REFUNDING ISSUE - BOOK-ENTRY-ONLY

In the opinion of Bond Counsel, under existing law, assuming continued compliance with certain provisions 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. Interest on the Bonds will not constitute a preference item for the purposes of computation of the alternative minimum tax imposed on certain individuals and corporations, although interest on the Bonds 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, and any profit made on the sale thereof, are exempt from Massachusetts personal income taxes and the Bonds are exempt from Massachusetts personal property taxes. For federal and Massachusetts tax purposes, interest includes original issue discount. See "TAX EXEMPTION" herein.

THE COMMONWEALTH OF MASSACHUSETTS

$180,875,000
General Obligation Refunding Bonds
2006 Series A
(Delayed Delivery)

Dated: Date of Delivery **Due: 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 their date of delivery and interest will be payable on January 1, 2007 and semiannually thereafter on July 1 and January 1, calculated on the basis of a 360-day year of twelve 30-day months. The Bonds are not subject to redemption.

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 April 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 Underwriter, and subject to the unqualified approving opinion as to legality of Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., Boston, Massachusetts, Bond Counsel. Certain legal matters will be passed upon for the Commonwealth by Ropes & Gray LLP, Boston, Massachusetts, Disclosure Counsel. Certain matters will be passed upon for the Underwriter by its counsel, Gadsby Hannah LLP, Boston, Massachusetts. The Bonds are expected to be available for delivery at DTC in New York, New York, on or about August 10, 2006.

Bear, Stearns & Co. Inc.

April 18, 2006

THE COMMONWEALTH OF MASSACHUSETTS

$180,875,000
General Obligation Refunding Bonds
2006 Series A
(Delayed Delivery)

Dated: Date of Delivery | **Due: As shown below**

Maturity	Amount	Interest Rate	Price or Yield	CUSIP Number**
January 1, 2007	$ 8,020,000	5.00%	3.77%	57582N4X0
July 1, 2007	635,000	5.00	3.77	57582N4Y8
July 1, 2008	665,000	5.00	3.82	57582N4Z5
July 1, 2009	113,830,000	5.00	3.81	57582N5A9
July 1, 2010	735,000	5.00	3.88	57582N5B7
July 1, 2011	775,000	5.00	3.92	57582N5C5
July 1, 2012	53,140,000	5.00	3.99	57582N5D3
July 1, 2013	3,075,000	5.00	4.09	57582N5E1

No dealer, broker, salesperson or other person has been authorized by The Commonwealth of Massachusetts or the Underwriter 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 Underwriter 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 UNDERWRITER HAS PROVIDED THE FOLLOWING SENTENCE FOR INCLUSION IN THIS OFFICIAL STATEMENT: THE UNDERWRITER HAS REVIEWED THE INFORMATION IN THIS OFFICIAL STATEMENT IN ACCORDANCE WITH, AND AS PART OF, ITS RESPONSIBILITIES TO INVESTORS UNDER THE FEDERAL SECURITIES LAWS AS APPLIED TO THE FACTS AND CIRCUMSTANCES OF THIS TRANSACTION, BUT THE UNDERWRITER DOES NOT GUARANTEE THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION.

IN CONNECTION WITH THIS OFFERING THE UNDERWRITER 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

THE COMMONWEALTH OF MASSACHUSETTS

CONSTITUTIONAL OFFICERS

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

LEGISLATIVE OFFICERS

Robert E. Travaglini .... **President of the Senate**
Salvatore F. DiMasi .... **Speaker of the House**

OFFICIAL STATEMENT
THE COMMONWEALTH OF MASSACHUSETTS

$180,875,000
General Obligation Refunding Bonds
2006 Series A (Delayed Delivery)

INTRODUCTION

This Official Statement (including the cover pages and Appendices A through E attached hereto) provides certain information in connection with the issuance by The Commonwealth of Massachusetts (the "Commonwealth") of $180,875,000 aggregate principal amount of its General Obligation Refunding Bonds, 2006 Series A (Delayed Delivery) (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 April 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."

The Bonds are being issued to currently refund certain bonds of the Commonwealth, as set forth in Appendix B – Table of Refunded Bonds. See "THE BONDS – Plan of Finance."

The Bonds are expected to be delivered on or about August 10, 2006. Bear, Stearns & Co. Inc. is the sole underwriter (the "Underwriter") with respect to the Bonds.

Purpose and Content of Official Statement

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

Attached hereto as Appendix A is the Commonwealth's Information Statement dated April 18, 2006 (the "April Information Statement"), which contains certain, fiscal, budgetary, financial and other general information concerning the Commonwealth. Attached hereto as Appendix B is a listing of the bonds to be refunded with the proceeds of the Bonds. Appendix C attached hereto contains the proposed form of legal opinion of Bond Counsel with respect to the Bonds. Appendix D attached hereto contains the proposed form of the Commonwealth's continuing disclosure undertaking to be included in the forms of the Bonds to facilitate compliance by the Underwriter with the requirements of paragraph (b)(5) of Rule 15c2-12 of the Securities and Exchange Commission. Appendix E attached hereto sets forth the proposed form of Delayed Delivery Contract.

THE BONDS

General

The Bonds will mature on January 1 or July 1 in the years and in the aggregate principal amounts, and shall bear interest at the rates per annum (calculated on the basis of a 360-day year of twelve 30-day months), as set forth on the inside cover page of this Official Statement. The Commonwealth will act as its own paying agent with respect to the Bonds. The Commonwealth reserves the right to appoint from time to time a paying agent or agents or bond registrar for the Bonds.

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

Redemption. The Bonds are not subject to optional redemption.

Plan of Finance

The Bonds are being issued pursuant to the provisions of Section 53A of Chapter 29 of the Massachusetts General Laws for the purpose of refunding the bonds set forth in Appendix B (the "Refunded Bonds"). In March, 2005, the Commonwealth entered into a forward starting swap with Citibank, N.A. in the initial notional amount of $186,945,000, equal to the approximate par amount of bonds needed to currently refund the Refunded Bonds. Such swap is being terminated in connection with the issuance of the Bonds. The termination payment received by the Commonwealth in connection with such termination will be deposited in the state treasury and applied to the payment of debt service on Commonwealth general obligation bonds. In March, 2005, the Commonwealth also entered into a refunding escrow agreement (the "Escrow Agreement") with the Bank of New York Trust Company, N.A., as escrow agent (the "Escrow Agent"), pursuant to which the net proceeds of the Bonds will be deposited into an escrow account and invested until applied to the redemption of the Refunded Bonds on November 1, 2006. Pursuant to instructions from the Commonwealth, the Escrow Agent entered into an Escrow Reinvestment Agreement with Bank of America, N.A., pursuant to which the moneys held under the Escrow Agreement will be invested in non-callable direct obligations of, or obligations the payment of the principal of and interest on which are unconditionally guaranteed by, the United States of America, obligations of certain federal agencies specified in Section 49 of Chapter 29 of the Massachusetts General Laws or of any agency or corporation which has been created pursuant to an act of Congress of the United States as an agency or instrumentality of the United States of America, bank time deposits or certificates of deposit that are secured by such obligations, repurchase agreements with banks in respect of any such obligations or advance-refunded or defeased bonds that are secured by such obligations (the "Escrow Obligations"). The Escrow Agreement requires that maturing principal of and interest on the Escrow Obligations held under the Escrow Agreement be held in trust in such account and paid to the Commonwealth solely for the payment of the principal of and redemption premium and interest on the Refunded Bonds subject to the Escrow Agreement. The Escrow Obligations held under the Escrow Agreement will mature at such times and earn interest in such amounts that, together with any initial cash deposit, will produce sufficient monies to make such payments on the Refunded Bonds subject to the Escrow Agreement to and including the redemption date, as set forth in Appendix B.

Delayed Delivery of the Bonds

Subject to the terms of the Bond Purchase Agreement between the Commonwealth and the Underwriter with respect to the Bonds (the "Purchase Contract"), the Commonwealth expects that the Bonds will be issued and delivered on or about August 10, 2006, or at such later date as may be mutually agreed upon by the Commonwealth and the Underwriter ("Delivery Date"). In connection with the sale of the Bonds, prospective Bondholders will be required to sign a Delayed Delivery Contract with the Underwriter, a form of which is attached hereto as Appendix E.

The following is a description of certain provisions of the Purchase Contract. This description is not to be considered a full statement of the terms of the Purchase Contract and accordingly is qualified by reference thereto and is subject to the full text thereof.

Settlement. Delivery of the Bonds and the Underwriter's obligation under the Purchase Contract to purchase, to accept delivery of and to pay for them at the Delivery Date are conditioned upon the Commonwealth's having tendered performance of its obligations under the Purchase Contract with respect to the delivery of the approving opinion of Bond Counsel and the delivery of a letter from each of Fitch Ratings, Moody's Investors Service and Standard & Poor's Ratings Services confirming that they have rated the Bonds then being delivered.

Delivery of the Bonds is further contingent upon the delivery of certain certificates, reports and legal opinions and the satisfaction of other conditions as of the Delivery Date. Events which may prevent those conditions from being satisfied include, among others, (i) changes in law affecting the Commonwealth, the validity or enforceability of the Bonds or the tax-exempt status of the interest thereon as described herein and (ii) litigation which may be threatened or filed with a court of appropriate jurisdiction affecting the issuance of or security for the Bonds.

The Underwriter may terminate the Purchase Contract without liability therefor by notification to the Commonwealth at any time on or prior to the Delivery Date under certain limited conditions set forth therein.

During the time between the date of this Official Statement and the Delivery Date (the "Delayed Delivery Period"), certain information contained in the Official Statement could change in a material respect. Changes in such information will not permit the Underwriter to terminate the Purchase Contract unless the change is an event described under "Termination of Purchase Contract" below. The Commonwealth has agreed to provide a certificate of the Commonwealth dated the Delivery Date to the effect that the Information Statement of the Commonwealth, as updated, supplemented and delivered to the Underwriter, does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

In addition to the risks set forth above, purchasers of Bonds are subject to certain additional risks, some of which are described below.

Ratings Risk. Delivery of the Bonds is not subject to confirmation of current ratings. No assurance can be given that the ratings currently applicable to the Commonwealth will be the ratings in effect with respect to the Bonds as of the Delivery Date, and lower ratings could adversely affect the market value of the Bonds.

Secondary Market Risk. The Underwriter is not obligated to make a secondary market in Bonds, and no assurances can be given that a secondary market will exist for the Bonds during the Delayed Delivery Period. Purchasers of the Bonds should assume that the Bonds will be illiquid throughout the Delayed Delivery Period.

Market Value Risk. The market value of the Bonds as of the Delivery Date may be affected by a variety of factors including, without limitation, general market conditions, the Commonwealth's ratings, the financial condition and business operations of the Commonwealth and federal and Commonwealth income tax and other laws. The market value of the Bonds on the Delivery Date could be greater or less than the agreed purchase price therefor by the initial purchasers thereof, and the difference could be substantial. Neither the Commonwealth nor the Underwriter makes any representation as to the market price of the Bonds as of the Delivery Date.

Tax Law Risks. Subject to the additional conditions described under "Conditions of Delivery" below, the Purchase Contract obligates the Commonwealth to deliver and the purchaser to acquire the Bonds if the Commonwealth delivers an opinion of Bond Counsel to the effect that interest on the Bonds is excluded from the gross income and from alternative minimum taxable income (except to the extent it is required to be included in calculating the adjusted current earnings adjustment applicable to corporations in computing the corporation's alternative minimum taxable income) of the holders thereof for federal income tax purposes. During the Delayed Delivery Period new legislation, new court decisions, new regulations or new rulings may be enacted, promulgated or interpreted that might prevent Bond Counsel from rendering its opinion or otherwise affect the substance of such opinion. However, notwithstanding that the enactment of new legislation, new court decisions or the promulgation of new regulations or rulings might diminish the value of, or otherwise affect, the federal tax exemption for interest payable on "state or local bonds," Bond Counsel might be able to deliver the opinion and the Commonwealth might then be able to satisfy the requirements for the delivery of the Bonds. In such event, the purchasers would be required to accept delivery of the Bonds. Prospective purchasers are encouraged to consult their tax advisors regarding the likelihood of any changes in tax law and the consequences of such changes to such purchasers.

Conditions of Delivery. The delivery of the Bonds will not require further action by the Commonwealth. The delivery documents include, among other items, the approving opinion of Bond Counsel and certain supplementary opinions of Bond Counsel, Ropes & Gray LLP, as Disclosure Counsel (with respect only to the Commonwealth's continuing disclosure undertaking), and a certificate of the Commonwealth dated the Delivery Date for the Bonds, to the effect that the Information Statement of the Commonwealth, as updated, supplemented and delivered to the Underwriter, does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

Termination of Purchase Contract. The Underwriter may terminate the Purchase Contract, by notification to the Commonwealth, at any time on or prior to the Delivery Date, if the United States Treasury Department and the Internal Revenue Service issue regulations governing practice before the Internal Revenue Service (Treasury Circular 230) which, in the determination of Bond Counsel, require a modification to the form of opinion attached as Appendix C hereto or require one or more significant federal tax issues to be disclosed in the Official Statement and the Underwriter determines (in its sole discretion) that, as a result, the market price of the Bonds has been materially adversely affected. Except as required by Treasury Circular 230, the approving opinion of Bond Counsel must be delivered on the Delivery Date in substantially the form attached as Appendix C hereto. The Underwriter may also terminate the Purchase Contract if (i) as a result of any legislation, regulation, ruling, order, release, court, decision or judgment, or action by the United States Department of the Treasury, the Internal Revenue Service or the Securities and Exchange Commission, either issued, effective, adopted, or proposed, the offering or sale of the Bonds would be in violation of any provision of the Securities Act of 1933, as amended (the "1933 Act"), the Securities Exchange Act of 1934, as amended, or the Trust Indenture Act of 1939, as amended, or the offering or sale of the Bonds would be subject to registration under the 1933 Act or similar federal law, (ii) Bond Counsel cannot issue its approving opinion in the form attached as Appendix C hereto (except as provided above with respect to Circular 230) or (iii) Fitch Ratings, Moody's Investors Service, Inc. or Standard & Poor's Ratings Services shall have failed to rate the Bonds as of their date of delivery.

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 April 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 the qualities and incidents of negotiable instruments under the Uniform Commercial Code. The Bonds are not subject to acceleration.

LITIGATION

No litigation is pending or, to the knowledge of the Attorney General, 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 April Information Statement under the heading "LEGAL MATTERS."

BOOK-ENTRY-ONLY SYSTEM

The Depository Trust Company, New York, New York, will act as securities depository for the Bonds. The Bonds will initially be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond will be issued for each $500,000,000 principal amount of the Bonds or portion thereof and will be deposited with DTC.

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

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

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

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

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

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

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

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

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

A Beneficial Owner shall give notice to elect to have its Bonds purchased or tendered, through its Participant, to the Tender Agent, and shall effect delivery of such Bonds by causing the DTC Participant to transfer the Participant's interest in the Bonds, on DTC's records, to the Tender Agent. The requirement for physical delivery of Bonds in connection with a demand for purchase or a mandatory purchase will be deemed satisfied when the ownership rights in the Bond are transferred by the DTC Participants on DTC's records.

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

It is a condition of the Purchase Contract that the Bonds be assigned unenhanced ratings, by the time of the "closing" (as defined in the Purchase Contract), which is expected to occur on May 2, 2006, of at least "AA," "Aa2" and "AA" by Fitch Ratings, Moody's Investors Service and Standard & Poor's Ratings Services, respectively. Such ratings reflect only the respective views of such organizations, and an explanation of the significance of such ratings may be obtained from the rating agency furnishing the same. There is no assurance that a rating will continue for any given period of time or that a rating will not be revised or withdrawn entirely by any or all of such rating agencies, if, in its or their judgment, circumstances so warrant. Any downward revision or withdrawal of a rating could have an adverse effect on the market prices of the Bonds.

There is no requirement that such ratings be confirmed at the time of delivery of the Bonds, only that the Bonds have ratings. See "THE BONDS - Delayed Delivery of the Bonds."

UNDERWRITING

The Underwriter has agreed, subject to certain conditions, to purchase all of the Bonds from the Commonwealth at a discount from the initial offering prices equal to approximately 0.373960% of the aggregate principal amount of the Bonds. The Underwriter 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 Underwriter. See "THE BONDS – Delayed Delivery of Bonds."

TAX EXEMPTION

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

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

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

In the opinion of Bond Counsel, under existing law, interest on the Bonds and any profit on the sale thereof are 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.

An amount equal to the excess, if any, of the purchase price of a Bond over the principal amount payable at maturity constitutes amortizable bond premium for federal and Massachusetts tax purposes. The required amortization of such premium during the term of a Bond will result in reduction of the holder's tax basis on such Bond. Such amortization also will result in reduction of the amount of the stated interest on the Bond taken into account as interest for tax purposes. Holders of Bonds purchased at a premium should consult their own tax advisers with respect to the determination and treatment of such premium for federal income tax purposes and with respect to the state or local tax consequences of owning such Bonds.

OPINIONS OF COUNSEL

The unqualified approving opinion as to the legality of the Bonds will be rendered by Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., of Boston, Massachusetts, Bond Counsel. The proposed form of the opinion of Bond Counsel relating to the Bonds is attached hereto as Appendix C. Certain legal matters will also be passed upon by Ropes & Gray LLP, of Boston, Massachusetts, as Disclosure Counsel. Certain legal matters will be passed on for the Underwriter by its counsel, Gadsby Hannah LLP of Boston, Massachusetts.

CONTINUING DISCLOSURE

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

For information concerning the availability of certain other financial information from the Commonwealth, see the April 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 Patrick Landers, Assistant Treasurer, Debt Management, Office of the Treasurer and Receiver-General, One Ashburton Place, 12th floor, Boston, Massachusetts 02108, telephone (617) 367-9333, x. 226, or Carlo DeSantis, Assistant Secretary for Capital Finance, Executive Office for Administration and Finance, State House, Room 373, Boston, Massachusetts 02133, telephone (617) 727-2040. Questions regarding legal matters relating to this Official Statement and the Bonds should be directed to John R. Regier, Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., One Financial Center, Boston, Massachusetts 02111, telephone (617) 348-1720.

THE COMMONWEALTH OF MASSACHUSETTS

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

By: /s/ Thomas H. Trimarco
Thomas H. Trimarco
Secretary of Administration and Finance

April 18, 2006

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APPENDIX A

Commonwealth Information Statement dated April 18, 2006

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APPENDIX A

THE

COMMONWEALTH

OF

MASSACHUSETTS

INFORMATION STATEMENT

Dated April 18, 2006

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TABLE OF CONTENTS

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THE COMMONWEALTH OF MASSACHUSETTS

CONSTITUTIONAL OFFICERS

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

LEGISLATIVE OFFICERS

Robert E. Travaglini	**President of the Senate**
Salvatore F. DiMasi	**Speaker of the House**

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THE COMMONWEALTH OF MASSACHUSETTS

INFORMATION STATEMENT

April 18, 2006

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

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

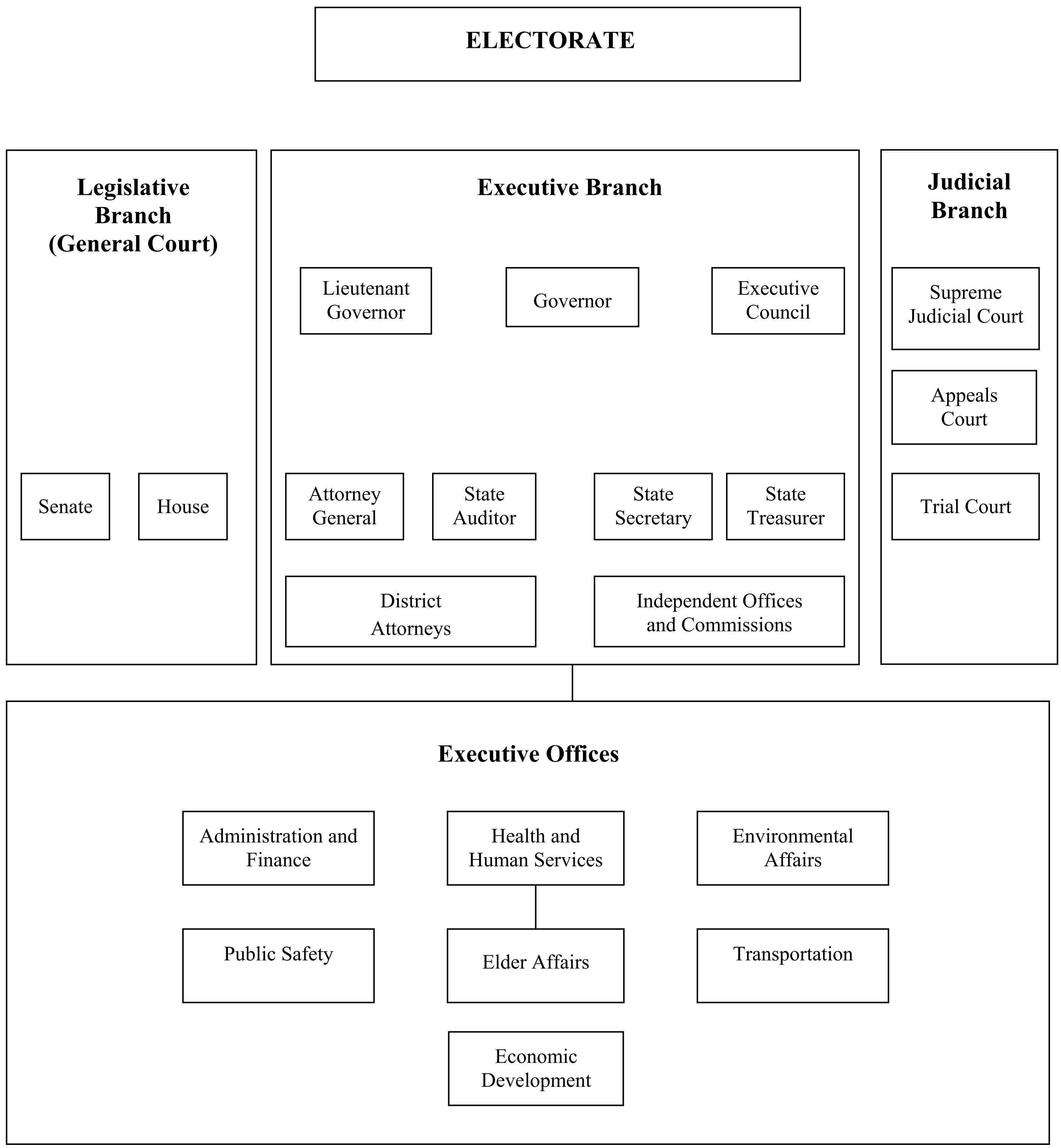
Exhibit A to this Information Statement is the Statement of Economic Information as of December 31, 2005. Exhibit A sets forth certain economic, demographic and statistical information concerning the Commonwealth.

