grants to state and local governments, direct payments to individuals, wage and salary employment, and procurement contracts and includes only those expenditures which can be associated with individual states and territories.

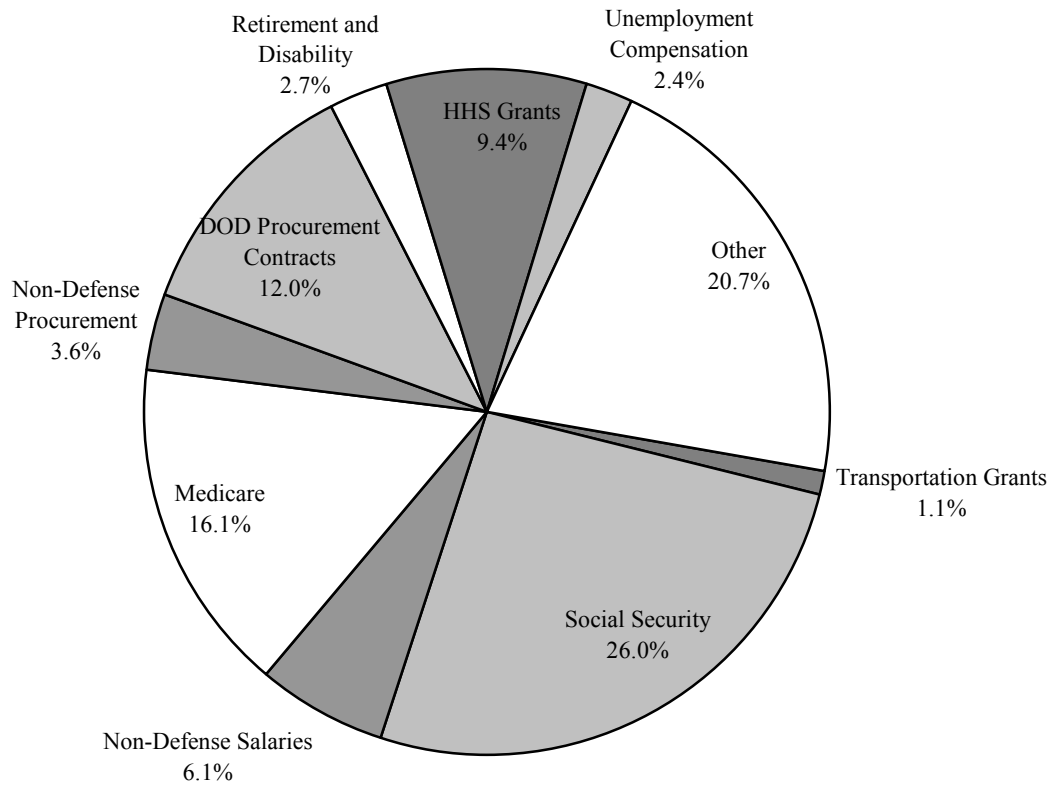
**Total Real Federal Expenditures and  
Percentage of Federal Expenditures in Massachusetts, 1990-2001**  
(in millions of constant 1999 dollars)



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

A large percentage of federal spending in Massachusetts in 2001 was composed of health care and social programs like Medicare and Social Security. Massachusetts was above the national average in per capita federal grants to state and local governments, receiving \$1,531 per capita compared to a national average of \$1,205. Per capita federal spending on salaries and wages in 2001 was lower in Massachusetts than in the rest of the nation (\$506 compared to a national average of \$668) but Massachusetts was above the national average in per capita direct federal payments to individuals (\$3,762 compared to a national average of \$3,377). Massachusetts ranked tenth among states in per capita procurement contract awards (\$1,079 compared to a national average of \$875) in 2001. The following chart shows the composition of federal spending within Massachusetts in fiscal 2001.