Exhibits B and C, respectively, are the Commonwealth's Statutory Basis Financial Report for the year ended June 30, 2005 and the Commonwealth's Comprehensive Annual Financial Report, reported in accordance with generally accepted accounting principles (GAAP), for the year ended June 30, 2005.

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

THE GOVERNMENT

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



Executive Branch

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

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

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

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

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

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

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

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

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

State Comptroller. All accounting policies and practices, publication of official financial reports and oversight of fiscal management functions are the responsibility of the Comptroller. The Comptroller also administers the Commonwealth's annual state single audit and manages the state accounting system. The Comptroller is appointed by the Governor for a term coterminous with the Governor's and may be removed by the Governor only for cause. The annual financial reports of the Commonwealth, single audit reports and any rules and regulations promulgated by the Comptroller must be reviewed by an advisory board. This board is chaired by the Secretary of Administration and Finance and includes the State Treasurer, the Attorney General, the State Auditor, the Chief Administrative Justice of the Trial Court and two persons with relevant experience appointed by the Governor for three-year staggered terms. The Commonwealth's audited annual reports include audited financial statements on both the statutory basis of accounting (the Statutory Basis Financial Report, or SBFR) and the GAAP basis (the Comprehensive Annual Financial Report, or CAFR). The Commonwealth has continued its relationship with the independent public accounting firm of Deloitte & Touche LLP for fiscal 2006 to audit the Commonwealth's financial statements and to conduct the state single audit. The Comptroller expects the SBFR and the CAFR for the fiscal year ended June 30, 2006 to be completed on or before October 31 and December 31 of 2006, respectively. The Statutory Basis Financial Report for the year ended June 30, 2005, included herein by reference as Exhibit B, and the Comprehensive Annual Financial Report for the year ended June 30, 2005, included herein by reference as Exhibit C, were audited by Deloitte & Touche LLP, as stated in its reports appearing therein. See "COMMONWEALTH BUDGET AND FINANCIAL MANAGEMENT CONTROLS."

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

Legislative Branch

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

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

Judicial Branch

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

Independent Authorities and Agencies

The Legislature has established independent authorities and agencies within the Commonwealth (numbering 57 as of June 30, 2005, the budgets of which are not included in the Commonwealth's annual budget. The Governmental Accounting Standards Board (GASB) Statement 14 articulates standards for determining significant financial or operational relationships between the primary government and its independent entities. In fiscal 2005, the Commonwealth had significant operational or financial relationships, or both, as defined by GASB Statement 14 (as amended), with 36 of its 57 authorities. A discussion of these entities and the relationship to the Commonwealth is included in footnote 1 to the fiscal 2005 general-purpose financial statements in the CAFR, included herein by reference as Exhibit C.

Local Government

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

Municipal revenues consist of taxes on real and personal property, distributions from the Commonwealth under a variety of programs and formulas, local receipts (including motor vehicle excise taxes, local option taxes, fines, licenses and permits, charges for utility and other services and investment income) and appropriations from other available funds (including general and dedicated reserve funds). Following the enactment in 1980 of the tax limitation initiative petition commonly known as Proposition 2½, local governments have been forced to rely less on property taxes and more on other revenues, principally distribution of revenues from the Commonwealth, to support local programs and services. It is estimated that state aid (excluding school building assistance but including aid to regional school districts) comprised approximately 25% of municipal receipts on average in fiscal 2005, although the amount of aid received varies significantly among municipalities. See "COMMONWEALTH PROGRAMS AND SERVICES – Local Aid."

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

Initiative Petitions

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

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

COMMONWEALTH BUDGET AND FINANCIAL MANAGEMENT CONTROLS

Operating Fund Structure

The Commonwealth's operating fund structure satisfies the requirements of state finance law and is in accordance with generally accepted accounting principles (GAAP), as defined by the Government Accounting Standards Board (GASB). The General Fund and other funds that are appropriated in the annual state budget receive most of the non-bond and non-federal grant revenues of the Commonwealth. These funds are referred to in this Information Statement as the "budgeted operating funds" of the Commonwealth. Budgeted operating funds are created and repealed from time to time through the enactment of legislation, and existing funds may become inactive when no appropriations are made from them. Budgeted operating funds do not include the capital projects funds of the Commonwealth, into which the proceeds of Commonwealth bonds are deposited. See "Capital Investment Process and Controls" below.

Two of the budgeted operating funds account for most of the Commonwealth's appropriated spending: the General Fund and the Highway Fund, from which approximately 97% of fiscal 2005's statutory basis budgeted operating fund expenditures were made. The remaining approximately 3% of statutory operating fund expenditures occurred in other operating funds: the Commonwealth Stabilization Fund; the Workforce Training Fund; the Massachusetts Tourism Fund; the Children's and Seniors' Health Care Assistance Fund; the Inland Fisheries and Game Fund; three administrative control funds, including the Temporary Holding Fund, the Intragovernmental Service Fund, and the Transitional Escrow Fund; and the Federal Medicaid Assistance Percentage (FMAP) Escrow Fund. There were also three inactive funds which were authorized by law but had no activity: the Division of Energy Resources Credit Trust Fund; the Tax Reduction Fund; and the collective Bargaining Reserve Fund. The FMAP Escrow Fund, created in fiscal 2004 to hold and allow expenditure of one-time funds provided by the federal government to the states for one-time fiscal relief, expired as of the close of fiscal 2005. The Transitional Escrow Fund, created to account for undesignated fund balances in budgeted funds at the close of fiscal 2005 and carry them forward into fiscal 2006, will expire on June 30, 2006.

At the end of a fiscal year, balances in the budgeted operating funds, unless excluded by law, are used to calculate consolidated net surplus. Balances in the Stabilization Fund and the Tax Reduction Fund, both of which may receive consolidated net surplus funds, and in the Inland Fisheries and Game Fund were excluded from the consolidated net surplus calculation as of the end of fiscal 2005. The balance in the Transitional Escrow Fund was not included in consolidated net surplus, since it was established with surplus funds that remained after a number of mandated transfers specifically to carry that money forward from fiscal 2005 to be available for expenditure in fiscal 2006. See "SELECTED FINANCIAL DATA — Stabilization Fund and Disposition of Year-End Surpluses."

Overview of Operating Budget Process

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

The House Ways and Means Committee considers the Governor's budget recommendations and, with revisions, proposes a budget to the full House of Representatives. Once approved by the House, the budget is considered by the Senate Ways and Means Committee, which in turn proposes a budget to be considered by the full Senate. In recent years, the legislative budget review process has included joint hearings by the Ways and Means Committees of the Senate and the House. After Senate action, a legislative conference committee develops a joint budget recommendation for consideration by both houses of the Legislature, which upon adoption is sent to the

Governor. Under the Massachusetts constitution, the Governor may veto the budget in whole or disapprove or reduce specific line items (line item veto). The Legislature may override the Governor's veto or specific line-item vetoes by a two-thirds vote of both the House and Senate. The annual budget legislation, as finally enacted, is known as the General Appropriation Act (also referred to herein as the GAA).

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

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

Cash and Budgetary Controls

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

Capital Investment Process and Controls

Authorization for capital investments requires approval by the Legislature. Based on outstanding authorizations, the Executive Office for Administration and Finance, at the direction of the Governor and in conjunction with the cabinet and other officials, establishes a capital investment plan. The plan is an administrative guideline and subject to amendment at any time. The plan assigns authority for secretariats and agencies to spend on capital projects and is reviewed each fiscal year. The primary policy objective of the plan is to determine the Commonwealth's investment needs and the required level of funding necessary to support these needs.

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

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

Cash Management Practices of State Treasurer

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

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

The State Treasurer is required to submit quarterly cash flow projections for the then current fiscal year to the House and Senate Committees on Ways and Means on or before each September 1, December 1, March 1 and June 1. The projections must include estimated sources and uses of cash, together with the assumptions from which such estimates were derived and identification of any cash flow gaps. See "FISCAL 2006 AND 2007 – Cash Flow." The State Treasurer's office also oversees the Commonwealth's commercial paper program. See "LONG-TERM LIABILITIES – General Obligation Debt." The State Treasurer's office, in conjunction with the Executive Office for Administration and Finance, is also required to develop quarterly and annual cash management plans to address any gap identified by the cash flow projections and variance reports.

Fiscal Control, Accounting and Reporting Practices of Comptroller

The Comptroller is responsible for oversight of fiscal management functions, establishment of all accounting policies and practices and publication of official financial reports. The Comptroller maintains the Massachusetts Management Accounting and Reporting System (MMARS), the centralized state accounting system that is used by all state agencies and departments except independent state authorities. MMARS provides a ledger-based system of revenue and expenditure accounts enabling the Comptroller to control obligations and expenditures effectively and to ensure that appropriations are not exceeded during the course of the fiscal year. The Commonwealth's statewide accounting system also has various modules for receivables, payables, fixed assets and other processes management. In fiscal 2004 the Comptroller completed a conversion of this system to a newer version utilizing updated technology.

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

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

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

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

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

For most Commonwealth programs and services, the measurement of expenditures under the statutory basis of accounting is equivalent to such measurement on a GAAP basis. However, for certain federally mandated entitlement programs, such as Medicaid, expenditures are recognized under the statutory basis of accounting only to the extent of disbursements supported by current-year appropriations. Some prior year services billed after the start of a fiscal year have been paid from the new fiscal year's appropriation, in an amount determined by the specific timing of billings and the amount of prior year funds that remained after June 30 to pay the prior year's accrued billings, though this practice may vary from year to year.

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

There are two measurement foci and bases of accounting under GAAP – the economic resources management focus and the current financial resources management focus. Implementation of GASB 34 added the economic resources management focus layer of GAAP reporting (otherwise known as the "entity-wide perspective"), where revenues and expenses (different from expenditures) are presented similar to a private company. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met. Capital assets including infrastructure assets net of depreciation and the long-term portion of all liabilities are reported on the statement of net assets.

Under the current financial resources management focus of GAAP (otherwise known as "fund perspective"), revenues are reported in the period in which they become both measurable and available. Revenues are "available" when they are expected to be collected within the current period or soon enough thereafter to be used to pay liabilities of the current period.

Significant revenues susceptible to accrual include income, sales and use, corporation and other taxes, federal grants and reimbursements and reimbursements for the use of materials and services. Tax accruals, which represent the estimated amounts due to the Commonwealth on previous filings, over and under withholdings, estimated payments on income earned and tax refunds and abatements payable, are all recorded as adjustments to statutory basis tax revenues.

Major expenditure accruals are recorded for the cost of Medicaid claims that have been incurred but not paid, claims and judgments and compensated absences such as vacation pay earned by state employees. See Exhibit C (Comprehensive Annual Financial Report for the year ended June 30, 2005, Notes to the Basic Financial Statements).

Audit Practices of State Auditor

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

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

COMMONWEALTH REVENUES

In order to fund its programs and services, the Commonwealth collects a variety of taxes and receives revenues from other non-tax sources, including the federal government and various fees, fines, court revenues, assessments, reimbursements, interest earnings and transfers from its non-budgeted funds, which are deposited in the General Fund, the Highway Fund and other operating budgeted funds. For purposes of this Information Statement, these funds will be referred to as "Budgeted Operating Funds" and revenues deposited in such funds will be referred to as "Budgeted Operating Revenues". In fiscal 2005, on a statutory basis, approximately 65.6% of the Commonwealth's Budgeted Operating Revenues and other financing sources were derived from state taxes. In addition, the federal government provided approximately 19.3% of such revenues, with the remaining 15.1% provided from departmental revenues and transfers from non-budgeted funds. The measurement of revenues for the Budgeted Operating Funds on a statutory basis differs from governmental revenues on a GAAP basis. See "SELECTED FINANCIAL DATA –GAAP Basis; *Revenues – GAAP Basis*." The Commonwealth's executive and legislative branches establish the Commonwealth's budget using the statutory basis of accounting.

Statutory Basis Distribution of Budgetary Revenues

The following table sets forth the Commonwealth's revenues in its Budgeted Operating Funds for fiscal 2001 through 2005 and projected revenues for fiscal 2006.

Commonwealth Revenues - Budgeted Operating Funds

(in millions)(1)

	Fiscal 2001	Fiscal 2002	Fiscal 2003	Fiscal 2004(6)	Fiscal 2005	Projected Fiscal 2006
Tax Revenues:						
Alcoholic Beverages	$64.2	$65.4	$66.3	$67.9	$68.6	$68.9
Banks	179.6	137.0	344.5	238.7	198.9	349.1
Cigarettes	270.5	275.0	451.0	425.4	423.6	434.1
Corporations	945.3	586.7(4)	799.4(4)	997.6	1,062.7	1,314.2
Deeds	129.6	134.3	147.8	187.0	220.3	207.1
Income	9,902.7	7,912.9	8,026.1	8,830.3	9,690.3	10,155.1
Inheritance and Estate	203.4	200.5	181.3	194.7	255.1	218.3
Insurance	356.6	382.9	387.8	420.2	423.4	433.4
Motor Fuel	659.9	666.8	676.4	684.2	685.5	679.2
Public Utilities	86.7	88.5	40.6	64.7	71.1	122.2
Racing	7.5	2.7	-	-	-	-
Room Occupancy	149.6	123.3	120.0	88.9	97.8	105.2
Sales:						
Regular	2,705.8	2,601.4	2,583.6	2,591.6	2,746.6	2,899.9
Meals	482.0	500.9	512.0	531.7	555.6	583.9
Motor Vehicles	568.0	593.6	612.5	625.8	584.2	583.4
Sub-Total–Sales	3,755.8	3,695.9	3,708.1	3,749.2	3,886.4	4,067.3
Miscellaneous	17.9	15.1	14.3	4.2	3.9	3.8
Total Tax Revenues	16,729.2	14,287.1	14,963.8(5)	15,953.2	17,087.9	18,158.0
MBTA Transfer	(654.6)	(664.3)	(684.3)	(684.3)	(704.8)	(712.6)
MSBA Transfer (2)		-	-	-	(395.7)	(488.7)
Total Budgeted Operating Tax Revenues	16,074.6	13,622.8	14,279.5	15,268.9	15,987.4	16,956.7
Non-Tax Revenues:						
Federal Reimbursements	3,974.2	4,334.9	4,523.6	5,098.5	4,697.0	5,270.1
Departmental and Other Revenues	1,425.9	1,485.2	1,494.8	1,847.7	1,948.9	2,051.6
Inter-fund Transfers from Non - Budgeted Funds and Other Sources (3)	1,385.9	1,732.0	1,689.2	1,773.1	1,740.2	1,400.7
Budgeted Non-Tax Revenues and Other Sources	6,786.0	7,552.2	7,707.6	8,719.3	8,386.1	8,722.4
Budgeted Revenues and Revenues from Other Sources	$22,860.6	$21,174.8	$21,987.2	$23,988.3	$24,373.5	$25,679.1

SOURCE: Fiscal 2001-2005, Office of the Comptroller; fiscal 2006, Executive Office for Administration and Finance.

(1) Totals may not add due to rounding. The table does not reflect inter-fund transfers among budgeted funds and other sources that have no effect on ending balances. Excludes certain miscellaneous taxes expended outside of the budgeted process.

(2) If the law that moved school building assistance to a non-budgeted expenditure and transferred a dedicated portion of the Commonwealth's sales tax to the Massachusetts School Building Authority (MSBA) had been in effect prior to fiscal 2005, transfers of sales tax revenue to the MSBA would have been $316.2 million, $365.4 million, $383.2 million and $551.4 million in fiscal 2001 through 2004, respectively. See "SELECTED FINANCIAL DATA – Recent Financial Restructurings; *School Building Assistance Program*".

(3) Inter-fund Transfers from Non-budgeted Funds and Other Sources include profits from the State Lottery, tobacco settlement funds, abandoned property proceeds, and transfers to the Uncompensated Care Pool, as well as other inter-fund transfers.

(4) The Department of Revenue estimates that as a result of the timing of federal tax legislation relating to the depreciation deduction for corporations and the Commonwealth's legislation in response, tax revenue collections in fiscal 2002 were reduced by approximately $30 million and tax revenue collections in fiscal 2003 were increased by the same approximate amount.

(5) Includes approximately $174.0 million in fiscal 2003 revenue resulting from a tax amnesty program.

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

State Taxes

The major components of state taxes are the income tax, which is projected to account for approximately 55.9% of total tax revenues in fiscal 2006, the sales and use tax, which is projected to account for approximately 22.4%, and the corporations and other business and excise taxes (including taxes on insurance, financial institutions and public utility corporations), which are projected to account for approximately 12.2%. Other tax and excise sources are projected to account for the remaining 9.5% of total fiscal 2006 tax revenues.

Effects of Tax Law Changes. During fiscal 2001 through fiscal 2003, legislation was implemented that had the net effect of reducing revenues by decreasing income tax rates or increasing or establishing various deductions and credits. In addition, several administrative changes were implemented that reduced revenues. During fiscal 2003, legislation was implemented that reversed or delayed some of the previous tax reductions, and implemented increases in other taxes. The incremental net effect of these tax law and administrative changes (relative to the immediately preceding fiscal year) is estimated by the Department of Revenue to have been a reduction of approximately $790 million of fiscal 2001 revenues and $700 million of fiscal 2002 revenues. In fiscal 2003, tax law changes (including the so-called loophole closing measures described below) are estimated to have increased revenue collections by a net amount of approximately $1.005 billion. The Department of Revenue estimates that in fiscal 2004, the impact of tax law and administrative changes (including the non-recurrence of some fiscal 2003 revenues from certain loophole closings and that year's tax amnesty program) was to reduce tax collections by approximately $110 million compared to fiscal 2003. The Department of Revenue estimates that tax law changes increased tax collections by approximately $31 million in fiscal 2005 compared to fiscal 2004, will reduce tax collections by approximately $282 million in fiscal 2006 compared to fiscal 2005, and will increase tax collections by approximately $64 million in fiscal 2007 compared to fiscal 2006. The fiscal 2007 increase compared to fiscal 2006 is due to the fact that some of the tax reductions enacted during fiscal 2006 will result in greater revenue loss in fiscal 2006 than in fiscal 2007. See "Fiscal 2005 and 2006 Tax Revenues" below.

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

Tax Law Changes Since Tax Year 2001

Tax Law Change	2001(1)	2002	2003	2004	2005	2006
Part B Income Tax Rate (reduction to 5.0% delayed)	5.6%	5.3%	5.3%	5.3%	5.3%	5.3%
Personal Exemptions	$8,800 for joint filers, $6,600 for head of household filers, $4,400 for single filers	$6,600 for joint filers, $5,100 for head of household filers, $3,300 for single filers	$6,600 for joint filers, $5,100 for head of household filers, $3,300 for single filers	$6,600 for joint filers, $5,100 for head of household filers, $3,300 for single filers	$7,150 for joint filers, $5,525 for head of household filers, $3,575 for single filers	$7,700 for joint filers, $5,950 for head of household filers, $3,850 for single filers
Long-Term Capital Gains Tax Rate	0% to 5% depending on holding period	0% to 5% depending on holding period for capital gains realized before 5/1/02 5.3% for capital gains realized on or after 5/1/02	5.3%	5.3%	5.3%	5.3%
Charitable Deduction	Up to 30-50% of taxable income	None	None	None	None	None
Cigarette Tax	$0.76 per pack	$0.76 per pack prior to July 2002 $1.51 per pack effective July 2002	$1.51 per pack	$1.51 per pack	$1.51 per pack	$1.51 per pack

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(1) The change in the long-term capital gains tax rate taking effect as of May 1, 2002, as opposed to taking effect as of the commencement of a tax year, was held unconstitutional in *Peterson v. Commissioner of Revenue*. See “Fiscal 2005 and 2006 Tax Revenues” below.