*Composition of Federal Spending in Massachusetts by Program, Fiscal 2001*

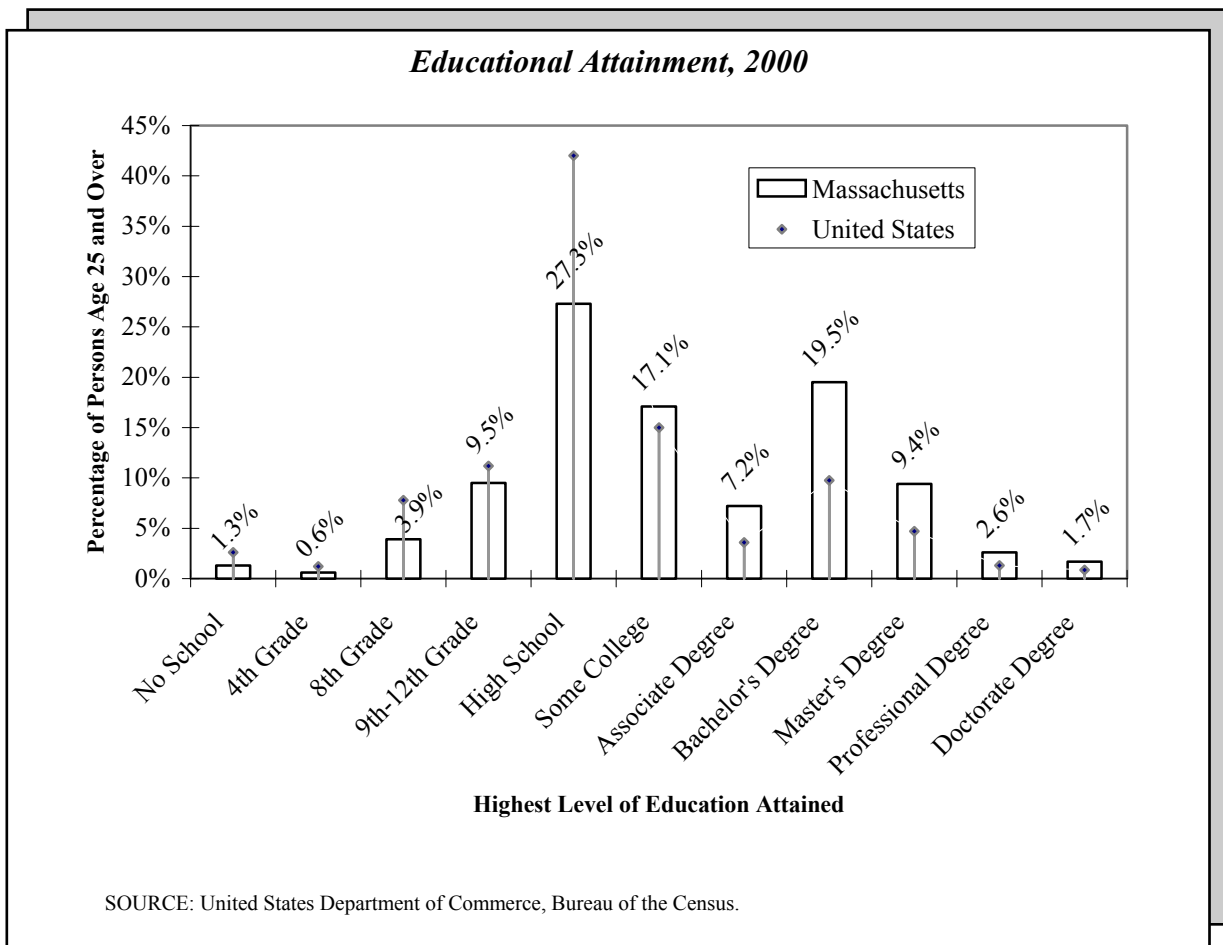


SOURCE: United States Department of Commerce, Bureau of the Census.

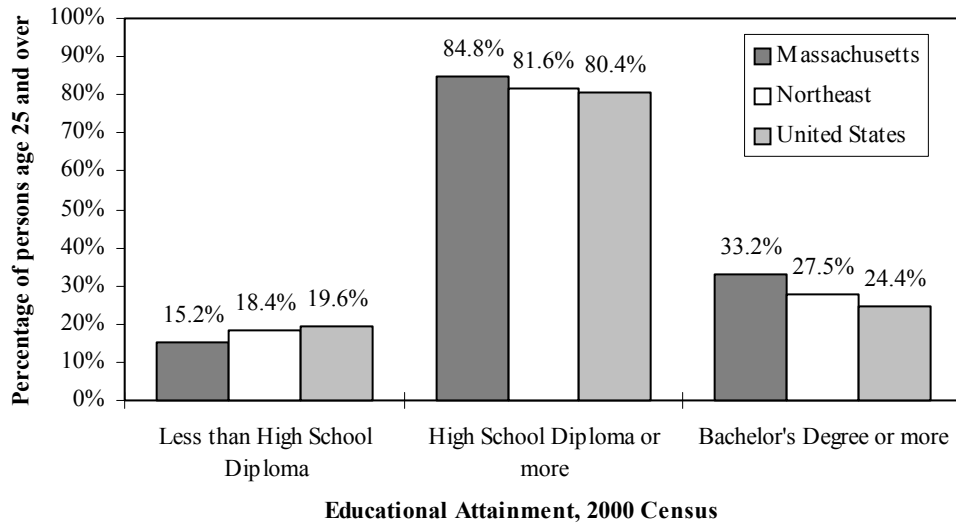


## HUMAN RESOURCES AND INFRASTRUCTURE

**Human Resources.** The availability of a skilled and well-educated population is an important resource for Massachusetts. The level of education reached by the population of Massachusetts compares favorably with the level in the United States as a whole. In Massachusetts, 15.2 percent of residents age 25 and above never graduated from high school, as compared with 19.6 percent of their peers nationwide. A significant difference between Massachusetts and the United States is the percentage of people age 25 and above with a Bachelor's Degree or higher: 33.2 percent in Massachusetts as compared to 24.4 percent for the United States as a whole. The proportion of college graduates increased by 4 percentage points in both the state and the nation between 1990 and 2000. Relative to the nation as a whole, Massachusetts has a lower percentage of adults (25 and older) who ended their schooling after high school or earlier, and a greater percentage of adults in every post-secondary category. The following chart shows the differences in educational attainment between Massachusetts and the United States for key threshold levels of education. Actual percentages are given for Massachusetts only, and each category represents the highest educational level reached for individuals in that group.



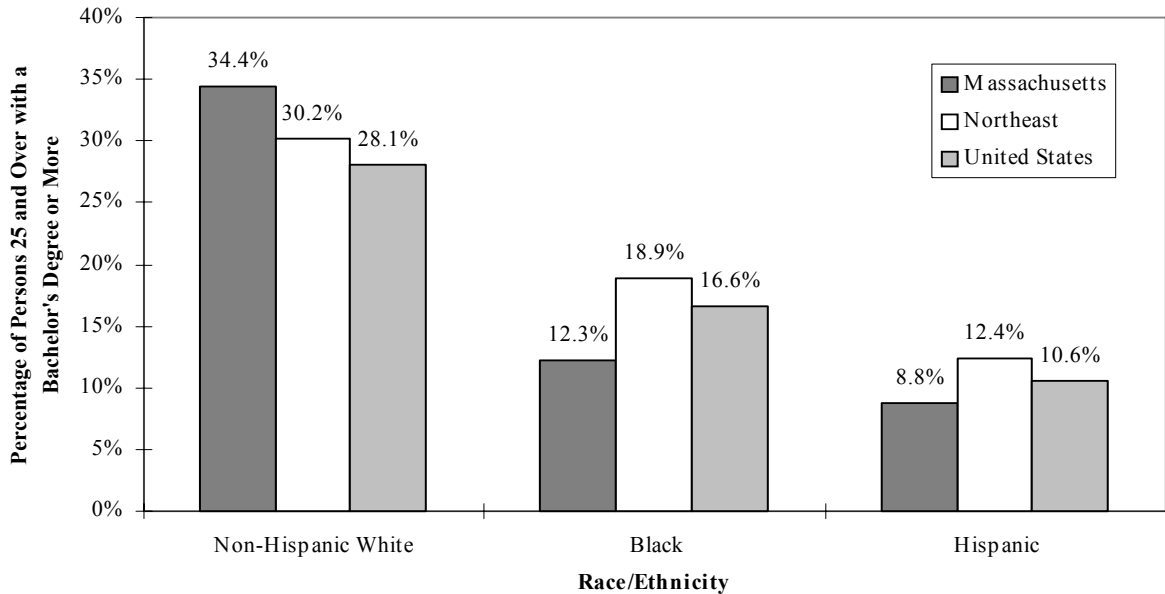
***Educational Attainment by Persons Age 25 and Over, March 2000***



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

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

***Persons 25 and Over With a Bachelor's Degree or More By Race/Ethnicity, March 2000***



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

Massachusetts has a higher percentage of minority enrollment in institutions of higher education than New England. However, the percentage of enrollment of blacks, Hispanics, and Asians in higher education in Massachusetts is below the national average. The most recent national figures available for 1998, and the introduction of a “race unknown” category for the 2000 regional figures makes accurate comparison between regions and the nation impossible. These percentages are seen in the chart below.