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

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

Chapter 186 of the Acts of 2002, “An Act Enhancing State Revenues,” was enacted on July 25, 2002, and made several changes to the state income tax. These included a delay of the scheduled Part B tax rate reduction from 5.3% to 5.0% for at least four years, suspension of the deduction for charitable contributions, and a 25% reduction in personal exemptions. This legislation also changed the tax structure for long term capital gains (i.e., capital gains on assets held for more than one year). Prior to May 2002, long term capital gains were taxed at rates ranging from 0% to 5%, depending on how long the asset had been held before sale. Effective May 1, 2002, long term capital gains are taxed at the Part B income tax income rate, which is currently 5.3%. The timing of this change in the long term capital gains tax rate was subsequently held invalid by state courts. Legislation was eventually enacted retroactively delaying the effective date of the change to January 1, 2003. See "Fiscal 2005 and 2006 Tax Revenues" below.

Chapter 186 also included a mechanism by which the tax year 2001 personal exemptions and charitable deductions could be gradually restored, and the tax rate on Part B income could be gradually reduced to 5.0%, contingent upon "baseline" state tax revenue growth (*i.e.*, revenue growth after factoring out the impact of tax law and administrative processing changes) growing by 2% more than the rate of inflation for state and government purchases. In fiscal 2002 and 2003, tax revenue growth was such that personal exemptions remained at 2002 levels for tax years 2003 and 2004, respectively. In fiscal 2004 and fiscal 2005, baseline tax revenue growth was sufficient to trigger an increase in the personal exemptions for tax years 2005 and 2006, respectively (see preceding table "Tax Law Changes Since Tax Year 2001"). Based on the January 17, 2006 fiscal 2006 revenue estimate, fiscal 2006 tax revenue growth will also be sufficient to trigger an increase in the personal exemption in tax year 2007.

The Department of Revenue estimates the following effects from the changes made in Chapter 186 of the Acts of 2002:

- Taxing capital gains at the Part B income rate increased fiscal 2003 revenues by approximately $250 million to $300 million, fiscal 2004 revenues by approximately $350 million to $400 million, and fiscal 2005 revenues by approximately $720 million to $770 million, and will increase fiscal 2006 revenues by approximately $820 million to $870 million.

- The delay in the Part B rate reduction resulted in approximately $200 million in additional revenues during fiscal 2003 than would have been the case had the rate been reduced to 5.0% in calendar 2003 and resulted in additional revenue of approximately $506 million in fiscal 2004, $556 million in fiscal 2005, and a projected $595 million in fiscal 2006.

- The suspension of the deduction for charitable contributions increased revenues by approximately $170 million in fiscal 2003, $179 million in fiscal 2004, $185 million in fiscal 2005, and a projected $190 million in fiscal 2006.

- The decrease in the personal exemption amounts resulted in approximately $325 million in additional tax collections in fiscal 2003. The 25% cut in personal exemptions was retroactive to January 1, 2002, with the retroactive portion of the tax increase being paid primarily when taxpayers filed their tax year 2002 income tax returns in the spring of 2003. The retroactive nature of the fiscal 2003 revenue impact caused the fiscal 2004 revenue gain to be smaller than it was in fiscal 2003. The Department of Revenue estimates that the fiscal 2004 impact of the personal exemption reductions was approximately $225 million. The partial restoration of the personal exemptions in tax years 2005 and 2006 reduced the amount raised by the initial personal exemption decreases. The Department of Revenue estimates that the additional revenue generated by the personal exemption increases fell to approximately $200 million in fiscal 2005 and $140 million in fiscal 2006.

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

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

Beginning July 1, 2000, pursuant to "forward funding" legislation contained in the fiscal 2000 GAA, a portion of the Commonwealth's receipts from the sales tax, generally the amount raised by a 1% sales tax not including meals taxes, with an inflation-adjusted floor, is dedicated to the Massachusetts Bay Transportation Authority (MBTA) through a trust fund. See "SELECTED FINANCIAL DATA – Recent Financial Restructurings; *Massachusetts Bay Transportation Authority*." The amount of these dedicated sales tax receipts was $704.8 million in fiscal 2005. Such amount is projected to be $712.6 million in fiscal 2006.

Beginning July 1, 2004, pursuant to legislation adopted in June 2004, a portion of the Commonwealth's receipts from the sales tax, totaling $395.7 million in fiscal 2005, $488.7 million in fiscal 2006 and specified percentages in each fiscal year thereafter, increasing in fiscal 2010 and thereafter to one cent of the Commonwealth's sales tax, subject to certain exclusions and minimums, is dedicated to the Massachusetts School Building Authority (MSBA) to fund school building assistance. See "SELECTED FINANCIAL DATA - Recent Financial Restructurings; *School Building Assistance Program*".

Legislation enacted in March 2003, July 2004 and November 2005 closed several so-called tax loopholes related to the sales tax. These included changes to the taxation of promotional advertising materials, goods delivered through "drop shipments," items that are fabricated outside of Massachusetts but sold in the state and the taxation of downloaded software that is pre-written or "canned." The Department of Revenue estimates that these changes resulted in additional tax collections of $20 million to $23 million in fiscal 2005, $34 million to $48 million in fiscal 2006 and $71 million to $81 million on an annualized basis thereafter.

The federal Internet Tax Nondiscrimination Act, P.L. 108-435, passed by the U.S. Congress in late 2004, expanded the definition of "internet access" and thus had the effect of exempting from Massachusetts sales tax telecommunications services purchased, used, or sold by a provider of Internet access for use in providing Internet access to its customers. Such telecommunications services had been taxed for Massachusetts sales/use tax purposes when purchased by a provider of Internet access. The Department of Revenue estimates that the impact of this legislation will be to reduce revenues by approximately $13 million in fiscal 2006 and $20 to $25 million annually thereafter.

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

In general, corporations apportion their income to Massachusetts based on the proportion of payroll, property, and sales within the Commonwealth, with sales being double-weighted. However, beginning January 1, 1996, legislation was phased in over five years establishing a "single sales factor" apportionment formula for the business corporations tax. The formula calculates a firm's taxable income as its net income times the percentage of its total sales that are in Massachusetts, as opposed to the prior formula that took other factors, such as payroll and property into account. Beginning January 1, 1997, legislation was phased in which sourced sales of mutual fund shares to the state of domicile of the purchaser instead of sourcing the sales to the state where the mutual fund provider bore the cost of performing services.

Legislation enacted in March 2003 and November 2005 closed several so-called loopholes in the corporate tax structure. Among these were provisions dealing with real estate investment trusts, qualified subchapter S subsidiaries, and payments to related parties for intangible expenses. See also "*Financial Institutions Tax*." The Department of Revenue estimates that these changes increased revenues by approximately $144 million in fiscal 2004 and $170 million in fiscal 2005. The Department of Revenue further estimates that these changes will increase revenues by $196 million in fiscal 2006 and $198 million annually thereafter.

Financial Institutions Tax. Financial institutions (which include commercial and savings banks) are subject to an excise tax of 10.5%.

Legislation enacted in March 2003 clarified the treatment of Real Estate Investment Trust (REIT) distributions with respect to the dividends-received deduction. REIT distributions received by businesses subject to the corporate excise tax are not to be treated as dividends; and further, they have never been exempt from taxation or partially exempt. REIT distributions are subject to taxation at the recipient level. The Department of Revenue estimates that this change resulted in additional tax revenues of approximately $160 million to $180 million for fiscal 2003, most of which was the result of liabilities for prior tax years. The Department of Revenue estimates that the REIT change resulted in revenue increases of $40 million to $60 million in each of fiscal 2004 and 2005, and will yield approximately the same amount in fiscal 2006 and subsequent fiscal years.

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

Other Taxes. Other tax revenues are derived by the Commonwealth from excise taxes on motor fuels, cigarettes, alcoholic beverages and deeds, among other tax sources. The excise tax on motor fuels is $0.21 per gallon. Chapter 186 of the Acts of 2002 raised the tax on cigarettes from $0.76 per pack to $1.51 per pack and also raised the tax rate on other types of tobacco products. The Department of Revenue estimates that this change resulted in additional revenue of approximately $185 million in fiscal 2003, $155 million to $160 million in fiscal 2004 and $155 million in fiscal 2005 and thereafter. Legislation was enacted in March 2003 that allowed the Commissioner of Revenue to provide incentives for inheritance trusts to settle future obligations during fiscal 2003. Through this program, approximately $34 million was raised in fiscal 2004, but inheritance tax collections in subsequent years were reduced.

Recently, the United States Congress made numerous changes to Internal Revenue Code provisions relating to the estate and gift tax. For the estates of decedents dying on or after January 1, 2002, federal law raises the exemption amount and phases out the amount of the allowable credit for state death taxes by 25% a year until the credit is eliminated in 2005. Because the Massachusetts estate tax, prior to the recent statutory amendments, equaled the amount of the allowable federal credit for state death taxes, this federal change meant that the Massachusetts estate tax (known as a “sponge tax”) would be phased out and eliminated unless legislative action was taken. In October 2002, the Massachusetts estate tax was retained by “decoupling” the Massachusetts estate tax from the federal estate tax for decedents dying on or after January 1, 2003. The Massachusetts sponge tax is now tied to the Internal Revenue Code as in effect on December 31, 2000. These federal changes are estimated to have reduced fiscal 2003 collections by approximately $30 million to $40 million, and the decoupling is estimated to have increased fiscal 2004 tax revenues by $40 million and fiscal 2005 tax revenues by $13 million in the first three months of fiscal 2005, when the effect of the phase-in was complete.

In 1994, voters in the statewide general election approved an initiative petition, effective December 8, 1994, that would slightly increase the portion of gasoline tax revenue credited to the Highway Fund, one of the Commonwealth’s three major budgeted operating funds, prohibit the transfer of money from the Highway Fund to other funds for non-highway purposes and exclude the Highway Fund balance from the computation of the “consolidated net surplus” for purposes of state finance laws. The initiative petition also provided that no more than 15% of gasoline tax revenues could be used for mass transportation purposes, such as expenditures related to the MBTA. This law is not a constitutional amendment and is subject to amendment or repeal by the Legislature, which may also, notwithstanding the terms of the initiative petition, appropriate monies from the Highway Fund in such amounts and for such purposes as it determines, subject only to a constitutional restriction that such monies be used for motor vehicle, highway or mass transportation purposes. On five occasions, the Legislature has postponed the effective date of the provision that would exclude the Highway Fund balance from the computation of the consolidated net surplus. The fiscal 2004 GAA amended Chapter 29 of the General Laws to include the Highway Fund along with other budgeted funds in the calculation of the consolidated net surplus – thereby permanently changing the specific provision from what had been enacted by the initiative.

Tax Revenue Forecasting

Under state law, on or before October 15 and March 15 of each year, the Secretary of Administration and Finance is required to submit to the Governor and to the House and Senate Committees on Ways and Means estimates of revenues available to meet appropriations and other needs in the following fiscal year. On or before

October 15, January 15 and April 15, the Secretary is required to submit revised estimates for the current fiscal year unless, in his opinion, no significant changes have occurred since the last estimate of total available revenues. On or before January 15 of each year, the Secretary is required to develop jointly with the House and Senate Committees on Ways and Means a consensus tax revenue forecast for the following fiscal year. The fiscal 2004 GAA also amended state law to require that subsequent consensus tax revenue forecasts be net of the amount necessary to fully fund the pension system according to the applicable funding schedule, which amount is to be transferred without further appropriation from the General Fund to the Commonwealth's Pension Liability Fund. See "COMMONWEALTH PROGRAMS AND SERVICES—Pension and Other Post-Retirement Benefit Obligations."

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

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

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

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

Fiscal 2004. On February 5, 2003 the Secretary for Administration and Finance and the legislative leadership announced a consensus estimate of Commonwealth tax revenues for fiscal 2004 of $14.678 billion, of which $684.3 million was sales tax revenue dedicated to the MBTA. The fiscal 2004 GAA was enacted on June 30, 2003 based on a tax revenue estimate of $14.808 billion, composed of the consensus tax revenue estimate of $14.678 billion, plus $174.0 million in additional revenues attributable to legislation closing various so-called tax loopholes. This figure also reflected an adjustment of $44.1 million in tax revenue dedicated to the Convention Center Fund, which was transferred from a Budgeted Operating Fund to a non-Budgeted Operating Fund. Due to a technical problem with the loophole-closing legislation that resulted in a delay in implementing one provision of the legislation, on October 15, 2003 the Secretary of Administration and Finance reduced the fiscal 2004 tax revenue estimate by $12 million, to $14.796 billion. Based on actual revenue performance through December 2003, on January 15, 2004 the Secretary of Administration and Finance revised the fiscal 2004 tax revenue estimate to $15.230 billion, $234 million higher than the October 15, 2003 fiscal 2004 estimate. Fiscal 2004 budgeted tax collections totaled approximately $15.953 billion, before transfers to the MBTA.

Fiscal 2005. On January 14, 2004, the Executive Office for Administration and Finance and the Chairpersons of the House and Senate Committees on Ways and Means jointly announced a consensus fiscal 2005 Commonwealth tax estimate of $15.801 billion, of which $684.3 million was dedicated to the MBTA and $1.217 billion was dedicated to the Commonwealth's annual pension obligation. The estimate was based upon a revised consensus tax estimate for fiscal 2004 of $15.230 billion and assumed 3.75% baseline growth for fiscal 2005, which resulted in a $15.801 billion tax estimate.

On June 25, 2004, the Governor signed into law the fiscal 2005 GAA. The fiscal 2005 GAA was based upon a tax estimate of $15.968 billion, consisting of the fiscal 2005 consensus tax estimate of $15.801 billion, plus an additional $89.0 million generated from the closing of various tax loopholes, $65.5 million from enhanced tax audits, and $12.7 million from the taxation of lottery prize assignment. The gross tax figure includes $1.217 billion dedicated to the Commonwealth fiscal 2005 pension obligation and $704.8 million in sales tax revenues dedicated to the MBTA. In order to comply with the Commonwealth's statutory balanced budget requirement, the fiscal 2005 GAA also appropriated $340.0 million from the Stabilization Fund and $270.0 million from the FMAP Escrow Fund. The legislation contains a provision to reduce the amount appropriated from the Stabilization Fund should tax revenues, by the third quarter of the fiscal year, exceed benchmarks set by the January 14, 2004 consensus tax estimate.

On October 15, 2004, the Executive Office for Administration and Finance released a revised tax estimate for fiscal 2005. The revised fiscal tax estimate was $16.231 billion, representing an increase of $301.0 million over the consensus fiscal 2005 tax estimate released on January 14, 2004, after factoring in tax law changes since the earlier estimate. Fiscal 2005 budgeted tax collections totaled $17.088 billion, before transfers to the MBTA and MSBA.

Fiscal 2006. On October 15, 2004 the Executive Office for Administration and Finance released a preliminary projection of tax revenues for fiscal 2006 of $17.035 billion, an increased of $804.0 million over the then-current fiscal 2005 tax estimate, assuming 5.0% baseline growth for fiscal 2006.

On December 6, 2004, the Executive Office for Administration and Finance and House and Senate Ways and Means Committees held a joint hearing in preparation for the consensus revenue estimate due on January 15, 2005. At that hearing, fiscal 2006 revenue estimates were presented by the Department of Revenue, the Massachusetts Taxpayers Foundation, and the Beacon Hill Institute. The Department of Revenue estimated fiscal 2006 tax revenues in the range of $17.341 billion to $17.464 billion, the Massachusetts Taxpayers Foundation forecast fiscal 2006 tax revenues of $17.368 billion, and the Beacon Hill Institute forecast fiscal 2006 tax revenues of $17.555 billion.

On January 14, 2005, the Chairpersons of the House and Senate Committees on Ways and Means and the Secretary for Administration and Finance announced that agreement could not be reached on the fiscal 2006 consensus tax revenue estimate. The Executive Office for Administration and Finance announced a fiscal 2006 tax revenue estimate of $17.336 billion, which the administration incorporated in its fiscal 2006 budget proposal released on January 26, 2005. The Chairpersons of the House and Senate Committees on Ways and Means announced a fiscal 2006 tax revenue estimate of $17.100 billion.

For the fiscal 2006 budget, the Executive Office for Administration and Finance and the House and Senate Committees on Ways and Means adopted different revenue estimates. The administration's estimate was based upon its April 15, 2005 tax revenue estimate for fiscal 2006 of $17.500 billion, 2.4% more than fiscal 2005 receipts of $17.087 billion. (The administration's April 2005 estimate was subsequently adjusted for several legal developments, which reduced the fiscal 2006 estimate by $52.5 million, to $17.448 billion, an increase of 2.1% over fiscal 2005 receipts.) The Ways and Means Committees have estimated tax revenue at $17.283 billion, or 1.2% above actual fiscal 2005 receipts, including a base of $17.1 billion (effectively equal to prior year collections), $105.0 million in additional revenues assumed to result from proposed tax loophole legislation, and $78.0 million in revenues resulting from increased audits. Both the Legislature's and Governor's gross tax estimates included $1.275 billion for the annual pension obligation, $712.6 million in sales tax dedicated to the MBTA and $488.7 million in sales tax dedicated to the MSBA. These costs are deducted from the gross tax estimate to determine net tax revenue. See "Fiscal 2005 and 2006 Tax Revenues" below.

On October 26, 2005, as a result of a periodic review required by state law, the Executive Office for Administration and Finance increased the tax revenue estimate for fiscal 2006 by $509.0 million, to $17.957 billion. On December 12, 2005, a fiscal 2007 consensus revenue estimate hearing was held, jointly chaired by the Secretary of Administration and Finance and the Chairperson of the House and Senate Ways and Means Committees. At that hearing, the Commissioner of Revenue, the Massachusetts Taxpayers Foundation, and Beacon Hill Institute provided tax revenue projections for fiscal 2006 and fiscal 2007. Fiscal 2006 tax revenue projections ranged from $17.878 billion to $18.028 billion. Subsequent to these forecasts, December 2005 tax collections were stronger than projected in the October 26, 2005 Executive Office for Administration and Finance fiscal 2006 tax revenue estimate of $17.957 billion. On January 17, 2006, the Executive Office for Administration and Finance revised the fiscal 2006 tax revenue estimate to $18.158 billion.

Fiscal 2007. At the December 12, 2005 consensus revenue estimate hearing, the Commissioner of Revenue and representatives from the Massachusetts Taxpayers Foundation and Beacon Hill Institute provided tax revenue projections for fiscal 2007 ranging from $18.878 billion to $19.951 billion. On January 13, 2006, the Executive Office for Administration and Finance and the Chairpersons of the House and Senate Committees on Ways and Means jointly announced a consensus fiscal 2007 Commonwealth tax estimate of $18.975 billion, of which $734.0 million is dedicated to the MBTA, $1.335 billion is dedicated to the Commonwealth's annual pension obligations, and $572.5 million is dedicated to the MSBA. The fiscal 2007 tax revenue estimate represents growth of 4.5% over fiscal 2006. Excluding changes in the tax code, this represents growth of 4.1%, referred to as the baseline growth rate.

Fiscal 2005 and 2006 Tax Revenues

Fiscal 2005. Tax revenue collections for fiscal 2005, ended June 30, 2005, totaled $17.088 billion, an increase of $1.135 billion or 7.1% over fiscal 2004. The following table shows monthly tax collections for fiscal 2005 and the change from tax collections in the same months in the prior year, both in dollars and as a percentage. The table also notes the amount of monthly tax collections that are dedicated to the MBTA and to the MSBA.

Fiscal 2005 Budgeted Tax Collections (in millions) (1)

Month	Tax Collections	Change From Prior Year	Percentage Change	MBTA Portion(2)	MSBA Portion	Collections, Net of MBTA and MSBA
July	$1,127.2	$60.2	5.6%	$59.2	$ --	$1,068.0
August	1,192.1	102.4	9.4	56.5	33.0	1,102.6
September	1,697.8	55.8	3.4	60.5	36.3	1,601.0
October	1,098.7	23.1	2.2	56.3	36.3	1,006.1
November	1,119.0	73.5	7.0	52.4	36.3	1,030.4
December	1,587.0	133.0	9.1	67.5	36.3	1,483.2
January	1,685.3	178.1	11.8	66.1	36.3	1,582.9
February	849.2	(53.3)	(5.9)	47.8	36.3	765.1
March	1,556.9	186.8	13.6	62.2	36.3	1,458.4
April	2,016.9	196.0	10.8	55.4	36.3	1,925.2
May	1,327.0	121.2	10.1	57.3	36.3	1,233.5
June	1,830.7	57.7	3.3	63.5	36.3	1,731.0
Total	$17,087.9	$1,134.6	7.1%	$704.8	$395.7	$15,987.4

SOURCE: Executive Office for Administration and Finance.

(1) Sum of details may not equal total because of rounding.

(2) Includes adjustments of $7.8 million on the account of the first quarter, $13.9 million on account of the second quarter and $13.7 million on account of the third quarter and $3.1 million on account of the fourth quarter

The tax revenue increase of $1.135 billion over fiscal 2004 is attributable in large part to an increase of approximately $305.6 million or 4.1% in withholding collections, an increase of approximately $303.9 million or 22.0% in income tax estimated payments, an increase of approximately $270.4 million or 23.1% in income tax payments with returns and bills and an increase of approximately $137.2 million or 3.7% in sales and use tax collections.

Fiscal 2006. Tax revenue collections for the first nine months of fiscal 2006, ended March 31, 2006, totaled $12,867.1 million, an increase of $953.9 million or 8.0% over the first nine months of fiscal 2005. The following table shows the tax collections for the first nine months of fiscal 2006 and the change from tax collections in the same months in the prior year, both in dollars and as a percentage. The table also notes the amount of tax collections in fiscal 2006 through March that are dedicated to the MBTA and to the MSBA.