	<b><i>Black</i></b>	<b><i>Hispanic</i></b>	<b><i>Asian</i></b>	<b><i>Race Unknown</i></b>
<b>Massachusetts</b>	5.4	4.5	5.7	15.0
<b>New England</b>	5.1	4.2	4.3	12.5
<b>United States (1998)</b>	10.9	8.7	6.2	N/A

SOURCE: New England Board of Higher Education, *Connections*, Spring 2002.

In the 1998 National Assessment of Educational Progress conducted by the U.S. Department of Education, 4<sup>th</sup> graders and 8<sup>th</sup> graders around the nation were given standardized exams in reading. Among 4<sup>th</sup> graders, only students in Connecticut achieved statistically significant higher reading scores than students in Massachusetts while among 8<sup>th</sup> graders, no state had statistically significant higher reading scores than Massachusetts. In a similar 2000 study, 4<sup>th</sup> and 8<sup>th</sup> graders were given standardized exams in science. In science, only 8<sup>th</sup> graders in Montana achieved statistically significant higher scores than 8<sup>th</sup> graders in Massachusetts. Additionally, Massachusetts 4<sup>th</sup> graders scored highest in the nation on the science exam. In 2000, 4<sup>th</sup> and 8<sup>th</sup> graders were given standardized exams in mathematics. Massachusetts scores for both 4<sup>th</sup> and 8<sup>th</sup> graders in 2000 were significantly higher than scores from both 1992 and 1996. Additionally, Massachusetts 4<sup>th</sup> graders were the highest scoring in the nation. Only 8<sup>th</sup> graders in Minnesota, Montana, Maine, and Kansas scored higher than those in Massachusetts.

Although spending on education is not necessarily an indicator of results, Massachusetts has spent from 12 to 27 percent more per pupil on primary and secondary education than the national average since at least 1981. In fiscal 2002, Massachusetts increased per student expenditures to an estimated \$9883, 31 percent higher than the national average. The following table shows expenditures per pupil for Massachusetts and the United States since fiscal 1981.

***Expenditure Per Pupil in Public Elementary and Secondary Schools, 1981-2002***  
*(in current, unadjusted dollars)*

<b>Fiscal Year</b>	<b>Massachusetts</b>	<b>United States</b>	<b>Ratio (MA/US)</b>
<b>1981</b>	\$2,735	\$2,307	1.19
<b>1982</b>	2,823	2,525	1.12
<b>1983</b>	3,072	2,736	1.12
<b>1984</b>	3,298	2,940	1.12
<b>1985</b>	3,653	3,222	1.13
<b>1986</b>	4,031	3,479	1.16
<b>1987</b>	4,491	3,682	1.22
<b>1988</b>	4,965	3,927	1.26
<b>1989</b>	5,485	4,307	1.27
<b>1990</b>	5,766	4,643	1.24
<b>1991</b>	5,881	4,902	1.20
<b>1992</b>	5,952	5,023	1.18
<b>1993</b>	6,141	5,160	1.19
<b>1994</b>	6,423	5,327	1.21
<b>1995</b>	6,783	5,529	1.23
<b>1996</b>	7,033	5,689	1.24
<b>1997</b>	7,331	5,923	1.24
<b>1998</b>	7,778	6,189	1.26
<b>1999</b>	8,260	6,508	1.27
<b>2000</b>	8,761	6,911	1.27
<b>2001(e)</b>	9,077	7,156	1.27
<b>2002(e)</b>	9,883	7,524	1.31

SOURCE: United States Department of Education, National Center for Educational Statistics.  
(e = official NCES estimate of expenditures and/or student population)

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

The higher education system in Massachusetts is particularly strong in post-graduate, scientific, and technical education, with 65 percent of New England's graduate science and engineering students attending Massachusetts institutions. The strength of the Massachusetts higher education system is evidenced by the draw it has upon new students. In the Fall of 2000, 16,867 first-time freshmen migrated into the Massachusetts higher education system from outside New England, representing 27 percent of all incoming freshmen in that year. The strength of the Commonwealth's educational institutions is also reflected in the large number of degrees awarded. In 2000, Massachusetts institutions conferred a total of 2,275 doctoral degrees. This represents 4.8 percent of the total number of doctoral degrees conferred in the United States in 2000.