Fiscal 2006 Budgeted Tax Collections (in millions) (1)

Month	Tax Collections	Change From Prior Year	Percentage Change	MBTA Portion (2)	MSBA Portion	Collections, Net of MBTA and MSBA
July	$1,188.8	$61.6	5.5%	$63.7	$44.6	$1,080.5
August	1,204.9	12.8	1.1	60.0	42.0	1,102.8
September	1,941.2	243.4	14.3	54.7	38.3	1,848.2
October	1,216.0	117.3	10.7	56.2	39.4	1,120.4
November	1,119.0	0.0	0.0	54.7	38.3	1,026.1
December	1,791.0	204.0	12.9	67.3	44.6	1,679.2
January	1,921.1	235.8	14.0	67.6	47.3	1,806.2
February	853.7	4.5	0.5	50.4	35.3	767.9
March (3)	1,631.4	74.5	4.8	60.1	35.3	1,536.1
Total (3)	$12,867.1	$953.9	8.0%	$534.8	$358.7	$11,973.7

SOURCE: Executive Office for Administration and Finance.

(1) Sum of details may not equal total because of rounding.

(2) Includes adjustment of $12.5 million on account of the second quarter and $9.9 million on account of the third quarter.

(3) Figures are preliminary.

The year-to-date tax revenue increase of $953.9 million over fiscal 2005 is attributable in large part to an increase of approximately $331.5 million or 5.7% in withholding collections, an increase of approximately $179.0 million or 16.4% in income tax estimated payments, an increase of approximately $117.6 million or 4.1% in sales and use tax collections, and an increase of approximately $440.7 million or 35.4% in corporate and business collections, which are partially offset by changes in other revenues (net of refunds). The year-to-date collections exceeded the year-to-date benchmark by approximately $106.1 million. The year-to-date benchmark was based on fiscal 2006 tax revenue estimate of $18.158 billion issued by the Executive Office for Administration and Finance on January 17, 2006.

On November 22, 2005, the Governor signed into law Chapter 140 of the Acts of 2005, which provides tax deductions for the purchase of home heating oil by certain taxpayers between November 1, 2005 and March 31, 2006, and tax credits for the purchase of energy-saving home improvements between December 1, 2005 and March 13, 2006. The Department of Revenue estimates that this legislation will reduce fiscal 2006 tax collections by $93.9 million, and fiscal 2007 tax collections by $27.6 million. Tax deductions under this legislation which have been taken to date are running below projections.

On November 23, 2005, the Governor signed into law Chapter 158 of the Acts of 2005, which provides tax credits and sales tax exemptions for companies engaged in the production of motion pictures in the Commonwealth. The Department of Revenue estimates that this legislation will reduce fiscal 2006 tax collections by $27.4 million and fiscal 2007 tax collections by $46.6 million.

On April 6, 2004, the Supreme Judicial Court held in *Peterson v. Commissioner of Revenue* that the effective date of a provision of Chapter 186 of the Acts of 2002 amending the capital gains tax statute to impose new tax rates as of May 1, 2002 violated amendment article 44 of the Massachusetts Constitution. Since the statute has a severability clause, the court remanded the case to the Supreme Judicial Court for Suffolk County for further proceedings to determine whether the statute should be construed to impose the new tax rate beginning on January 1, 2003, or whether the statute instead should be construed to impose the new tax rate beginning on January 1, 2002. Included in the fiscal 2005 GAA were two sections concerning capital gains tax rates: one section providing that the effective date of the capital gains tax statute is January 1, 2002 and another concerning an exemption for taxpayers who paid taxes on capital gains realized during January 1, 2002 to April 30, 2002. On April 26, 2005, the Supreme Judicial Court ruled that the exemption for taxpayers who paid taxes on capital gains realized during January 1, 2002 to April 30, 2002 was not a "reasonable exemption" and again remanded the case to the Supreme Judicial Court for Suffolk County, which ordered that the new tax rate be imposed effective January 1, 2002 unless the Legislature took further action.

On December 8, 2005, the Governor signed into law Chapter 163 of the Acts of 2005, which reinstated the lower capital gains tax rates that initially existed during the portion, ending April 30, 2002, of the 2002 tax year (5% ranging down to 0% depending on the holding period) and provided that such rates shall be applicable to the entire 2002 tax year, *i.e*., a tax year beginning on or after January 1, 2002 and prior to January 1, 2003. The Act provided that any overpayments are to be refunded, without interest, in four annual installments, substantially equal in amount, provided that the Department of Revenue could, as a matter of administrative convenience, pay out individual refunds of $1,000 or less in one lump sum. The Department estimates that total revenue reduction resulting from this legislation will be approximately $225 million to $275 million over four fiscal years, with estimated revenue reductions of $75.5 million in fiscal 2006, and $60.5 million in each year from fiscal 2007 through 2009.

Chapter 163 also linked the personal income tax sections of the Massachusetts tax code to the Internal Revenue Code as it existed on January 1, 2005, as well as closing certain so-called tax loopholes. The Department of Revenue estimates that the Internal Revenue Code update will result in tax revenue reductions of approximately $32 million in fiscal 2006 and $17 million in fiscal 2007, and the loophole closing provisions will result in tax revenue increases of approximately $36 million in fiscal 2006 and $85 million in fiscal 2007.

Federal and Other Non-Tax Revenues

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

For the Budgeted Operating Funds, inter-fund transfers include transfers of profits from the State Lottery and Arts Lottery Funds and reimbursements for the budgeted costs of the State Lottery Commission, which accounted for net transfers from the Lottery of $931.6 million, $941.3 million, $947.1 million, $974.6 million and $1.014 billion in fiscal 2001 through 2005, respectively, and account for an estimated $1.053 billion in fiscal 2006.

On November 21, 2003, the Governor signed into law "An Act Relative to Fiscal Relief Funds." The legislation established a new budgeted operating fund called the Federal Medicaid Assistance Percentage Escrow Fund (FMAP Escrow Fund). All revenue received from the federal Jobs Growth Reconciliation Act of 2003 in fiscal 2004 and 2005, unless otherwise designated for a specific purpose, was deposited into the FMAP Escrow Fund. The Commonwealth received $57.7 million in fiscal 2003, which was deposited into the General Fund. In fiscal 2004, after the transfer of $55.0 million to the Uncompensated Care Trust, a total of $402.7 million was deposited into the FMAP Escrow Fund. Thereafter in fiscal 2004, $33.6 million was transferred from the FMAP Escrow Fund to the Economic Stimulus Fund to fund a variety of economic development programs. The fiscal 2005 GAA reserved $270.0 million on the remaining money in the FMAP Escrow Fund for fiscal 2005 expenditures. The remaining $99.1 million balance was transferred to the Stabilization Fund as part of the consolidated net surplus.

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

The Commonwealth's allocable share of the base amounts payable under the master settlement agreement is approximately 4.04%. The Commonwealth's allocable share of the base amounts under the agreement through 2025 is more than $8.3 billion, subject to adjustments, reductions and offsets. However, in pending litigation tobacco manufacturers are claiming that because of certain developments they are entitled to reduce future payments under the master settlement agreement, and certain manufacturers withheld payments to the states due on April 17, 2006. See "LEGAL MATTERS - Taxes and Revenues." Projected fiscal 2006 payments in the table below do not reflect such a reduction, as the Commonwealth believes it is due the full amount and is pursuing its claim to unreduced payments. If full payment is not collected by the end of fiscal 2006, the reduction of the Commonwealth's projected non-tax revenues for fiscal 2006 caused by such non-payment would be approximately $26.6 million.

During fiscal 2000, the Legislature enacted two related laws to provide for disposition of the tobacco settlement payments. The legislation created a permanent trust fund (the Health Care Security Trust) into which the Commonwealth's tobacco settlement payments, other than payments for attorneys' fees, are to be deposited. The legislation contemplated that a portion of the monies in the trust fund would be available for appropriation by the Legislature to supplement existing levels of funding for health-related services and programs, and the remainder of the monies in the trust fund would be held as a reserve fund and would not be appropriated. For fiscal 2000 through fiscal 2004, the amounts to be available for expenditure on such purposes were originally stipulated to be $91.2 million, $94.0 million, $96.0 million, $98.0 million and $100.0 million, respectively, adjusted for the discounted amounts received by the Commonwealth in comparison to the master settlement agreement. The fiscal 2002 GAA changed this formula to 50% of amounts received in the settlement for fiscal 2002, fiscal 2003 and fiscal 2004. Beginning with fiscal 2005, 30% of the annual payments (not including any Strategic Contribution Fund payments) and 30% of the earnings on the balance in the trust fund were to be available for such purposes. As of June 30, 2005, the fund had a balance of $443.6 million on a statutory basis. The fund's trustees reported a GAAP total asset position of $526.7 million as of June 30, 2005, exclusive of liabilities of $79.6 million, of which $52.3 million will be payable to the General Fund of the Commonwealth in fiscal 2006 and 2007.

For fiscal 2003 through 2006, inclusive, the Commonwealth has appropriated 100% of each fiscal year's projected annual tobacco settlement payment for the respective year's current spending.

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

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

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

Fiscal Year	Initial Payments	Annual Payments	Total Payments
2000	$186.6(2)	$139.6	$326.2(2)
2001	78.2	164.2	242.5
2002	82.8	221.7	304.5
2003	86.4	213.6	300.0
2004		253.6	253.6
2005		257.4	257.4
2006		260.0(3)	260.0(3)
Total	$434.0	$1,510.1	$1,944.2

SOURCES: Fiscal 2000-2005, Office of the Comptroller; fiscal 2006, Executive Office for Administration and Finance.

(1) Amounts are approximate. Totals may not add due to rounding.
(2) Payments received for both 1999 and 2000.
(3) Projected amounts; subject to change.

Limitations on Tax Revenues

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

Tax revenues in fiscal 2001 through 2005 were lower than the "allowable state tax revenue limit" set by Chapter 62F and will be lower than the allowable limit again in fiscal 2006.

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

In fiscal 2005, cumulative net state tax revenues used to calculate the Commonwealth's state tax revenue growth limit, as established in Chapter 62F, were $17.190 billion, exceeding the permissible state tax revenue limit of $17.054 billion by $136.0 million. The excess amount was transferred to the Commonwealth's Temporary Holding Fund, and subsequently transferred to the Stabilization Fund pursuant to Chapter 62F.

As of December 31, 2005, actual state tax revenue exceeded the permissible state tax revenue limit set by Chapter 62F by $94.3 million, and that amount was diverted from the General Fund to the temporary holding account. Based on the January 17, 2006 tax revenue estimate for fiscal 2006, the permissible tax revenue limit will require diversion of excess tax revenue from the General Fund if the inflation rate is below approximately 4.1% when measured at the end of the fiscal year. As of the most recent quarter for which data is available, inflation was 5.45%.

COMMONWEALTH PROGRAMS AND SERVICES

The following table identifies certain major spending categories of the Commonwealth and sets forth the budgeted expenditures for each fiscal year within each category. In addition, Budgeted Expenditures and Other Uses are further adjusted to reflect the School Building Assistance Program payments from fiscal 2001 through fiscal 2004, had they been non-budgeted in those years as they are beginning in fiscal 2005 with creation of the Massachusetts School Building Authority.

Commonwealth Expenditures—Budgeted Operating Funds (in millions)

Expenditure Category	Fiscal 2001(4)	Fiscal 2002	Fiscal 2003	Fiscal 2004	Fiscal 2005	Projected Fiscal 2006
Direct Local Aid	$4,380.2	$4,823.7	$4,686.2	$4,382.6	$4,476.7	$4,622.1
Medicaid(1)	4,642.3	5,259.3	5,485.1	5,742.4	5,977.2	6,897.3
Public Assistance	991.4	1,029.6	1,019.0	1,019.1	1,095.9	1,131.9
Other Health/Human Services	3,227.7	3,282.5	3,179.4	3,497.2	3,503.1	3851.1
Debt Service and Contract Assistance	790.4(5)	1,415.4	1,480.9	1,569.2	1,738.8	1,915.3
Higher Education	1,102.3	1,029.5	969.0	831.3	915.0	982.1
Group Insurance	641.4	716.9	739.1	787.6	846.4	988.4
Public Safety(2)	942.4	1,008.4	1,022.1	1,077.8	1,160.5	1,346.1
Other Program Expenditures	2,836.7	2,786.7	2,431.2	2,147.5	2,354.2	2,542.8
Budgeted Pension Transfers	1,040.1	795.8	813.5	701.9(6)	1,216.9	1,274.7
MBTA Assistance	--	--	--	--	--	--
School Building Assistance	316.2	365.4	383.2	551.4(7)	--	--
Inter-fund Transfers to Non-budgeted Funds—Other	949.6	287.1	229.6	540.3	494.4(8)	--(9)
Budgeted Expenditures and Other Uses	$22,133.7	$22,800.3	$22,439.1	$22,848.3	$23,779.1	$25,551.8
Adjustment for items moved off-budget(3)	(316.2)	(365.4)	(383.2)	(551.4)(7)	--	--
Adjusted Budgeted Expenditures and Other Uses	$21,817.5	$22,434.9	$22,055.9	$22,296.6	$23,779.1	$25,551.8

SOURCES: Fiscal 2001-2005 Office of the State Comptroller; fiscal 2006 and off-budget adjustments, Executive Office for Administration and Finance.

(1) Excludes off-budget Medicaid spending in fiscal 2003, 2004, 2005 and 2006 estimated at $201.4 million, $329.2 million, $422.2 million, and $332.5 million, respectively. Fiscal 2001 through 2004 also exclude budgeted expenditures for the administration of the Medicaid Program. Fiscal 2005 and 2006 include program administration. See "Medicaid" below for additional detail.
(2) Public Safety comprises expenditures for the Executive Office of Public Safety plus the Commonwealth's expenditures for sheriffs. Prior fiscal years have been restated to identify public safety spending. See "Public Safety" below.
(3) Includes expenditures for school building assistance in fiscal years preceding off-budget restructuring of these expenditures. See "SELECTED FINANCIAL DATA - Recent Financial Restructurings." Amounts are subtracted from the years in which they were incurred to facilitate trend analysis.
(4) Restated for the Mosquito and Greenhead Fly Control Fund, which became a non-budgeted fund in fiscal 2002.
(5) In fiscal 2001, the Commonwealth enacted legislation that defeased $650.0 million of outstanding debt by transferring operating surplus and appropriations to the Debt Defeasance Trust Fund, which is non-budgeted. If such cash defeasance had not occurred, then debt service would have been $1,299.9 million in fiscal 2001. The Debt Defeasance Trust Fund also was used to meet fiscal 2002 debt service payments.
(6) The fiscal 2004 GAA funded the Commonwealth's scheduled pension obligation using $687.3 million in cash and a transfer of assets to the pension fund valued at $145.0 million. The asset transfer has not occurred. See "Pension and Other Post-Retirement Benefit Obligations; *Unfunded Actuarial Accrued Liability*." Amount in the table also includes non-contributory pensions paid from the General Fund.
(7) Includes $150.0 million transferred from surplus for initial funding of grants by the MSBA.
(8) The fiscal 2005 figure includes $293.5 million in fiscal 2004 appropriations authorized to be expended in fiscal 2005 and $75.0 million in fiscal 2004 appropriations reserved for distribution to cities and towns in fiscal 2005.
(9) During the fiscal year, the Executive Office for Administration and Finance reflects certain off-budget uses of funds as offsets to non-tax revenues rather than inter-fund transfers to non-budgeted funds. At fiscal year close, the Office of the State Comptroller reflects these off-budget uses of funds as inter-fund transfers to non-budgeted funds, which in this table will be additions to budgeted program expenditures.

Local Aid

Commonwealth Financial Support for Local Governments. The Commonwealth makes substantial payments to its cities, towns and regional school districts (local aid) to mitigate the impact of local property tax limits on local programs and services. Local aid payments to cities, towns and regional school districts take the form of both direct and indirect assistance. Direct local aid consists of general revenue sharing funds and specific program funds sent directly to local governments and regional school districts as reported on the so-called "cherry sheet" prepared by the Department of Revenue, excluding certain pension funds and non-appropriated funds. In fiscal 2005, exclusive of the school building assistance program, which was restructured, moved off-budget, and transferred to the newly created Massachusetts School Building Authority, approximately 18.2% of the Commonwealth's budgeted spending was allocated to direct local aid. In fiscal 2006 approximately 18.6% of the Commonwealth's projected budgeted spending is estimated to be allocated to direct local aid.

As a result of comprehensive education reform legislation enacted in June 1993, a large portion of general revenue sharing funds are earmarked for public education and are distributed through a formula specified in Chapter 70 of the General Laws designed to provide more aid to the Commonwealth's poorer communities. The legislation requires the Commonwealth to distribute aid to ensure that each district reaches at least a minimum level of spending per public education pupil. For fiscal 2005, $2.941 billion of state aid was required to supplement required local spending to reach the minimum spending level statewide as required by law, and the Commonwealth provided a total of $3.183 billion. Since fiscal 1994, the Commonwealth has fully funded the requirements imposed by this legislation in each of its annual budgets. Several specific programs are also funded through direct local aid, such as public libraries, police education incentives, and property tax abatement for certain elderly or disabled residents. Until creation of the MSBA in fiscal 2005, the state's share of school building construction costs was also included in direct local aid. The State Lottery and Additional Assistance programs, which comprise the other major components of direct local aid, provide unrestricted funds for municipal use.

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

Reductions in Local Aid. During fiscal 2003 Governor Romney reduced local aid in response to declining revenues, pursuant to temporary authority under Chapter 29, Section 9C of the Massachusetts General Laws. On January 30, 2003 the Administration announced $114.4 million in reductions to Additional Assistance and lottery distributions to cities and towns. In the fiscal 2004 GAA direct local aid was reduced by an additional $288.7 million, or 5.7%, primarily through a $150.8 million reduction in aid for education, a $67.1 million reduction in aid for school transportation costs, a $25.2 million reduction in Additional Assistance, and a $44.0 million reduction in lottery distributions. The fiscal 2004 final supplemental appropriations act signed into law on September 17, 2004 appropriated $75.0 million in one-time local aid payments to be distributed in fiscal 2005. The Commonwealth was able to avoid further cuts in fiscal 2005 and restored much of the funding in fiscal 2006. For fiscal 2005, both the Additional Assistance and lottery distribution programs were level funded from the fiscal 2004 levels. However, aid for education was increased by $75.0 million, a 2.4% increase over fiscal 2004, and school transportation aid increased by $13.2 million, a 50% increase over fiscal 2004. The fiscal 2006 GAA increased the distribution of lottery profits to cities and towns by $100.0 million, a 15.1% increase. Aid for education continued to increase, growing by over $105.0 million, a 3.3% increase over fiscal 2005. Fiscal 2006 aid for school transportation costs grew by an additional $7.0 million, an increase of 17.7%.

Property Tax Limits. In November 1980, voters in the Commonwealth approved a statewide tax limitation initiative petition, commonly known as Proposition 2½, to constrain levels of property taxation and to limit the charges and fees imposed on cities and towns by certain governmental entities, including county governments. Proposition 2½ is not a provision of the state constitution and accordingly is subject to amendment or repeal by the Legislature. Proposition 2½, as amended to date, limits the property taxes that may be levied by any city or town in any fiscal year to the lesser of (i) 2.5% of the full and fair cash valuation of the real estate and personal property therein, and (ii) 2.5% over the previous year's levy limit plus any growth in the tax base from certain new construction and parcel subdivisions. Proposition 2½ also limits any increase in the charges and fees assessed by certain governmental entities, including county governments, on cities and towns to the sum of (i) 2.5% of the total charges and fees imposed in the preceding fiscal year, and (ii) any increase in charges for services customarily provided locally or services obtained by the city or town at its option. The law contains certain override provisions and, in addition, permits debt service on specific bonds and notes and expenditures for identified capital projects to be excluded from the limits by a majority vote at a general or special election. At the time Proposition 2½ was enacted, many cities and towns had property tax levels in excess of the limit and were therefore required to roll back property taxes with a concurrent loss of revenues. Between fiscal 1981 and fiscal 2005, the aggregate property tax levy grew from $3.347 billion to $9.483 billion, a compound annual growth rate of 4.4%.

Many communities have responded to the limitation imposed by Proposition 2½ through statutorily permitted overrides and exclusions. There are three types of referenda questions (override of levy limit, exclusion of debt service, or exclusion of capital expenditures) that permit communities to exceed the limits of Proposition 2½.

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

Medicaid

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

Over a quarter of the Commonwealth's budget is devoted to Medicaid. It is the largest and has been one of the fastest growing budget items in the Commonwealth's budget. Medicaid spending from fiscal 2001 to fiscal 2005 grew by 8.3% on a compound annual basis. During the same period, Medicaid enrollment increased 1.2% on a compounded annual basis. The Executive Office for Administration and Finance projects total fiscal 2006 expenditures for Medicaid to be $7.230 billion, an increase of 13% over fiscal 2005. The fiscal 2006 projection brings on-budget $264.3 million for the Medicare buy-in, which pays premiums and some deductibles for members eligible for both Medicare and MassHealth. In previous years, the buy-in was accounted for in budgeting as an offset to federal reimbursement. Adjusted for the transfer on-budget of the Medicare buy-in for fiscal 2006, growth in Medicaid spending from fiscal 2005 to fiscal 2006 is projected to be 8.8%.

On-budget Medicaid spending is below original projections in fiscal 2006. MassHealth is projected to revert approximately $102 million at the end of the fiscal year. The previous reversion estimate was $165 million. The lower reversion amount is due to increased enrollment, the impact of hospital rate increases, increased utilization of dental services for children under the remedial plan required by *Health Care for All v. Romney* (see "LEGAL MATTERS"), and increased state pharmacy expenditures due to federal Medicare Part D implementation issues.

Medicaid is budgeted on a cash-year basis and has state authorization to pay claims for prior year services from current year appropriations. Medicaid budget projections are calculated to fund payments made in the twelve months of a fiscal year. Due to lower than originally anticipated spending in recent years, Medicaid accounts payable spending (spending from July 1 through September 15 of prior year funds for prior year services), which was not budgeted for in forecasts, grew from $142 million in fiscal 2003 to $251.8 million in fiscal 2004. EOHHS reduced the amount of spending to $110 million in fiscal 2005. EOHHS expects to do no accounts payable spending in fiscal 2006. Accordingly, the Governor's fiscal 2007 budget proposal budgets for twelve months of Medicaid cash spending.

Medicaid Program Growth in Expenditures and Enrollment

	Fiscal 2001	Fiscal 2002	Fiscal 2003	Fiscal 2004	Fiscal 2005	Projected Fiscal 2006
Budgeted Medicaid Program Expenses (in millions)	$4,642.3	$5,259.3	$5,485.1	$5,742.4	$5,855.5	$6,769.6
Budgeted Medicaid Administrative Expenses (in millions)	41.4	46.3	110.1	105.1	121.7	127.7
Off-budget Medicaid Expenses (in millions)	--	--	201.4	329.2	422.2	332.5
Total Expenditures (in millions)	$4,683.7	$5,305.6	$5,796.6	$6,176.7	$6,399.4	$7,229.8(1)
Annual Percent Growth in Total Expenditures	9%	13%	9%	7%	4%	13%
Enrollment	948,378	1,004,679	986,601	951,960	986,386	1,041,146
Annual Percent Growth in Enrollment	2%	6%	-2%	-4%	4%	6%
Per Enrollee Expenditures	$4,939	$5,281	$5,875	$6,488	$6,488	6,944
Annual Percent Growth in Per Enrollee Expenditures	7%	7%	11%	10%	0%	7%

SOURCE: Executive Office for Administration and Finance.

(1) Includes $264.3 million for Medicare buy-in payments accounted for as offsets to federal reimbursement revenue rather than spending in prior years.

Medicaid spending varies by type of Medicaid member. Medicaid spending on disabled individuals and elders together accounts for over 70% of total spending and 30% of total caseload. Low-income children and families account for only 30% of total Medicaid spending but 70% of total caseload. In fiscal 2005, over 40% of total Medicaid expenditures were for nursing home care and prescription drugs. In fiscal 2005, many Medicaid savings initiatives were directed at controlling the rate of growth for these services. Savings initiatives target service utilization, provider rates, benefits and to a limited degree member eligibility. Utilization control measures include the implementation of the MassHealth drug list to steer pharmacy utilization toward the use of lower cost brand name and generic drugs and monitoring of prescription utilization. Coverage for certain benefits considered optional under federal law has been dropped, including most dental coverage for adults. Cost containment and cost sharing are also being used to help control Medicaid growth. Cost sharing initiatives include the introduction of and increases in co-pay amounts for various services and the introduction of and increases in premiums for certain groups of members.

In October 2004, EOHHS implemented two policy initiatives intended to improve access to the Commonwealth's Medicaid program and more efficiently deliver services to patients. These initiatives have intentionally contributed to the increase in MassHealth caseload in fiscal 2005 and 2006. First, EOHHS integrated the application process for Medicaid and for the Uncompensated Care Pool, which has helped EOHHS identify Medicaid-eligible individuals when they seek services at hospitals and community health centers. Second, EOHHS implemented the "Virtual Gateway," an information system through which hospitals and community health centers electronically file applications to EOHHS to determine whether an individual is eligible for Medicaid or the Pool. Both of these initiatives have contributed to higher Medicaid enrollment and, importantly, a proportionate decrease in free care utilization and costs, which is consistent with the Commonwealth's intention to direct Pool users into MassHealth, in order to provide better management of care and reduce higher cost emergency utilization.

Uncompensated Care Pool. The Uncompensated Care Pool (UCP or "the Pool") reimburses acute care hospitals and community health centers in Massachusetts for eligible services provided to low-income uninsured and underinsured people. In Pool fiscal 2005 (October 1, 2004 through September 30, 2005), the Pool paid for an estimated 41,000 inpatient and 1.9 million outpatient visits for 454,580 individuals. Beginning in Pool fiscal 2004, the UCP payment method for hospitals changed from a retrospective fee-for-service system to a prospective fixed payment system. Under this system, acute care hospitals are paid a pre-determined amount from the Pool each month, based in part on historical free care costs. Community health centers continue to be paid on a fee-for-service basis, up to an annual cap. Revenues into the Pool include state funds, hospital assessments, and surcharge payer assessments.

The fiscal 2004 GAA directed the Division of Medical Assistance to provide health care benefits to long-term unemployed adults and fund such benefits using Pool revenues, described above. These individuals had previously been covered through the MassHealth Basic program and funded on budget. Eligibility for these individuals under the MassHealth Basic program was cut in April 2003. The fiscal 2004 program (entitled MassHealth Essential) for long-term unemployed adults began October 1, 2003 with an enrollment cap of 36,000 long-term unemployed adults. Effective January 26, 2005, the Commonwealth received federal approval to impose an enrollment cap for this population that ranges from 36,000 to 44,000 individuals. The fiscal 2006 GAA moves MassHealth Essential from an "off-budget" program to an "on-budget" program. Per the GAA, the July to September 2005 period was funded from the Uncompensated Care Trust Fund, as it was in fiscal 2004. Beginning in October 2005, an on-budget line-item was created to fund the October 2005 to June 2006 period. In order to remain within the on-budget appropriation, MassHealth implemented an enrollment cap at 43,000 members, and a waitlist was created. Every two weeks MassHealth enrolls Essential members up to the 43,000 members. Legislation reforming health insurance approved in April 2006 (see "Health Insurance Legislation" below) lifts the enrollment cap to 60,000.

Three-year Renewal of 1115 Demonstration Project. On January 26, 2005 CMS approved a three-year extension of the Commonwealth's 1115 Demonstration Project ("waiver") under which the Commonwealth has operated its Medicaid program. The extension period runs from July 1, 2005 through June 30, 2008.

A major component of the renewal negotiations dealt with the state's funding mechanism for hospital and MCO supplemental payments. Supplemental payments are in addition to ordinary Medicaid rate payments for providing care to Medicaid members. From 1991 until 2005, Medicaid had been making supplemental payments to certain hospitals. Supplemental payments to Medicaid Managed Care Organizations (MCOs) began in fiscal 1997. The hospital supplemental payments had been authorized in the Massachusetts Medicaid state plan, and the MCO supplemental payments were permitted under the 1115 Demonstration waiver. The Commonwealth has used funding provided by other government entities (primarily local governments and the state-owned medical school) as the non-federal share of these supplemental Medicaid payments. The transfer of the non-federal share to the Medicaid agency to fund supplemental payments is called an inter-governmental transfer (IGT).

As a part of the 1115 waiver renewal negotiations, the Commonwealth and CMS agreed to sunset IGTs as a mechanism for financing the non-federal share of hospital supplemental payments effective June 30, 2005 and of supplemental payments to Medicaid MCOs effective June 30, 2006. In fiscal 2005, approximately $500 million in hospital supplemental payments and $770 million of Medicaid Managed Care Organization (MCO) supplemental payments were made. Under current state law, supplemental payments are conditioned on the receipt of IGTs equal to one-half the payment amount and federal reimbursement for the other half of the payment amount. In and of itself, sunsetting the IGT funding mechanism and, as a result, ending the associated supplemental payments would have no net effect of the Commonwealth's financial condition because both spending and revenue would be reduced by an equal amount.

Since the termination of supplemental payments would be disruptive to the Commonwealth's safety net hospital system, the Administration is exploring alternative non-federal funding mechanisms to use in place of IGTs in order to resume supplemental payments to certain hospitals. On March 23, 2006 the Governor filed a bill in which would authorize a transfer of money from the General Fund to an off-budget trust fund in anticipation of making hospital supplemental payments. The actual disbursement of the supplemental payment is conditioned on the Commonwealth finding an alternative non-federal funding mechanism agreeable to CMS, which would then allow federal reimbursement for these expenses.

As the hospital supplemental payments did when their IGT mechanism ended at the close of fiscal 2005, MCO supplemental payments will cease when their associated IGT funding mechanism sunsets at the end of state fiscal year 2006, resulting in the discontinuation of federal reimbursement of approximately $385 million for MCO payments. The 1115 Demonstration Project waiver renewal did, however, allow for a mechanism by which the Commonwealth could continue to receive these funds.

The waiver renewal directs certain federal funding within the Demonstration Project for the establishment of a fund, called the Safety Net Care Pool (SNCP), dedicated to reducing the rate at which Massachusetts residents are uninsured. (The availability of these funds is subject to the conditions generally described herein.) Expenditures from this fund may only be used for the provision of health care services to uninsured individuals and for unreimbursed Medicaid costs. The funds can be used through any type of provider or through insurance products. Up to 10 percent of the funds may be used for expenditures for the improvement of the delivery of health care to the uninsured, such as capacity building and infrastructure. The Commonwealth may only access funds if the source of the non-federal share of such funds has received prior approval from CMS (and is a permissible source under federal law). In addition, beginning July 1, 2006, payments from the fund must be made in accordance with payment methodologies approved by CMS.

The total allotment for the SNCP is projected to be $1.34 billion per year in spending and about one-half that amount in federal reimbursements in each year of the extension period. The actual amount of dollars in the fund will be set by the amount of state fiscal 2006 supplemental payments made to the Medicaid MCOs (described above), projected to be $770 million, and the state's federal fiscal year 2005 Disproportionate Share Hospital (DSH) allotment of $574.5 million.

In October 2005, CMS notified the Commonwealth under the terms and conditions of the 1115 Demonstration Waiver that a federally approved plan for reducing the number of uninsured individuals in the Commonwealth must be in place by July 1, 2006 in order for federal funding associated with the Safety Net Care Pool to be made available to the Commonwealth for fiscal 2007 and beyond. CMS has indicated that the purpose of the Safety Net Care Pool funds is to reduce the level of uninsured persons in Massachusetts through mechanisms other than the Medicaid program. Subsequently, U.S. Secretary of Health and Human Services Michael Leavitt reaffirmed that the federal government could withhold up to $385 million in federal funds if a new plan meeting the SNCP goals and agreeable to CMS were not approved and implemented by July 1, 2006. To allow time for review, CMS had requested that a plan be submitted to it by January 15, 2006. The Commonwealth did not submit a plan by January 15.

In April 2006 the Commonwealth enacted legislation (discussed below) to reduce the level of uninsured persons in Massachusetts. Based on this enacted legislation, the Executive Office of Health and Human Services (EOHHS) will submit a description of the plan to CMS for federal approval. In this submission, the Commonwealth will argue the plan complies with the terms and conditions of the waiver and that all $385 million should be made available for spending in fiscal 2007. In previous communications, CMS has indicated that review could take up to 120 days.

Health Insurance Legislation. On April 12, 2006 Governor Romney signed into law "An Act Providing Access to Affordable, Quality, Accountable Health Care." The legislation is projected to provide health insurance coverage for 95% of the Commonwealth's uninsured by 2009, reducing reliance on the Commonwealth's uncompensated care pool.

The legislation creates or includes:

- An individual mandate requiring all residents 18 years and older to obtain health care insurance by July 1, 2007. The legislation also requires parents to provide insurance for their children.
- The Commonwealth Health Insurance Connector to increase accessibility to affordable, private health insurance coverage for individuals and small businesses and permitting payment of premiums on a pre-tax basis.
- The Commonwealth Care program to provide premium assistance to subsidize the purchase of private health insurance for individuals below specified income levels.

For fiscal 2006 the legislation appropriates $55.0 million: $25.0 million to establish the Commonwealth Health Insurance Connector, $14.5 million to expand and restore prevention programs at the Department of Public Health, $10.0 million for a reserve to fund additional administrative costs of various agencies, and $5.5 million for additional program expenditures. These appropriations are available for expenditure through fiscal 2007.

For fiscal 2007 the legislation would result in a total of $332.0 million in new general fund spending: $177.0 million in rate increases for hospitals, physicians and managed care organizations; $94.0 million to eliminate waitlists for current MassHealth programs; and $61.0 million to expand MassHealth eligibility for children to 300% of the federal poverty level. The Commonwealth expects to receive federal financial participation in an amount equal to one-half of these expenditures.

For fiscal 2008 and 2009, the legislation provides an incremental $90.0 million in rate increases for hospitals and physicians in each year.

Commonwealth Care premium assistance payments for the purchase of private insurance by low income individuals will be funded by redeploying existing funds previously used to reimburse hospitals for free care. Total premium assistance payments in fiscal 2007 are projected to be $160.0 million.

Governor Romney vetoed two provisions of the legislation:

- A requirement that all businesses with eleven or more employees offer health insurance to their full time employees and make a "fair and reasonable contribution" or be assessed an annual fee of $295 per employee. $45.0 million of revenue is attributed to this provision.
- Restoration of certain MassHealth optional benefits, notably dental coverage for adults, which if implemented would cost $81.0 million in fiscal 2007.

Review of Targeted Case Management Services Rendered by Department of Social Services. The federal Department of Health and Human Services, Office of the Inspector General (OIG), is auditing whether services provided by the Department of Social Services were properly claimed as Medicaid reimbursable Targeted Case Management services. Currently at issue is whether the Commonwealth should be required to refund approximately $86.0 million to the federal government in respect of federal fiscal years 2002 and 2003. The Commonwealth is defending these claims, but the OIG may recommend that CMS disallow some or all of the claims. The Commonwealth expects to challenge any such disallowance and believes that there are numerous strong legal bases to support such a challenge. Additional Targeted Case Management services claims for the same period totaling approximately $13.0 million may also be at issue, as well as similar claims for subsequent periods, which may equal or exceed the annual amounts at issue for federal fiscal years 2002 and 2003.

The federal Centers for Medicare and Medicaid Services (CMS, formerly Health Care Financing Administration) asserted in June 2000 that the portion of the Medicaid program funded by the Commonwealth's Uncompensated Care Pool might violate federal regulations regarding impermissible taxes on health care providers. Since 1993, the Division of Medical Assistance has been seeking a federal waiver for the Commonwealth's assessment on acute care hospitals to fund the Uncompensated Care Pool. EOHHS believes that the assessment complies with the federal law pertaining to provider taxes. Under federal regulations, if the Commonwealth were ultimately determined to have imposed an impermissible provider tax, the federal government could seek retroactive repayment of federal Medicaid reimbursements, although EOHHS believes any remedy imposed would likely be prospective and not retroactive. From 1993, when the first waiver request was submitted, through fiscal 2000, the Commonwealth received an estimated $1.068 billion in federal Medicaid reimbursements related to expenditures associated with the uncompensated care pool. The Commonwealth has continued to collect approximately $40 million per fiscal quarter for each quarter since fiscal 2000. Many other states have provider taxes similar to the one funding the uncompensated care pool, and CMS' interpretation of this area of federal law continues to evolve. As a result, resolution of this issue could take several years. In the fall of 2004 and again in the fall of 2005 CMS posed questions regarding the funding mechanism for the uncompensated care pool, but CMS has not taken any further action in regard to this matter.

Prescription Advantage Program. The Prescription Advantage Program (formerly known as the Senior Pharmacy Program) began in April 2001 and is currently administered by the Executive Office of Elder Affairs. In fiscal 2005 spending for the program was $99 million. Fiscal 2006 spending is projected at approximately $92 million.

The Prescription Advantage Program has been affected by federal implementation of Medicare Part D, which began January 1, 2006. Prescription Advantage has shifted from providing primary drug coverage to becoming a secondary payor for members eligible for Medicare Part D. The Program also provides gap coverage for members who spend between $2,250 and $5,100 per year, expenditures that are not covered by Medicare Part D. In compliance with the fiscal 2006 GAA, the Commonwealth is holding an open enrollment period in May 2007 for individuals initiating membership in July 2007. Fiscal 2007 Prescription Advantage Program spending is expected to decrease by $32.7 million from that provided in the fiscal 2006 GAA, reflecting the first full year of Medicare Part D implementation.

Public Assistance

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

Public Assistance Program Expenditures (in millions)

Category of Public Assistance	Fiscal 2001	Fiscal 2002	Fiscal 2003	Fiscal 2004	Fiscal 2005	Projected Fiscal 2006
TAFDC(1)	$387.1	$417.9	$404.9	$404.5(2)	$467.9(3)	$480.5
Child Care	340.8	338.4	332.8	338.7	348.8	365.8
EAEDC	58.0	64.0	67.6	66.8	66.8	66.5
SSI	205.5	209.3	209.7	209.1	212.4	219.1
Total	$ 991.4	$1,029.6	$1,019.0	$1,019.1	$1,095.9	$1,131.9

SOURCES: Fiscal 2001-2005, Office of the Comptroller; fiscal 2006, Executive Office for Administration and Finance.

(1) Includes expenditures for TAFDC, ESP and Emergency Assistance.
(2) Does not include $5.9 million in off budget spending from the Federal Reed Act to supplement Employment Service Programs offered to those on TAFDC and individuals making a transition off of TAFDC for up to one year.
(3) Includes program administrations cost of $64.3 million which had not been included in prior years.

TAFDC expenditures in fiscal 2006 are estimated to be $480.5 million, approximately 2.6% more than fiscal 2005. The Emergency Assistance program provides disaster relief and shelter to homeless families. The cost of this program is included in the TAFDC expenditure category above.

The Commonwealth is federally required to provide child care to TAFDC recipients and those transitioning off TAFDC for up to one year. Child care expenditures for fiscal 2005 were $348.8 million, an increase of 3.0% from fiscal 2004. The Commonwealth provided approximately 22,360 slots for child care to TAFDC recipients and those transitioning off TAFDC in fiscal 2005. Child care expenditures for fiscal 2006 are projected to be $365.8 million, an increase of 4.9% from fiscal 2005. The Commonwealth projects that it will provide approximately 22,200 child care slots to TAFDC recipients and those transitioning off TAFDC in fiscal 2006. The Commonwealth has met federal requirements for child care in the past three fiscal years.

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

The EAEDC caseload declined steadily from fiscal 1996 through fiscal 2001, resulting in an 83.6% decrease through fiscal 2001, but the caseload began to grow again in fiscal 2002. The trend can be attributed to factors similar to those affecting the TAFDC caseload. For fiscal 2003, caseload increased by an estimated 6.9% and expenditures increased by approximately 5.6%. For fiscal 2004, caseload grew by 6.6% but expenditures declined by 1.2%. For fiscal 2005 caseload was up less than one percent while expenditures were flat. Fiscal 2006 expenditures for EAEDC are projected to be $66.5 million, down slightly from fiscal 2005. Caseload is projected to drop 3.1%.

SSI is a federally administered and funded cash assistance program for individuals who are elderly, disabled or blind. SSI payments are funded entirely by the federal government up to $530 per individual recipient per month and entirely by the state above that amount. The additional state supplement ranges from $39 to $454 per month per recipient. Fiscal 2006 expenditures for SSI are estimated to be $219.1 million, a 3.2% increase from fiscal 2005.

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

Public Assistance Average Caseload

Category of Public Assistance	Fiscal 2001	Fiscal 2002	Fiscal 2003	Fiscal 2004	Fiscal 2005	Projected Fiscal 2006
TAFDC(1)	42,648	45,432	47,821	48,541	49,069	47,340
EAEDC	13,460	14,967	15,999	17,058	17,188	16,668
SSI(2)	163,584	163,566	163,713	164,729	166,112	167,481
Total	219,692	223,965	226,536	230,328	231,369	231,489

SOURCE: Department of Transitional Assistance.

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

Federal Welfare Reform. The federal welfare reform legislation that was enacted on August 22, 1996 eliminated the federal entitlement program of Aid to Families with Dependent Children and replaced it with block grant funding for Transitional Assistance to Needy Families (TANF). The TANF program replaced Title IV-A of the Social Security Act and allows states greater flexibility in designing programs that promote work and self-sufficiency. The block grant for the Commonwealth was established at $459.4 million annually for federal fiscal years 1997 through 2006. The Commonwealth must meet federal maintenance of effort (MOE) requirements in order to be eligible for the full TANF grant award. The Commonwealth successfully met the MOE requirement in each of the federal fiscal years 1997 through 2005. The Commonwealth also received approximately $102.6 million in child care block grant funds in fiscal 2005 to support child care programs. The federal waiver that has allowed the Commonwealth to calculate work participation rates using a more lenient method of assessment expired in fiscal 2006, with no major fiscal implications for fiscal 2006. In February 2006, the Federal Deficit Reduction Act reauthorized the TANF block grant providing $459.4 million annually to the Commonwealth for the next five years, provided that the Commonwealth meets federal work requirements outlined below.