The pre-eminence of higher education in Massachusetts contributes not only to the quality of its work force, but also to its stature in the nation and the world as a center for basic scientific research and for academic and entrepreneurial research and development. Doctorate-granting institutions in Massachusetts spent 5.0 percent of total national expenditures on R&D at such institutions in fiscal 2000, ranking Massachusetts fifth in the nation behind only California, New York, Texas, and Pennsylvania. Doctorate-granting institutions in New England spent 7.9 percent (\$2.33 billion) of the total research and development funds (\$29.6 billion) spent by such institutions in fiscal 2000. Massachusetts institutions spent 63.0 percent of these funds (\$1.47 billion). [Source: National Science Foundation, Division of Science Resources Statistics, *Academic Research and Development Expenditures: Fiscal Years 2000*, NSF 02-308, Table B-23.]

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

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

**Major Infrastructure Projects.** Several major public sector-sponsored construction projects are underway or recently completed in the Boston region, providing significant economic and employment benefits to the state. The "Big Dig," the world's largest highway project, includes the depression of the central artery which traverses the City of Boston, and the construction of a third harbor tunnel linking downtown Boston to Logan Airport. The new Central Artery is designed to meet Boston's future traffic demand and is anticipated to carry 245,000 vehicles per day by 2010 with minimal congestion. The Project will also strengthen connections among Boston's air, rail, and seaport terminals. By offering travelers and shippers increased choice and flexibility among these different modes of transportation, the Project is contributing to the creation of an integrated, intermodal transportation system for the entire region. The Ted Williams Tunnel, which stretches under Boston Harbor from South Boston to Logan Airport, opened to commercial traffic in late 1995 and to all traffic in December 2001, and will carry an estimated 98,000 vehicles daily in 2010. Although several 2002 openings have been delayed by one to two months, the Central Artery Project is expected to be completed by 2004 at an estimated total cost of \$14.63 billion, with nearly half funded by the federal government. As of August 31, 2002, construction is 83.5 percent complete.

The Massachusetts Port Authority (Massport) owns and operates Logan International Airport, the Port of Boston, and several smaller assets. A \$1 billion modernization program is well underway at the airport, including expansion of terminal space. The airport has been tremendously profitable for the authority (returning \$80 million in profits on \$407 million in revenues in fiscal 2001), but Massport revised its revenue forecast based on reduced projections of passengers (to 70 percent of previous levels) and parking revenues (to 65 percent) after September 11, 2001. Massport, under new leadership since April of 2002, reports success in reducing costs through layoffs and retirement incentives, as well as traffic and revenues above the adjusted

forecast. Massport's fiscal 2003 budget projects revenues and expenses similar to the original (pre-September 11) budget for fiscal 2002, despite large increases in security and insurance costs. In fiscal 2001, 27.2 million passengers (a 1.3% decrease from fiscal 2000) and more than 980 million pounds of cargo and mail (a 6.6% decrease) passed through Logan. At the Port of Boston, which operates at a marginal loss, fiscal 2001 saw a four percent decrease in cargo throughput to 16.3 million metric tons, a 13 percent decrease in automobile throughput to 80 thousand units, and a 28 percent increase in cruise passengers to 253 thousand trips.

## FORM OF OPINION OF BOND COUNSEL



ONE INTERNATIONAL PLACE BOSTON, MA 02110-2624 617-951-7000 F 617-951-7050  
BOSTON NEW YORK SAN FRANCISCO WASHINGTON, DC

[Date of Delivery]

The Honorable Shannon P. O'Brien  
Treasurer and Receiver-General  
The Commonwealth of Massachusetts  
State House - Room 227  
Boston, Massachusetts 02133

Re: The Commonwealth of Massachusetts \$734,350,000 General Obligation Bonds  
Consolidated Loan of 2002, Series E (the "Bonds")

Dear Treasurer O'Brien:

We have served as bond counsel to The Commonwealth of Massachusetts (the "Commonwealth") in connection with the issuance of the Bonds. In that capacity, we have examined a record of proceedings relating to the Bonds. We also have examined such provisions of applicable law and such other documents as we have deemed necessary in order to render this opinion.