TANF Work Requirements Federal legislation has been enacted that will alter significantly the requirements on states administering the TANF program. The changes concerning federal work participation rates will require that Massachusetts increase its current work participation rate from 15 percent to 50 percent for all TANF families and 90 percent for two-parent families in federal fiscal year 2007. If, as anticipated, either rate is not achieved, the federal government will require that the Commonwealth increase its maintenance-of-effort funding by five percent of the 1994 base year, or $24 million. In addition, the federal government would reduce its TANF grant by up to five percent. Massachusetts would be required to increase its maintenance-of-effort spending to offset the federal penalty. The penalties and increased maintenance-of-effort requirement would continue each year that compliance is not realized, with the federal penalties increasing two percentage points each year to a maximum of 21 percent of the TANF block grant.

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

Other Health and Human Services

In fiscal 2005, other health and human services spending includes expenditures for the Department of Mental Retardation ($1.067 billion), Department of Mental Health ($594.9 million), Department of Social Services

($697.6 million), Department of Public Health ($401.7 million) and other human services programs ($656.2 million).

In fiscal 2006, other health and human services spending includes expenditures for the Department of Mental Retardation (projected to be $1.133 billion), Department of Mental Health (projected to be $632.9 million), Department of Social Services (projected to be $744.3 million), Department of Public Health (projected to be $483.5 million) and other human services programs (projected to be $857.4 million).

Debt Service

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

Pension and Other Post-Retirement Benefit Obligations

Almost all non-federal public employees in Massachusetts participate in defined benefit pension plans administered pursuant to state law by 106 public retirement systems. The Commonwealth is responsible for the payment of pension benefits for Commonwealth employees (members of the state employees’ retirement system) and for teachers of the cities, towns and regional school districts throughout the state (including members of the teachers’ retirement system and teachers in the Boston public schools, who are members of the State-Boston retirement system but whose pensions are also the responsibility of the Commonwealth). Employees of certain independent authorities and agencies, such as the Massachusetts Water Resources Authority and of counties, cities and towns (other than teachers) are covered by 104 separate retirement systems. The Commonwealth assumed responsibility, beginning in fiscal 1982, for payment of cost of living adjustments for the 104 local retirement systems, in accordance with the provisions of Proposition 2½. However, in 1997 legislation was enacted removing from the Commonwealth the cost of future cost-of-living adjustments for these local retirement systems and providing that local retirement systems fund future cost-of-living adjustments. Pension benefits for state employees are administered by the State Board of Retirement, and pension benefits for teachers are administered by the Teachers’ Retirement Board. Investment of the assets of the state employees’ and teachers’ retirement systems is managed by the Pension Reserves Investment Management Board. In the case of all other retirement systems, the retirement board for the system administers pension benefits and manages investment of assets. With a very small number of exceptions, the members of these state and local retirement systems do not participate in the federal Social Security System.

Legislation approved in 1997 provided, subject to legislative approval, for annual increases in cost-of-living allowances equal to the lesser of 3% or the previous year’s percentage increase in the United States Consumer Price Index on the first $12,000 of benefits for members of the state employees’ and teachers’ retirement systems, to be funded by the investment income of the systems. The Commonwealth pension funding schedule (discussed below) assumes that annual increases of 3% will be approved for its retirees. The fiscal 2006 GAA authorized a 3% cost of living increase. Local retirement systems that have established pension funding schedules may opt in to the requirement as well, with the costs and actuarial liabilities attributable to the cost-of-living allowances required to be reflected in such systems’ funding schedules. Legislation approved in 1999 allows local retirement systems to increase the cost-of-living allowance up to 3% during years that the previous year’s percentage increase in the United States Consumer Price Index is less than 3%.

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

Early Retirement Incentive Program. As a means of reducing payroll costs in fiscal 2002 and 2003, the Commonwealth adopted two Early Retirement Incentive Programs (each, an ERIP), which offered an enhanced pension benefit to retirement-eligible employees. For details of the ERIP program, see "STATE WORKFORCE – Employee Retirement Incentive Plan". Employees retiring under the 2002 and 2003 ERIP programs totaled approximately 4,600 and 3,048, respectively. The legislation authorizing each ERIP program directed the Public Employee Retirement Administration Commission (PERAC) to file a report on the additional actuarial liabilities due to each ERIP. In its report for the 2002 ERIP program, PERAC stated that the program resulted in an increased actuarial liability of $312.2 million. PERAC's report for the 2003 ERIP program stated that the program resulted in an increased actuarial liability of $224.8 million.

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

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

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

In fiscal 2004, the pension funding schedule called for an $832.3 million appropriation. However, the fiscal 2004 GAA amended the General Laws to allow annual pension appropriations to include the scheduled amount less the value of any capital assets transferred to the pension liability fund. The fiscal 2004 GAA funded the $832.3 million pension obligation using $687.3 million in cash and the transfer to the pension liability fund of the Hynes Convention Center and the Boston Common Garage, whose value was set at $145.0 million, but subject to a process including appraisal of the properties to be transferred. Transfer of these capital assets to the pension liability fund has not occurred. The fiscal 2005 GAA created a commission to evaluate the potential use, sale or disposition of any interest in the Hynes Convention Center and the Boston Common Parking Garage. The commission was to submit a final report of its findings, including legislative recommendations, by December 30, 2005; the report has not been filed to date. Any use, sale or disposition of these properties as recommended by the commission requires approval of the Legislature.

In fiscal 2005, Governor Romney and legislative leaders agreed to an updated funding schedule that incorporated a January 1, 2004 actuarial valuation. The assumptions underlying the new funding schedule retain the 2023 date for fully amortizing the unfunded liability and utilize an amortization growth rate of 4.5% per year. The schedule is as follows:

Extended Funding Schedule for Pension Obligations (in thousands)

Fiscal Year	Payments	Fiscal Year	Payments
2005	$1,216,936	2015	$1,936,059
2006	1,274,675	2016	2,028,266
2007	1,335,176	2017	2,124,903
2008	1,398,573	2018	2,226,183
2009	1,465,004	2019	2,332,332
2010	1,534,617	2020	2,443,587
2011	1,607,565	2021	2,560,194
2012	1,684,010	2022	2,682,414
2013	1,764,121	2023	2,810,519
2014	1,848,075		

SOURCE: Executive Office for Administration and Finance.

The fiscal 2005 GAA provided that the appropriations or transfers to the Pension Liability Fund in fiscal 2005 through 2007 would be in the amounts shown in the preceding funding schedule.

Value of Pension Obligation. On September 29, 2005, PERAC released its actuarial valuation of the total pension obligation dated January 1, 2005. The unfunded actuarial accrued liability as of that date for the total obligation was approximately $13.419 billion, an increase of approximately $1.405 billion over the unfunded actuarial accrued liability as of January 1, 2004. The unfunded accrued actuarial liability as of January 1, 2005 was composed of unfunded actuarial accrued liabilities of approximately $3.364 billion for the State Employees' Retirement System, $8.483 billion for the State Teachers' Retirement System, $1.097 billion for Boston Teachers, and $475.0 million for cost-of-living increases. The valuation study estimated the total actuarial accrued liability as of January 1, 2005 to be approximately $48.358 billion (comprised of $19.575 billion for state employees, $26.167 billion for state teachers, $2.141 billion for Boston Teachers and $475.0 million for cost-of-living increases). Total assets were valued at approximately $34.939 billion based on the five-year average valuation method, which equaled 98.4% of the January 1, 2005 total asset market value. The actuarial value of assets as of January 1, 2005 represented an increase of $894.0 million from the valuation of assets as of January 1, 2004. The funded ratio decreased to 72.3% as of January 1, 2005 from 73.9% as of January 1, 2004. During 2004, there was an overall actuarial loss of approximately $1.2 billion. There was a non-investment gain on actuarial liability of approximately $163.0 million and a loss on assets (on an actuarial value basis) of approximately $1.4 billion. The unfunded accrued actuarial liability increase was primarily due to a loss on the actuarial value of assets during 2004. The return on assets was approximately 4.7% on an actuarial basis compared to the 8.25% investment return assumption and the 14.5% return on a market value basis. The actuarial loss reflects that part of the investment losses from 2000-2002, which were deferred in the prior valuation as a result of the five-year actuarial smoothing calculation, are now being recognized.

The following table shows the valuation of accrued liabilities as well as the unfunded portion from the January 1, 1998 valuation through the January 1, 2005 valuation:

Pension Fund Valuation and Unfunded Accrued Liabilities (in millions)

			Unfunded Accrued Liabilities		
Valuation Date	Total Actuarial Accrued Liability	Actuarial Value of Assets(2)	Unfunded Actuarial Liability(3)	Market Value of Unfunded Liability	Valuation Date
January 1, 1998	$26,587	$20,783	$5,804	$5,160	January 1, 1998
January 1, 2000(1)	32,743	27,906	4,837	2,076	January 1, 2000(1)
January 1, 2001	35,605	29,230	6,374	5,381	January 1, 2001
January 1, 2002	39,067	31,699	7,369	10,359	January 1, 2002
January 1, 2003	43,030	29,629	13,401	17,266	January 1, 2003
January 1, 2004	46,059	34,045	12,014	14,350	January 1, 2004
January 1, 2005	48,358	34,939	13,419	12,861	January 1, 2005

SOURCE: Public Employee Retirement Administration Commission.

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

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

(5) Based on actuarial valuation.

Other Post-Employment Benefits. In addition to providing pension benefits, under Chapter 32A of the Massachusetts General Laws the Commonwealth is required to provide certain health care and life insurance benefits for retired employees of the Commonwealth, housing authorities, redevelopment authorities and certain other governmental agencies. Substantially all of the Commonwealth's employees may become eligible for these benefits if they reach retirement age while working for the Commonwealth. Eligible retirees are required to contribute a specified percentage of the health care benefits costs, as described below in "Group Insurance." Participating eligible authorities and non-state agencies are required to reimburse the Commonwealth for the cost of providing these benefits to their retirees.

The Commonwealth recognizes its share of the costs of providing these benefits when paid, on a "pay-as-you-go" basis. These payments are included in the Group Insurance Commission appropriation and totaled approximately $316.7 million for fiscal 2005. At June 30, 2005 there are approximately 53,334 participants eligible to receive such benefits for which the Commonwealth is financially responsible, as described in the preceding paragraph.

Commencing in fiscal 2007, the Commonwealth will be implementing GASB Statement No. 45 *"Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions."* The Commonwealth has not performed an actuarial valuation of its post-retirement health care and life insurance benefit liability, but recently hired an independent actuarial firm to prepare an initial valuation, which is scheduled to be completed by mid 2006. A reliable estimation will be available only when the actuarial analysis is complete. However, the actuarial liability is expected to be substantial.

Group Insurance

The Group Insurance Commission provides health insurance benefits to approximately 78,000 active employees and 83,000 retired employees. For fiscal 2006, the Commission is projected to spend $988.4 million. The fiscal 2004 GAA altered contribution rates of Commonwealth employees for health care, but left the reimbursement rate for retirees unchanged. Prior to the fiscal 2004 GAA, active employees paid 15% of their health insurance premium costs, those who retired prior to 1994 paid 10% and those who retired after 1994 paid 15%. The fiscal 2004 GAA imposed a tiered contribution ratio that requires active employees who were hired on or before June 30, 2003 and earn less than $35,000 annually to pay 15% and all other employees to pay 20% of their health insurance premium costs. This tiered contribution ratio sunsetted on June 30, 2005, and all employees hired on or before June 30, 2003 will contribute 15% of total premium costs thereafter. All employees hired after June 30, 2003 will pay 25% of premium costs, regardless of salary.

Public Safety

The Commonwealth of Massachusetts expects to expend a total of $1.346 billion in fiscal 2006 for the Executive Office of Public Safety and Sheriffs to ensure the safety of its citizens. Twelve state agencies fall under the umbrella of the Executive Office of Public Safety. The largest is the Department of Correction, which operates 18 correctional facilities and centers across the Commonwealth and will expend an estimated $454.1 million in fiscal 2006. Other public safety agencies include the State Police, with estimated expenditures of $247.7 million in fiscal 2006, the Parole Board, the Department of Fire Services, the Military Division, the Office of the Chief Medical Examiner, and six other public safety related agencies. In addition to expenditures for these twelve state public safety agencies, the Commonwealth provides funding for the operation of 16 regional jails and correctional facilities that are managed by independently elected Sheriffs, for which the Commonwealth expects to expend an estimated $225.7 million in fiscal 2006.

Higher Education

Fiscal 2006 spending on higher education is projected at $982.1 million. The Commonwealth's system of higher education includes the five-campus University of Massachusetts, nine state colleges and 15 community colleges. The system is coordinated by the appointed Commonwealth Board of Higher Education and each institution is governed by a separate board of trustees. The Board of Higher Education appoints a chancellor of the system of public higher education, who is responsible for carrying out the policies established by the board.

The operating revenues of each institution consist primarily of state appropriations and of student and other fees that may be imposed by the board of trustees of each institution. Tuition levels are set by the Board of Higher Education. Tuition revenue is required to be remitted to the State Treasurer by each institution; however, the Massachusetts College of Art and the Massachusetts Maritime Academy have the authority to retain tuition through fiscal 2008. The University of Massachusetts was authorized to retain out-of-state tuition until the end of fiscal 2005. The fiscal 2006 GAA has extended this authority for an additional year. The board of trustees of each institution submits operating and capital budget requests annually to the Board of Higher Education. The Board of Higher Education uses the data to prepare operating and capital outlay budgets for the statewide system of public higher education, which are submitted to the Fiscal Affairs Division of the Executive Office for Administration and Finance and to the House and Senate Committees on Ways and Means. The Legislature appropriates funds for the higher education system in the Commonwealth's annual operating budget in various line items for each institution.

Other Program Expenditures

In fiscal 2006, the remaining $2.543 billion in projected expenditures on other programs and services cover a variety of functions of state government, including expenditures for the judiciary ($684.5 million), district attorneys ($84.2 million) and Attorney General ($37.5 million), for the Executive Offices for Administration and Finance ($372.9 million), Environmental Affairs ($247.6 million), and Transportation ($146.8 million), and for the Department of Housing and Community Development ($122.1 million) and various other programs ($847.4 million).

Unemployment Trust Fund

The cash balance in the Massachusetts Unemployment Trust Fund as of February 28, 2006 was $464 million. The Division of Unemployment Assistance projects that the fund will not experience a cash deficit in fiscal 2006 or 2007 and will not need to borrow from the federal government during these periods.

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 2001 through 2005. Projections for fiscal 2006 have been prepared by the Executive Office for Administration and Finance. The financial information presented includes all budgeted operating funds of the Commonwealth. See "COMMONWEALTH BUDGET AND FINANCIAL MANAGEMENT CONTROLS — Operating Fund Structure" for additional detail. In September 2005 the Governor signed legislation creating a Transitional Escrow Fund, the balance in which currently is $304.8 million. Funds in the Transitional Escrow Fund are available for appropriation until June 30, 2006, at which time any remaining balance will be transferred to the Stabilization Fund.

During a fiscal year there are numerous transactions among these budgeted funds, which from a fund accounting perspective create offsetting inflows and outflows. In conducting the budget process, the Executive Office for Administration and Finance excludes those inter-fund transactions that by their nature have no impact on the combined fund balance of the budgeted funds. The following table isolates this inter-fund activity from the budgeted sources and uses to align more clearly forecasts prepared during the budget process to the detailed fund accounting of the Commonwealth's annual financial statements.

Budgeted Operating Funds -- Statutory Basis

(in millions)(1)

	Fiscal 2001	Fiscal 2002	Fiscal 2003	Fiscal 2004	Fiscal 2005	Projected Fiscal 2006
Beginning Fund Balances						
Reserved or Designated	$278.5	$895.3	$195.2	$76.8	$664.6	$355.6
Tax Reduction Fund	7.2	33.6	-	-	-	-
Transitional Escrow Fund						304.8
Stabilization Fund	1,608.4	1,715.0	881.8	641.3	1,137.3	1,728.4
Undesignated	391.3	369.5	311.0	34.7	90.9	98.4
Total	2,285.4	3,013.3	1,388.0	752.8(7)	1,892.8	2,487.2
Revenues and Other Sources						
Tax Revenues (2)	16,074.6	13,622.8	14,279.5(5)	15,269.0	15,987.4	16,956.7(9)
Federal Reimbursements	3,974.2	4,334.9	4,523.6	5,098.5	4,697.0	5,270.1
Departmental and Other Revenues	1,425.9	1,485.2	1,494.8	1,847.7	1,948.9	2,051.6
Inter-fund Transfers from Non-budgeted Funds and Other Sources (3)	1,385.9	1,732.0	1,689.2	1,773.1	1,740.2	1,400.7
Budgeted Revenues and Other Sources	22,860.6	21,174.8	21,987.1	23,988.3	24,373.5	25,679.1
Inter-fund Transfers	931.0	1,874.4	3,310.5(6)	2,058.7(8)	2,231.3	483.9
Total Budgeted Revenues and Other Sources	23,791.6	23,049.2	25,297.7	26,047.0	26,604.7	26,163.0
Expenditures and Uses						
Programs and Services (4)	21,184.1	20,513.2	22,209.5	21,456.1	22,067.7	24,277.1
Inter-fund Transfers to Non-budgeted Funds and Other Uses	949.6	287.1	229.6	1,392.2	1,711.3	1,274.7
Budgeted Expenditures and Other Uses	22,133.7	22,800.3	22,439.1	22,848.3	23,779.1	25,551.8
Inter-fund Transfers	931.0	1,874.4	3,310.5(6)	2,058.7	2,231.2	483.9
Total Budgeted Expenditures and Other Uses	23,064.7	24,674.7	25,749.6	24,907.0	26,010.3	26,035.7
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	726.8	(1,625.4)	(451.9)	1,140.0	594.4	127.3
Ending Fund Balances						
Reserved or Designated	895.3	195.2	76.8	664.6(8)	355.6	88.8
Tax Reduction Fund	33.6	--	--	--	--	--
Transitional Escrow Fund	--	--	--	--	304.8	--
Stabilization Fund	1,715.0	881.8	641.3	1,137.3	1,728.4	2,422.8(10)
Undesignated	369.5	311.0	218.0	90.9	98.4	102.8
Total	$3,013.3	$1,388.0	$936.1(7)	$1,892.8	$2,487.2	$2,614.4

SOURCE: Fiscal 2001-2005, Office of the Comptroller; fiscal 2006, Executive Office for Administration and Finance, Office of the State Treasurer.

(1) Totals may not add due to rounding.

(2) Net of $654.6 million in fiscal 2001, $664.3 million in fiscal 2002, $684.3 million in fiscal 2003, $684.3 million in fiscal 2004, $704.8 million in fiscal 2005 and $712.6 million in fiscal 2006 of dedicated sales tax transferred to the MBTA and moved off budget. Net of $395.7 million in fiscal 2005 and $488.7 million in fiscal 2006 of dedicated sales tax transferred to the MSBA and moved off budget.

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

(4) The Executive Office for Administration and Finance estimates that approximately $201.4 million in Medicaid expenditures were moved off-budget pursuant to the fiscal 2003 GAA. Total off-budget Medicaid expenditures were $329.2 million in fiscal 2004 and $422.2 million in fiscal 2005 and are projected to be $332.5 million in fiscal 2006.

(5) Includes $174.0 million in one-time revenue from tax amnesty program and approximately $200.0 million from closing various so-called

tax loopholes.

(6) Inter-fund transfers increased substantially in fiscal 2003 due to the elimination of a number of Budgeted Operating Funds pursuant to the fiscal 2004 GAA, effective June 30, 2003.

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

(8) Includes $270.0 million in fiscal 2004 FMAP revenue reserved for expenditure in fiscal 2005, $75.0 million reserved for distribution to cities and towns in fiscal 2005, $293.5 million in fiscal 2004 appropriations authorized to be expended in fiscal 2005, and $26.1 million reserved for debt service.

(9) Based on Executive Office for Administration and Finance fiscal 2006 revised tax revenue estimate of $18.158 billion.

(10) Fiscal 2006 projected figures assume that $304.8 million in the Transitional Escrow Fund is not appropriated in fiscal 2006. By statute, the balance of these funds will be transferred to the Stabilization Fund on June 30, 2006.

Recent Financial Restructurings

In recent years certain major spending programs formerly included in the Budgeted Operating Funds have been moved off-budget. In certain cases the items moved off-budget are being funded by dedicated sales tax revenue, as described below. The total amount of such off-budget funding in fiscal 2006 is projected to be $1.534 billion.

Massachusetts Bay Transportation Authority. Beginning in fiscal 2001, the finances of the Massachusetts Bay Transportation Authority (MBTA) were restructured, and its financial relationship to the Commonwealth changed materially. The MBTA finances and operates mass transit facilities in eastern Massachusetts. The Commonwealth is obligated to provide the MBTA with a portion of the revenues raised by the Commonwealth's sales tax, generally the amount raised by a 1% sales tax with an inflation-adjusted floor. (For fiscal 2006 the floor is $712.6 million.) This amount is dedicated to the MBTA under a trust fund. The dedicated revenue stream is disbursed to the MBTA without state appropriation to be used to meet the Commonwealth's debt service contract assistance obligations relating to the MBTA's prior debt, as described below, and to meet the MBTA's other operating and debt service needs. The MBTA is authorized to assess a portion of its costs on 175 cities and towns in eastern Massachusetts; after a five-year phase-in of reduced assessments (from approximately $144.6 million in fiscal 2001 to approximately $136.0 million in fiscal 2006), the cities and towns are required by law to pay assessments equal to at least $136 million in the aggregate, as adjusted in each year after fiscal 2006 for inflation (with no annual increase to exceed 2.5% per year).

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

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

School Building Assistance Program. The Commonwealth has operated a school building assistance (SBA) program since 1948 to provide financial assistance to municipalities for building schools. Financial assistance was provided in the form of annual contract assistance payments to subsidize a portion of local debt issues for such purposes. Subsidies ranged from 50 to 90 percent of the construction and borrowing costs of approved projects. Assistance was appropriated annually through the Commonwealth's operating budget, reaching $401.4 million in fiscal 2004. By the end of fiscal 2004, the Commonwealth was reimbursing 748 school projects in cities, towns and regional school districts across the state and had remaining contract assistance liabilities of approximately $5.1 billion for these previously approved projects. In addition to the 748 school projects currently receiving reimbursement, the Department of Education (which was responsible for administering the program) had preliminarily approved an additional 425 school projects and placed them on a waiting list for funding. The Commonwealth estimated its share of the costs associated with these waiting list projects to be between $4 billion and $5 billion. The Massachusetts School Building Authority has revised this estimate to approximately $5.5 billion.

In July 2004, the Governor signed three separate pieces of legislation that reform the Commonwealth's school building assistance program. The legislation moved the SBA program off-budget, establishing the Massachusetts School Building Authority (MSBA), an independent state authority, to administer and manage the program. The MSBA is governed by a seven-member board chaired by the State Treasurer. The legislation transfers the liabilities associated with the SBA program from the Commonwealth to the MSBA, including: making contract assistance payments for previously approved and funded projects; mandating that the MSBA fund all the projects on the waiting list at previously agreed upon subsidy levels; and providing for future projects after a moratorium on the acceptance of new school projects ends on July 1, 2007. The legislation limits the grant making of the MSBA for new projects to $500 million in fiscal 2008 and increases that amount by 4.5% in each subsequent fiscal year. Subsidies for future projects are reduced by approximately ten percentage points. The legislation also switches borrowing responsibility from local governments to the MSBA for the state's share of waiting list projects and future school project costs, although contract assistance payments will continue for previously funded projects.

The legislation dedicates one cent of the Commonwealth's sales tax excluding certain meals and special financing district sales taxes (Dedicated Sales Tax) to fund the MSBA and to pay for its transferred and future liabilities. Funding is phased in, providing $395.7 million in fiscal 2005, 70% of the Dedicated Sales Tax or at least $488.7 million in fiscal 2006, 78% of the Dedicated Sales Tax or at least $557.4 million in fiscal 2007, 85% of the Dedicated Sales Tax or at least $634.7 million in fiscal 2008, 90% of the Dedicated Sales Tax or at least $702.3 million in fiscal 2009 and 95% of the Dedicated Sales Tax in fiscal 2010, and 100% of the Dedicated Sales Tax thereafter. In addition to Dedicated Sales Tax revenues, the legislation authorized the Commonwealth to issue $1.0 billion of general obligation bonds to help the MSBA fund, in part, its liabilities. The Commonwealth issued these bonds during fiscal 2005 and 2006. The legislation also transferred $150.0 million from the fiscal 2004 surplus to the MSBA as start-up funding. The MSBA is expected to finance a substantial portion of its liabilities through the issuance of revenue bonds, and the legislation authorizes up to $10.0 billion of such issuance.

Medicaid. Beginning in fiscal 2003 certain expenditures included in the Commonwealth's Medicaid program have been funded off-budget. These included providing supplemental payments to nursing facilities and, commencing in fiscal 2004, the MassHealth Essential program. The sources of funds included transfers from the Uncompensated Care Pool and assessments on nursing facilities, together with related federal reimbursements. See "COMMONWEALTH PROGRAMS AND SERVICES – Medicaid".

Summary. The following table is presented for the purpose of clarifying the effect of the recent financial restructurings on the Budgeted Operating Funds operations of the Commonwealth by identifying off-balance sheet items.

Budgeted Operating Funds Operations as Affected by Recent Financial Restructurings (in millions)

	Fiscal 2001	Fiscal 2002	Fiscal 2003	Fiscal 2004	Fiscal 2005	Projected Fiscal 2006
Revenues						
Budgeted Revenues and Other Sources	$22,860.6	$21,174.8	$21,987.1	$23,988.3	$24,373.4	$25,679.1(1)
Certain Off-Budget Revenues:						
Dedicated Sales Tax Revenues	654.6	664.3	684.3	684.3	1,100.5	1,201.3
Certain Non-Tax Revenues	-	-	201.4	329.2	422.2	332.5
Subtotal	654.6	664.3	885.7	1,013.5	1,522.7	1,533.8
Total	23,515.2	21,839.1	22,872.8	25,001.8	25,896.1	27,212.9
Expenditures						
Budgeted Expenditures and Other Uses	22,133.7	22,800.3	22,439.1	22,848.3	23,779.1	25,551.8
Certain Off- Budget Expenditures:						
MBTA	654.6	664.3	684.3	684.3	704.8	712.6
MSBA	-	-	-	-	395.7	488.7
Medicaid	-	-	201.4	329.2	422.2	332.5
Subtotal	654.6	664.3	885.7	1,013.5	1,522.7	1,533.8
Total	22,788.3	23,464.6	23,324.8	23,861.8	25,301.8	27,085.6
Excess (Deficiency) of Total Revenues Over Total Expenditures and Other Uses	$726.8	($1,625.4)	($451.9)	$1,140.0	$594.4	$127.3

SOURCE: Executive Office for Administration and Finance.

(1) Based on Executive Office for Administration and Finance fiscal 2006 revised tax revenue estimate of $18.158 billion.

Stabilization Fund

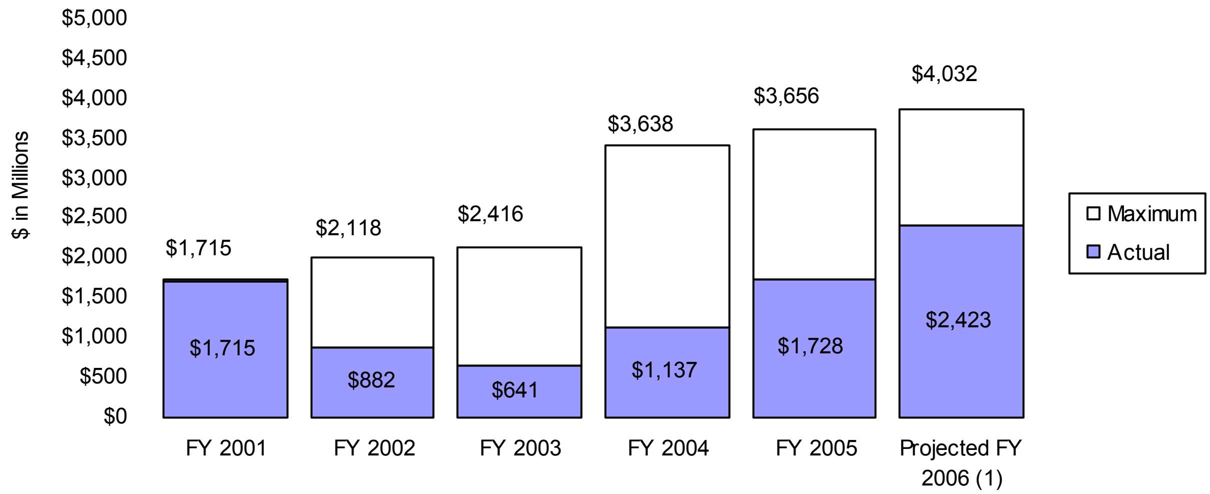
The Commonwealth deposits 100% of any consolidated net surplus at the close of the fiscal year into the Commonwealth's Stabilization Fund. Over the last several fiscal years, a number of changes have been implemented to increase the flow of money into the Stabilization Fund and its statutory capacity, including:

- Beginning June 30, 2003 all budgeted operating fund balances, except the Stabilization Fund, the Inland Fish and Game Fund, and the Tax Reduction Fund are included in the calculation of the consolidated net surplus. These funds currently include the General Fund, the Highway Fund, the Intragovernmental Service Fund, the Workforce Training Fund, the Massachusetts Tourism Fund, the Children's and Seniors' Health Care Assistance Fund, and the Division of Energy Resources Credit Trust Fund. The FMAP Escrow Fund expired on June 30, 2005.

- Beginning July 1, 2004 0.5% of current year net tax revenues must be deposited into the Stabilization Fund, and 0.5% of current year net tax revenues must be made available for the next fiscal year before the year-end surplus is calculated.

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

The following graph sets forth ending balances in the Stabilization Fund for fiscal 2001 through fiscal 2005 and the projection for fiscal 2006. For each year, the whole column area equals the maximum balance permitted under the statutory formula, and the shaded area shows the amount of the actual ending balance.



SOURCES: Fiscal 2001-2005 Office of the Comptroller; fiscal 2006, Executive Office for Administration and Finance.

(1) Fiscal 2006 projected figures assume that $304.8 million in the Transitional Escrow Fund is not appropriated in fiscal 2006. By statute, the balance of these funds will be transferred to the Stabilization Fund on June 30, 2006.

GAAP Basis

The Commonwealth's GAAP financial statements for the year ended June 30, 2005, incorporated herein by reference as Exhibit C, are prepared in accordance with reporting standards first established by GASB Statements 34 and 35, as amended. See "COMMONWEALTH BUDGET AND FINANCIAL MANAGEMENT CONTROLS - Fiscal Control, Accounting and Reporting Practices of Comptroller." The new GAAP financial statements present a government-wide perspective, including debt, fixed assets and accrual activity on a comprehensive statement of net assets. All fixed assets, including road and bridge infrastructure and all long-term liabilities, including outstanding debt and commitments of long-term assistance to municipalities and authorities, are part of the statements. The Commonwealth's statement of revenues, expenditures and changes in fund balances has also been completely reorganized into a statement of activities.

The table below presents the transition from the Commonwealth's statutory basis budgetary fund balance to the "fund perspective" balance, as depicted in the fund financial statements to the Commonwealth's "entity wide" governmental financial position. Differences between statutory and GAAP basis can be summarized in five major adjustments. Those adjustments are for Medicaid, taxes, compensated absences, claims and judgments and amounts due to authorities. As evidenced in the trend line of fund balance (deficit) over time, however, these adjustments connect between the GAAP basis measurement when viewed using a fund perspective under GASB 34 and the statutory basis measurement. While the difference in fund balances may vary in a given fiscal year, both balances generally trend in the same direction.

Governmental Funds – Statutory to GAAP – Fund Perspective and to Governmental Net Assets (in millions)

Governmental Funds – Statutory Basis, June 30, 2005:	
Budgeted Fund Balance	$2,487.2
Non-Budgeted Special Revenue Fund Balance	1,686.1
Capital Project Fund Balance	(160.9)
Governmental Fund Balance – Statutory Basis, June 30, 2005	**4,012.4**
Plus:	
Expendable Trust and Similar Statutory Balances that are considered Governmental Funds for GAAP Reporting Purposes	337.1
Owner Controlled Insurance Program Net Assets	132.2
Adjusted Statutory Governmental Fund Balance – June 30, 2005	**4,481.7**
Accruals, net of allowances and deferrals for increases / (decreases):	
Taxes	1,267.9
Medicaid	(209.2)
Master Settlement Agreement receivables	127.2
Compensated absences	(5.2)
Contract Assistance Due to Component Units	(277.8)
Liability related to Universal Health	(163.3)
Claims, judgments and other risks	(57.9)
Workers' compensation and group insurance	(102.3)
Other accruals	(12.6)
Governmental Fund Balance (fund perspective)	**5,048.6**
Plus: Fixed assets including infrastructure	29,595.3
Less: Accumulated depreciation	(7,375.8)
Plus: Deferred revenue	573.5
Less: School construction grants payable	(8,397.3)
Less: CA/T Project assets to be transferred to Turnpike Authority	(11,640.7)
Less: Bonds payable, current and long term	(17,856.8)
Less: Other current and long term liabilities	(1,490.9)
Total Governmental Net Assets (entity-wide perspective)	**$(11,544.1)**

SOURCE: Office of the Comptroller

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

Revenues – GAAP Basis. The measurement of revenues for the Budgeted Operating Funds from a statutory basis differs from governmental revenues on a GAAP basis in that certain funds that are not governmental for statutory purposes are included on a GAAP basis, including revenue accruals for Medicaid and taxes, which are included on a GAAP basis but not on a statutory basis. In addition, internal transfers are eliminated under GAAP from an entity-wide perspective. The following table shows the distribution of major sources of revenue in fiscal 2005:

Comparison of Fiscal 2005 Governmental Revenues (in millions)

		GAAP Basis – Governmental	
	Statutory Basis	Fund Perspective	Entity-wide Perspective
Taxes	$17,191.8	$17,670.9	$17,580.3
Federal Revenue	8,013.9	8,422.7	8,423.3
Departmental Revenue and Transfers	8,836.4	9,148.8	9,208.8
Total	$34,042.1	$35,242.4	$35,212.4

SOURCE: Office of the Comptroller

Financial Results—GAAP Basis. The following table provides financial results on a GAAP basis for fiscal 2001 through fiscal 2005 for all governmental operating funds of the Commonwealth.

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

	Fiscal 2002	Fiscal 2003	Fiscal 2004	Fiscal 2005	Fiscal 2005
Beginning fund balances	$ 2,826.1	$4,255.4	$2,467.9	$2,021.0	$4,424.4
Restatement due to the implementation of GASB 34	-	551.2	-	-	-
Revenues and Financing Sources	39,256.4	36,476.6	42,798.0	44,371.7	43,532.6
Expenditures and Financing Uses	38,827.1	38,815.3	43,244.9	41,968.3	42,908.4
Excess (deficit)	1,429.3	(1,787.5)	(446.9)	2,403.4	624.2
Ending budgeted fund balances—GAAP fund perspective	$ 4,255.3	$2,467.9	$2,021.0	$4,424.4	$5,048.6

SOURCE: Office of the Comptroller

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

GASB Statement 34. Beginning with fiscal 2002, the Commonwealth's GAAP financial statements have changed to reflect the implementation of GASB Statement 34. The changes present a government-wide perspective, including debt, fixed assets and accrual activity on a comprehensive balance sheet. The CAFR has been reorganized, with additional elements, such as a management's discussion and analysis.

Financial Reports. The Commonwealth's fiscal year ends on June 30. For fiscal 1986 through fiscal 1989, the Commonwealth's audited annual report included audited financial statements on both the statutory basis of accounting and the GAAP basis. Since fiscal 1990, these financial statements have been issued as two separate reports, the SBFR and the CAFR. The SBFR is published by the Comptroller by October 31 and the CAFR is published by the Comptroller by the second Wednesday in January. The SBFR for the year ended June 30, 2005 and the CAFR for the year ended June 30, 2005 are included herein by reference as Exhibits B and C, respectively. For fiscal 1991 through 2005 the independent auditor's opinions were unqualified. Copies of these financial reports are available at the address provided under "CONTINUING DISCLOSURE." The SBFR for fiscal 1997 through fiscal 2005 and the CAFR for fiscal 1994 through fiscal 2005 are also available on the web site of the Comptroller of the Commonwealth located at http://www.mass.gov/osc by clicking on "Financial Reports/Audits." Throughout the year, the Comptroller prepares interim financial statements on the statutory basis of accounting, which are not audited, but are considered authoritative.

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

For each year beginning in fiscal 1991, the Commonwealth CAFRs, from which certain information contained in this Information Statement has been derived, have been awarded the Certificate of Achievement for Excellence in Financial Reporting by the Government Finance Officers Association of the United States and Canada (GFOA). The Certificate of Achievement is the highest form of recognition for excellence in state and local government financial reporting. Fiscal 2004 marked the fourteenth consecutive year that the Commonwealth has received this award. The CAFR for fiscal 2005 has been submitted to the GFOA for the award.

Discussion of Financial Condition

As the annual operating budget of the Commonwealth is adopted in accordance with the statutory basis of accounting, public and governmental discourse on the financial affairs of the Commonwealth has traditionally followed the statutory basis. Consequently, the financial information set forth in this document follows the statutory basis, except where otherwise noted. Since fiscal 1990, the Commonwealth has prepared separate audited financial reports on the statutory basis and on a GAAP basis. See "COMMONWEALTH BUDGET AND FINANCIAL MANAGEMENT CONTROLS–Fiscal Control, Accounting and Reporting Practices of Comptroller; *Financial Reports*." The SBFR for the year ended June 30, 2005 is included herein by reference as Exhibit B. The CAFR for the year ended June 30, 2005 is included herein by reference as Exhibit C. Without limiting the generality of the references to the SBFR and CAFR for the year ended June 30, 2005, attention is called in particular to the portion of the CAFR under the heading "Management's Discussion and Analysis."

Auditor's Report on Fiscal 2005 CAFR

The basic financial statements included in the CAFR of the Commonwealth for the year ended June 30, 2005 were audited by Deloitte & Touche LLP (Deloitte & Touche). The Deloitte & Touche audit report dated December 22, 2005 on the general purpose financial statements included in the CAFR for the year ended June 30, 2005 contained an unqualified opinion. A copy of the audit report of Deloitte & Touche dated December 22, 2005 has been filed with each NRMSIR currently recognized by the SEC and is incorporated by reference in Exhibit C to this Information Statement and in each statement in this Information Statement referred to the Commonwealth CAFR for the year ended June 30, 2005.

FISCAL 2006 AND 2007

Fiscal 2005 Ending Balance

As of June 30, 2005, the Commonwealth ended fiscal 2005 with a surplus of $1.218 billion. Prior to the calculation of a consolidated net surplus, the Governor signed legislation directing that $691.0 million of the surplus be transferred to the Commonwealth's Stabilization Fund. In addition, as directed by statute, $136.0 million in excess tax revenues held in the Temporary Holding Fund were also transferred to the Stabilization Fund. State law also required that one-half of one percent of current year tax revenues, or $86.0 million, be transferred to the Stabilization Fund. The total transfer to the Stabilization Fund at the end of fiscal 2005 was $913.0 million. The above-referenced legislation also directed that the remainder of the surplus, $304.8 million, be transferred to a Transitional Escrow Fund, which is available, subject to appropriation, for fiscal 2006 expenditures.

For fiscal 2005, the Commonwealth's audited financial statements report a year-end balance in the Stabilization Fund of $1.728 billion. This balance reflects inflows of $913.0 million outlined above, $21.3 million in additional inflows including interest, and transfers from or appropriations out of the Stabilization Fund of $343.3 million. As mentioned, a Transitional Escrow Fund was established and credited with $304.8 million of surplus fiscal 2005 funds. The year closed with additional reserved fund balances of $355.6 million and undesignated fund balances of $98.4 million. The total fund balance in the budgeted operating funds was $2.487 billion

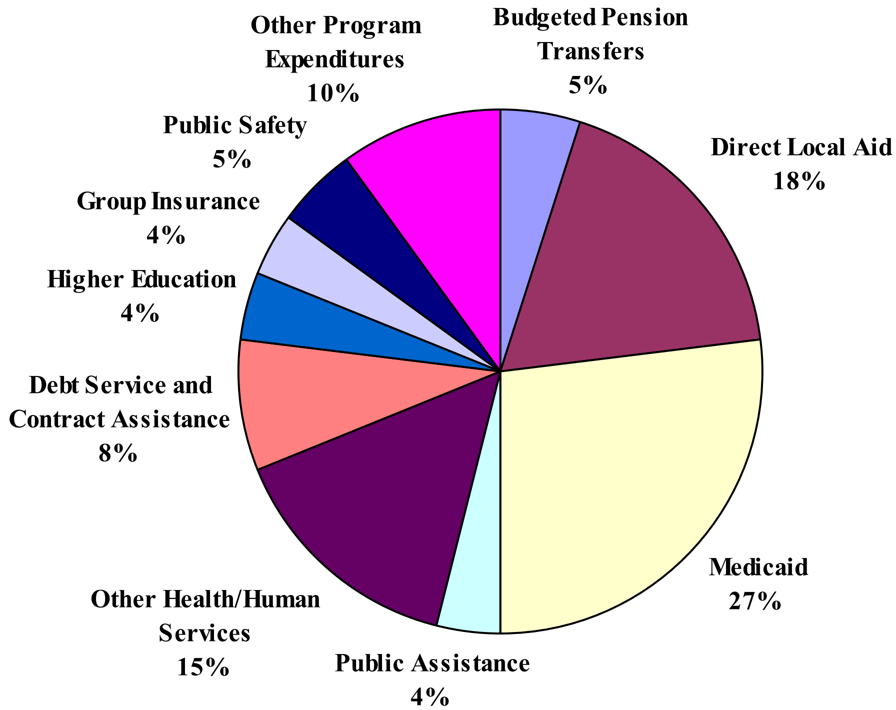
The Transitional Escrow Fund will expire on June 30, 2006, at which time any remaining balance will be transferred to the Stabilization Fund. The statutory basis financial information in this document assumes no expenditures from the Transitional Escrow Fund in fiscal 2006, resulting in transfer of the full balance to the Stabilization Fund on June 30, 2006. If money in the Transitional Escrow Fund is appropriated in fiscal 2006, the balance to be transferred to the Stabilization Fund will be adjusted as necessary.

Fiscal 2006

The fiscal 2006 GAA, as supplemented to date, provides for $23.977 billion of appropriations in the Budgeted Operating Funds, including $1.275 billion for fiscal 2006 pension obligations. In addition to the spending appropriated in the GAA, the Commonwealth has significant "off-budget" expenditures in the amounts of dedicated sales taxes transferred to the MBTA and MSBA, projected to be in the amounts of $712.6 million and $488.7 million, respectively, and $332.5 million of off-budget expenditures in the Medicaid program. See "SELECTED FINANCIAL DATA – Recent Financial Restructurings."