The Bonds mature and bear interest and are subject to mandatory sinking fund and optional redemption at such times, in such amounts, at such prices and upon such terms and conditions as are set forth in the Bonds.

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

Capitalized terms used herein, unless otherwise specified, shall have the meanings set forth in the Bonds.

In rendering our opinion, we have relied upon certain covenants of the Commonwealth and upon certifications and representations of fact made by certain officials of the Commonwealth.

We express no opinion as to laws other than the laws of the Commonwealth and the United States of America.

Based upon the foregoing, we are of the opinion that, under existing law:

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

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

(c) Interest on the Bonds is not included in gross income for federal income tax purposes and such interest is not an item of tax preference for the purpose of computing the alternative minimum tax imposed on individuals and corporations; however, such interest is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on certain corporations, and such interest is included in the measure of certain other taxes imposed on corporations and in the measure of income of certain recipients of Social Security and Railroad Retirement benefits for the purpose of determining whether such benefits shall be included in the taxable income of such recipients. We call your attention to certain requirements of the Internal Revenue Code of 1986, as amended (the "Code"), relating to the use, expenditure and investment of the proceeds of the Bonds. Failure by the Commonwealth to comply with such requirements subsequent to the issuance of the Bonds may cause interest on the Bonds to become subject to federal income taxation retroactive to the date of their issuance. The Commonwealth has provided covenants or certificates evidencing that it will take lawful action necessary to comply with those provisions of the Code that, except for such compliance, would affect adversely the excludability of interest on the Bonds from gross income for federal income tax purposes. We express no opinion with respect to other federal tax consequences arising with respect to the Bonds.

(d) Interest on the Bonds is exempt from Massachusetts personal income taxes, and the Bonds are exempt from Massachusetts personal property taxes. We express no opinion with respect to other Massachusetts tax consequences arising with respect to the Bonds or as to the taxability of the Bonds or the income therefrom under the laws of any state other than Massachusetts.

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

It is to be understood that the rights of the holders of the Bonds and the enforceability thereof may be subject to bankruptcy, insolvency, reorganization, moratorium and other laws affecting creditors' rights hereafter enacted to the extent constitutionally applicable and that enforcement of such rights may also be subject to general principles of equity, regardless of whether applied in proceedings in equity or at law.

Very truly yours,

Ropes & Gray



## The Commonwealth of Massachusetts

General Obligation Bonds  
Consolidated Loan of 2002, Series EContinuing Disclosure Undertaking  
[to be included in bond form]

On behalf of the Commonwealth, the Treasurer and Receiver-General of the Commonwealth hereby undertakes for the benefit of the owners of the Bonds to provide to each nationally recognized municipal securities information repository (each, a “NRMSIR”) within the meaning of Rule 15c2-12 of the Securities and Exchange Commission (the “Rule”) and to the state information depository for the Commonwealth, if any (the “SID”), within the meaning of the Rule, no later than 270 days after the end of each fiscal year of the Commonwealth, (i) the annual financial information described below relating to such fiscal year, together with audited financial statements of the Commonwealth for such fiscal year if audited financial statements are then available, provided, however, that if audited financial statements of the Commonwealth are not then available, such audited financial statements shall be delivered to each NRMSIR and the SID when they become available (but in no event later than 350 days after the end of such fiscal year) or (ii) notice of the Commonwealth’s failure, if any, to provide any such information. The annual financial information to be provided as aforesaid shall include financial information and operating data, in each case updated through the last day of such fiscal year unless otherwise noted, relating to the following information contained in the Commonwealth’s Information Statement dated March 25, 2002 (the “Information Statement”), as it appears as Appendix A in the Official Statement dated March 25, 2002 relating to the Commonwealth’s General Obligation Bond Anticipation Notes, 2002 Series B, and substantially in the same level of detail as is found in the referenced section of the Information Statement:

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

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

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

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

- (i) principal and interest payment delinquencies;
- (ii) non-payment related defaults;
- (iii) unscheduled draws on debt service reserves reflecting financial difficulties<sup>1/</sup>;
- (iv) unscheduled draws on credit enhancements reflecting financial difficulties;
- (v) substitution of credit or liquidity providers, or their failure to perform;
- (vi) adverse tax opinions or events affecting the tax-exempt status of the security;
- (vii) modifications to the rights of security holders;
- (viii) bond calls;
- (ix) defeasances;
- (x) release, substitution or sale of property securing repayment of the securities<sup>2/</sup> and
- (xi) rating changes.

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

To the extent permitted by law, the foregoing provisions of this Bond related to the above-described undertakings to provide information shall be enforceable against the Commonwealth in accordance with the terms thereof by any owner of a Bond, including any beneficial owner acting as a third-party beneficiary (upon proof of its status as a beneficial owner reasonably satisfactory to the Treasurer and Receiver-General). To the extent permitted by law, any such owner shall have the right, for the equal benefit and protection of all owners of Bonds, by mandamus or other suit or proceeding at law or in equity, to enforce its rights against the Commonwealth and to compel the Commonwealth and any of its officers, agents or employees to perform and carry out their duties under the foregoing provisions as aforesaid, provided, however, that the sole remedy in connection with such undertakings shall be limited to an action to compel specific performance of the obligations of the Commonwealth in connection with such undertakings and shall not include any rights to monetary damages. The Commonwealth's obligations in respect of such undertakings shall terminate if no Bonds remain outstanding (without regard to an economic defeasance) or if the provisions of the Rule concerning continuing disclosure are no longer effective, whichever occurs first. The provisions of this Bond relating to such undertakings may be amended by the Treasurer and Receiver-General of the Commonwealth, without the consent of, or notice to, any owners of the Bonds, (a) to comply with or conform to the provisions of the Rule or any amendments thereto or authoritative interpretations thereof by the Securities and Exchange Commission or its staff (whether required or optional), (b) to add a dissemination agent for the information required to be provided by such undertakings and to make any necessary or desirable provisions with respect thereto, (c) to add to the covenants of the Commonwealth for the benefit of the owners of Bonds, (d) to modify the contents,

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<sup>1/</sup>Not applicable to the Bonds, since there is no debt service reserve fund securing the Bonds.

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

presentation and format of the annual financial information from time to time as a result of a change in circumstances that arises from a change in legal requirements, or (e) to otherwise modify the undertakings in a manner consistent with the provisions of state legislation establishing the SID or otherwise responding to the requirements of the Rule concerning continuing disclosure; provided, however, that in the case of any amendment pursuant to clause (d) or (e), (i) the undertaking, as amended, would have complied with the requirements of the Rule at the time of the offering of the Bonds, after taking into account any amendments or authoritative interpretations of the Rule, as well as any change in circumstances, and (ii) the amendment does not materially impair the interests of the owners of the Bonds, as determined either by a party unaffiliated with the Commonwealth (such as Commonwealth disclosure counsel or Commonwealth bond counsel) or by the vote or consent of owners of a majority in outstanding principal amount of the Bonds affected thereby at or prior to the time of such amendment.

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SECURITY  
ASSURANCE®**

## **MUNICIPAL BOND INSURANCE POLICY**

ISSUER:

Policy No.: -N

BONDS:

Effective Date:

Premium:

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

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

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless Financial Security shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the

United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to Financial Security which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

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

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

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

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

[Countersignature]

FINANCIAL SECURITY ASSURANCE INC.

By \_\_\_\_\_

By \_\_\_\_\_  
Authorized Officer

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

(212) 826-0100

Form 500NY (5/90)

Financial Guaranty Insurance  
 Company  
 125 Park Avenue  
 New York, NY 10017  
 (212) 312-3000  
 (800) 352-0001



A GE Capital Company

## Municipal Bond New Issue Insurance Policy

<b>Issuer:</b>	<b>Policy Number:</b>
	<b>Control Number:</b> 0010001
<b>Bonds:</b>	<b>Premium:</b>

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

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

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

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

Financial Guaranty Insurance  
Company  
125 Park Avenue  
New York, NY 10017  
(212) 312-3000  
(800) 352-0001



*A GE Capital Company*

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## **Municipal Bond New Issue Insurance Policy**

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

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

*Deborah M. Reif*

**President**

**Effective Date:**

**Authorized Representative**

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

A handwritten signature in black ink, appearing to be "M. B.", written over a horizontal line.

**Authorized Officer**



Financial Guaranty Insurance  
Company  
125 Park Avenue  
New York, NY 10017  
(212) 312-3000  
(800) 352-0001



A GE Capital Company

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## Endorsement To Financial Guaranty Insurance Company Insurance Policy

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**Policy Number:**

**Control Number:** 0010001

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

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

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

**President**

**Effective Date:**

**Authorized Representative**

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

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