The following is a graph depicting the breakdown of major categories of projected budgeted operating spending for fiscal 2006:

Fiscal 2006 Projected Operating Spending



On June 29, 2005, the Governor signed the General Appropriations Act (GAA) for fiscal 2006. The budget as signed included \$23.806 billion in spending, reflecting vetoes making \$109.7 million in reductions compared to the conference committee budget as passed. The Legislature has subsequently overridden \$108.9 million of the Governor's vetoes, bringing the total value of the GAA to \$23.915 billion. The GAA (including overrides) budgets \$6.995 billion for Medicaid, \$3.772 billion for education excluding school building assistance, \$1.873 billion for debt service and \$11.275 billion for all other programs and services.

For the fiscal 2006 budget, the Executive Office for Administration and Finance and the House and Senate Committees on Ways and Means adopted different revenue estimates. The administration's estimate was based upon its April 15, 2005 tax revenue estimate for fiscal 2006 of \$17.500 billion, 2.4% more than fiscal 2005 receipts of \$17.087 billion. (The administration's April 2005 tax revenue estimate was subsequently adjusted for several legal developments, which reduced the fiscal 2006 estimate by \$52.5 million, to \$17.448 billion, 2.1% over fiscal 2005 tax receipts.) The House and Senate Ways and Means Committees estimated tax revenue at \$17.283 billion, or 1.2% above actual fiscal 2005 receipts, including a base of \$17.1 billion (effectively equal to prior year collections), \$105.0 million in additional revenues assumed to result from proposed tax loophole legislation, and \$78.0 million in revenue resulting from increased audits. Both the Legislature's and Governor's gross tax estimates included \$1.275 billion for the annual pension obligation, \$712.6 million in sales tax dedicated to the Massachusetts Bay Transportation Authority (MBTA), and \$488.7 million in sales tax dedicated to the Massachusetts School Building Authority (MSBA). The MBTA and MSBA costs are deducted from the gross tax estimate to determine net tax revenue. See "COMMONWEALTH REVENUES — Fiscal 2005 and 2006 Tax Revenues."

On October 26, 2005, as a result of a periodic review required by state law, the Executive Office for Administration and Finance increased the tax revenue estimate for fiscal 2006 by \$509.0 million, to \$17.957 billion. On January 17, 2006, the Executive Office for Administration and Finance further increased the tax revenue estimate for fiscal 2006 by \$201.0 million, to \$18.158 billion. See "Fiscal 2006 Tax Revenues" for additional detail.

A number of fiscal 2006 supplemental budgetary appropriation bills have been filed. Except as otherwise noted, the statutory basis tables in this document include all spending appropriated and signed into law by the

Governor and any additional amounts for which the Governor has filed supplemental appropriations that remain before the Legislature. These supplemental budgetary bills and appropriations are as follows:

On September 22, 2005, the Governor filed "An Act to Reform Education." The objective of the bill is to improve K-12 education, especially math and science, to maintain international competitiveness. The bill proposes supplemental appropriations for fiscal 2006 of $46.6 million. The projected cost of the proposal as filed for fiscal 2007 was $143.0 million. Due to delayed consideration of this legislation, the fiscal 2007 cost included in the Governor's budget proposal is $94.0 million. Key features of the bill include: (1) establishment of three annual bonus payment programs of $5,000 each for a new corps of math and science teachers, teachers of advanced placement math and science, and teachers in any subject with exemplary evaluations for contributing to growth in student achievement; (2) expansion of advanced placement math and science to all high schools, and establishment of seven math/science exam schools across the state; (3) introduction of math testing for licensing of all new teachers and all current elementary teachers of math; (4) expansion of math and sciences training of current teachers; (5) acceleration of intervention in underperforming schools and expanded management authority for superintendents and principals; (6) introduction of occupational-academic programs in regular high schools to pursue certificates of occupational proficiency; (7) provision of laptops to all middle and high school students, based on new technology for producing laptops at about $100; (8) parental preparation programs; and (9) establishment of the office of secretary of education.

On October 20, 2005, the Governor filed supplemental legislation to place $16.4 million in eleven reserve accounts to fund incremental costs resulting from a number of collective bargaining agreements. The funds cover incremental costs in fiscal 2006 as well as any retroactive compensation for fiscal 2005 or prior years.

On November 29, 2005, the Governor filed supplemental legislation to cover $12.8 million in increased fuel and medical costs at the Department of Corrections.

On November 30, 2005, the Governor signed legislation providing $20.0 million to provide heating energy assistance and tax relief to citizens of the Commonwealth.

On December 8, 2005, the Governor signed legislation revising certain fiscal 2005 year-end inter-fund transfers (see "Fiscal 2005 Ending Balance" above), making tax law changes and making a transfer affecting fiscal 2006. The legislation closes various tax loopholes and raises an additional $85 million in tax revenue on an annualized basis. The legislation also settles the *Peterson* tax revenue case. See "COMMONWEALTH REVENUES — Fiscal 2005 and 2006 Tax Revenues." The legislation changes the effective date of the 2002 capital gains tax law change to January 1, 2003. This results in tax credits of approximately $225.0 million to $275.0 million, which will be refunded to taxpayers over the next four years. The legislation also transfers $20.0 million from the Stabilization Fund to the General Fund.

On December 22, 2005, the Governor signed legislation for $53.6 million in supplemental appropriations. Included was $13.5 million to support increased benefits for military personnel returning from Iraq and Afghanistan, $12.8 million for increased fuel and medical costs at the Department of Corrections, $11.0 million for gang prevention at the Executive Office of Public Safety and $16.3 million to support additional collective bargaining agreements in the Commonwealth.

On January 9, 2006, the Governor filed legislation recommending fiscal 2006 supplemental appropriations totaling $60.0 million. This legislation would provide $27.4 million in snow and ice removal at the Massachusetts Highway Department, $11.1 million for new collective bargaining increases, $5.9 million for state and county sheriff operations, $5.1 million for fuel deficiencies, and $10.5 million for other programs and services.

On February 7, 2006, the Governor filed legislation recommending $36.5 million in supplemental appropriations to support the Commonwealth's preparations to prevent and respond to a potential flu pandemic. Funding includes additional hospital beds, supplies and equipment to increase current hospital capacity by more than 7,500 beds across the Commonwealth, antiviral medication to treat and contain the spread of infection, and additional supplies and equipment for the state laboratory at the Department of Public Health.

On February 14, 2006, the Governor signed legislation providing $1.0 million for costs associated with the NCAA Women's Final Four basketball tournament to be held in Boston in April 2006.

On March 23, 2006, the Governor filed legislation recommending $69.0 million in supplemental appropriations. This legislation would provide $24.7 million for environmental remediation related to underground fuel storage tanks, $8.3 million for collective bargaining costs, $6.6 million for Department of Corrections increased fuel costs and payroll for activated military personnel, $6.5 million for settlements and judgments including payments to wrongly convicted persons and $22.9 million for other programs and services. The legislation also recommends $30.2 million in fiscal 2006 appropriations be made available for expenditure in fiscal 2007 to fund collective bargaining costs, workforce training grants, and costs associated with the training of a new State Police class.

On April 14, 2006 the Governor signed legislation authorizing $132.0 million in supplemental appropriations previously requested by the administration. This legislation provides $31.0 million for collective bargaining costs, $23.0 million for snow and ice removal, $12.0 million for reimbursement of underground storage tank cleanup costs, $6.5 million for the Department of Corrections, $6.5 million for judgments and settlements, $5.9 million for the Trial Courts, and $47.1 million for various other programs and services. The legislation also PAC'ed (prior appropriation continued) $30.2 million, making certain appropriations available for expenditure through June 30, 2007.

Fiscal 2007 Budget Proposals

On January 25, 2006, Governor Romney filed his fiscal 2007 budget proposal. The spending plan budgeted $25.187 billion, including $7.101 billion in Medicaid, $4.047 billion in K-12 education, $2.064 billion for debt service and contact assistance, $1.355 billion in non-education local aid, and $10.620 for all other programs and services. The Governor's budget includes a phased decrease in the personal income tax from 5.3% to 5.15% on January 1, 2007, and to 5.0% on January 1, 2008. This tax cut reduces projected tax revenue for fiscal 2007 by $132.0 million.

The fiscal 2007 budget includes an increase of 17.1% in non-education local aid by directing that all net proceeds from the state lottery be distributed to the Commonwealth's cities and towns, as had been done prior to fiscal 2003. The budget includes an increase of 3.4% in Medicaid relative to the fiscal 2006 General Appropriations Act. Medicaid spending for fiscal 2006 is currently projected to fall $102.3 million below the budgeted level. Factoring in this projected reversion, recommended Medicaid growth is 4.9% relative to fiscal 2006 projected spending. The Governor's budget recommendation proposes an increase of $275.0 million, or 7.3%, in K-12 education. These funds are proposed to support reforms to the state's principal education funding law, called Chapter 70, by making it more responsive to enrollment changes, addressing historical aid inequities among similar communities, and recognizing increases in certain categories of school costs. The increased education funding would also provide for certain components of the Governor's Education Reform initiative, filed in September 2005, which have been re-filed in the budget.

The Governor's budget includes a $200.0 million reserve account at the Executive Office for Administration and Finance to fund costs that may result from healthcare reform legislation currently being formulated in a joint House and Senate conference committee. In addition, the Governor has proposed that $50.0 million of the $200.0 million be taken from the Health Care Security Trust fund to support one-time costs associated with the implementation of healthcare reform in Massachusetts. (The Health Care Security Trust holds unexpended funds received from the master settlement agreement with tobacco companies and has a balance of $443.6 million). The budget also includes the use of $60.5 million from the Stabilization Fund to provide the tax refunds resulting from the *Peterson* legislation signed on December 8, 2005. See "COMMONWEALTH REVENUES — Fiscal 2005 and 2006 Tax Revenues". The budget also proposes to suspend for fiscal 2007 the statutory transfer of one-half of 1 percent of current year tax revenues to the Stabilization Fund prior to the calculation of the consolidated net surplus.

On April 10, 2006 the Committee on Ways and Means of the Massachusetts House of Representatives submitted its fiscal 2007 budget proposal. This proposal includes spending of $25.271 billion. It also includes a $200.0 million reserve to fund healthcare reform efforts in the Commonwealth consistent with fiscal 2007 budget proposal filed by the Governor. The Committee also proposes the transfer of $275.0 million from the Commonwealth's Stabilization Fund to its General Fund to fund a portion of fiscal 2007 expenditures. The House Ways and Means Committee budget does not include a reduction in the personal income tax to 5.15% as the Governor proposed, thus providing an additional $132.0 million in projected revenue in fiscal 2007.

Cash Flow

Fiscal 2005 ended with a non-segregated cash balance of $2.117 billion and a segregated bond balance of $435.7 million. On February 28, 2006, the State Treasurer and the Secretary of Administration and Finance released a revised projected cash flow forecast for fiscal 2006. The cash flow projection for fiscal 2006 is based on the GAA for fiscal 2006 and includes the value of all vetoes and subsequent overrides as well as all prior appropriations continued into fiscal 2006 from the prior fiscal year. The cash flow projection also reflects all supplemental appropriations bills either filed or enacted that would impact the Commonwealth's cash flow in fiscal 2006. It reflects authorized transfers between budgeted funds and certain reserve funds as provided for in the GAA and in subsequent legislation. The fiscal 2006 projection is based on actual spending and revenue through January 2006, and estimates for the remainder of fiscal 2006. The fiscal 2006 projection is based on the Executive Office for Administration and Finance's revised fiscal 2006 tax estimate released on January 17, 2006 of $18.158 billion. The gross tax figure includes $1.274 billion dedicated to the Commonwealth's fiscal 2006 pension obligation, $712.6 million in sales tax revenues dedicated to the MBTA and $488.7 million in sales tax revenues dedicated to the MSBA. The figure excludes local option tax revenues of $256.0 million.

Fiscal 2006 opened with a starting balance of $2.553 billion of cash and is projected to have a June 30, 2006 ending balance of $1.584 billion. These figures do not include balances in the Commonwealth's Stabilization Fund or certain other off-budget reserve funds, but do include monies sequestered to pay for projected capital projects totaling $435.7 million with respect to the starting balance and $202.2 million with respect to the ending balance. Excluding these sequestered capital funds, the Commonwealth's operating cash balance opened the year at $2.117 billion and is projected to end the fiscal year at $1.382 billion, a $735.0 million decrease. A portion of the overall decline in the operating cash balance is due to the anticipated net transfer of $1.104 billion to the Commonwealth's Stabilization Fund during and in respect of fiscal 2006.

The Commonwealth's cash flow management incorporates the periodic use of commercial paper borrowing to meet cash flow needs for both capital and operating expenditures. In particular, the Commonwealth makes local aid payments of approximately $1 billion to its cities and towns at the end of each calendar quarter, which in recent years has often resulted in short-term cash flow borrowings. The Commonwealth began fiscal 2006 with $140.1 million of commercial paper outstanding in the form of Bond Anticipation Notes (BANs), which have been paid from the proceeds of general obligation bond issues. In December 2005 the Commonwealth issued $200.0 million of Revenue Anticipation Notes (RANs) to make the December 2005 local aid payment to cities and towns. These RANs were repaid in December 2005 and January 2006. The Commonwealth issued $200.0 million of RANs in March 2006.

The cash flow projection included an estimated $1.404 billion in proceeds of long-term borrowing for capital projects in fiscal 2006, including a $400.0 million principal amount general obligation bond issue completed in August 2005, a $261.1 million principal amount general obligation bond issue (excluding the portion of the issue benefiting the MSBA) completed in October 2005 and a $350.0 million principal amount general obligation bond issue completed in March 2006. An additional general obligation bond issue of $330.0 million in May 2006 is expected.

The Commonwealth's next cash flow projection is expected to be released on or before May 31, 2006.

COMMONWEALTH CAPITAL ASSET INVESTMENT PLAN

Capital Spending Plan

The Executive Office for Administration and Finance develops and manages a multi-year capital investment plan. This plan coordinates capital expenditures by state agencies and authorities that are funded by the Commonwealth's debt obligations, operating revenues, third-party payments and federal reimbursements. The Executive Office for Administration and Finance sets an annual administrative limit on certain types of capital expenditures by state agencies. This annual administrative limit is $1.25 billion in fiscal 2006, plus unexpended amounts carried forward from prior years. In addition to capital expenditures subject to the annual administrative limit, the Commonwealth also will invest significant funds during fiscal 2006 in the construction of the CA/T Project (estimated at $461 million), the Boston and Springfield convention centers (estimated at $40 million) and other projects. Most notable among these other expenditures during fiscal 2006 is providing the Massachusetts School Building Authority with the remaining $435 million of the $1 billion in funds from state general obligation bonds authorized by the legislation creating the authority. See "SELECTED FINANCIAL DATA – Recent Financial Restructurings; *School Building Assistance Program*."

The Commonwealth aggregates its capital expenditures into the following seven major categories:

- *Economic Development*. The Commonwealth expends funds in this category to support and develop its economy. Types of investments include construction of convention centers, parking facilities and local grants. Various state agencies are responsible for coordinating the Commonwealth's economic development investments. Fiscal 2006 spending is this category is projected to be $40 million.

- *Environment*. The Commonwealth expends funds in this category to provide a safe environment to its citizens. Types of investments include environmental remediation projects, open space acquisitions and water supply protection. The Executive of Environmental Affairs is responsible for coordinating the Commonwealth's environmental investments. Fiscal 2006 spending in this category is projected to be $133 million.

- *Housing*. The Commonwealth expends funds in this category to finance an affordable and growing housing stock. Types of investments include rehabilitation of public housing units and financial support of developers for the construction of affordable housing units. The Department of Housing and Community Development is responsible for coordinating the Commonwealth's housing investments. Fiscal 2006 spending in this category is projected to be $131 million.

- *Information Technology*. The Commonwealth expends funds in this category to improve productivity and program outcomes through the use of technology. Types of investments include the purchase of enterprise infrastructure systems and applications, telecommunications equipment, program and web-based applications and other computing hardware and software. The Information Technology Division within the Executive Office for Administration and Finance coordinates the Commonwealth's technology investments. Fiscal 2006 spending in this category is projected to be $90 million.

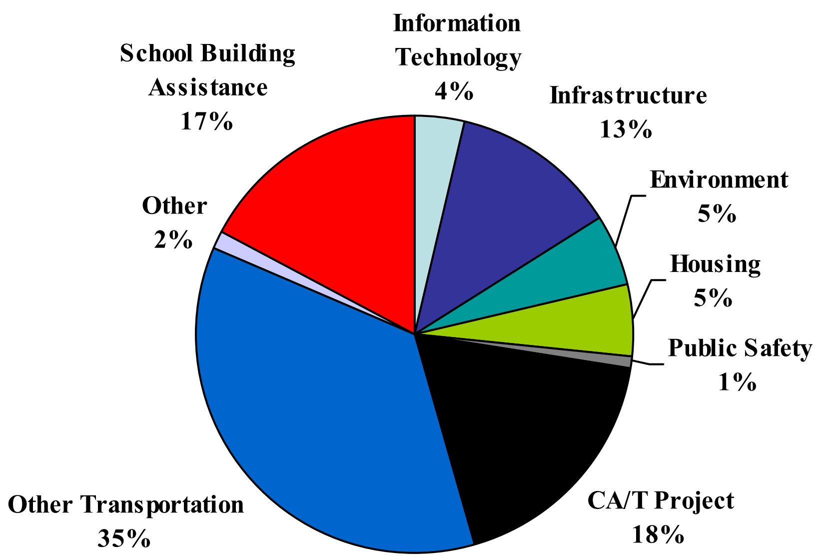
- *Infrastructure and Facilities*. The Commonwealth expends funds in this category to build and maintain its facilities, which enable the delivery of state services to its citizens. Types of investments include construction of courthouses and prisons, rehabilitation of state office buildings and the demolition of abandoned state property. The Division of Capital Asset Management and Maintenance within the Executive Office for Administration and Finance is responsible for coordinating the Commonwealth's investments in this category. Fiscal 2006 spending in this category is estimated to be $320 million.

- *Public Safety*. The Commonwealth expends funds in this category to ensure the safety of its citizens. Types of investments include public safety vehicles, communications equipment and facility rehabilitation and maintenance. The Executive Office of Public Safety is responsible for coordinating the Commonwealth's public safety investments. Fiscal 2006 spending in this category is projected to be $24 million.

- *Transportation*. The Commonwealth expends funds in this category to provide a transportation network to support its economy. Types of investments include rehabilitation of bridges, repairs of roadways and financing of mass transportation. The Executive Office of Transportation is responsible for coordinating the Commonwealth's transportation investments. Fiscal 2006 spending in this category is projected to be $1.365 billion, including $461 million for the CA/T Project and $904 million for the balance of state transportation projects.

The following is a graph depicting the breakdown of major categories of capital expenditures for fiscal 2006:

Fiscal 2006 Capital Expenditures



The following table sets forth the current capital investment plan of the Executive Office for Administration and Finance. It contains current estimates for capital investment by the Commonwealth as well as the estimated sources of funding for such capital investments for fiscal 2006 through fiscal 2009. The projections assume an ongoing state borrowing program of approximately $1.300 billion annually after fiscal 2005 and the additional borrowing of $435 million in fiscal 2006 for the MSBA. Fiscal 2006 uses are projected. For fiscal 2007 through 2009, the table reflects completion of the Central Artery/Tunnel and convention center projects. Spending by state agencies under the administrative cap is assumed to continue at fiscal 2006 levels.

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

USES:	Fiscal 2001	Fiscal 2002	Fiscal 2003	Fiscal 2004	Fiscal 2005	Projected Fiscal 2006	Projected Fiscal 2007	Projected Fiscal 2008	Projected Fiscal 2009
Information Technology	$64	$86	$76	$75	$61	$90	$90	$90	$90
Infrastructure	179	235	274	251	262	320	320	320	320
Environment	140	156	134	113	122	133	133	133	133
Housing	79	106	112	121	122	131	131	131	131
Public Safety	23	8	37	20	18	24	24	24	24
Transportation									
CA/T Project	1,258	1,296	1,015	691	509	461	209	75	-
Non-CA/T Project	732	612	682	767	791	904	879	894	899
Economic Development									
Convention Centers	124	134	225	113	54	14	-	-	-
Other	102	99	86	64	39	40	40	40	40
School Building Assistance	-	-	-	-	565	435	-	-	-
Reserve	-	-	-	-	-	-	-	-	-
Total Uses:	$2,701	$2,732	$2,641	$2,215	$2,543	$2,552	$1,826	$1,707	1,637
SOURCES:									
General Obligation Debt(4)	$1,489	$1,847	$1,472	$1,285	$1,850	$1,755	$1,395	$1,289	$1,289
Special Obligation Debt	176	139	230	119	64	14	-	-	-
Grant Anticipation Notes	353	9	24	-	-	-	-	-	-
Operating Revenues(5)	141	195	354	133	194	120	13	75	-
Third-Party Payments	82	52	52	63	99	178	79	-	-
Federal Reimbursements	460	490	509	615	336	485	338	343	348
Total Sources:	$2,701	$2,732	$2,641	$2,215	$2,543	$2,552	$1,826	$1,707	$1,637

SOURCE: Executive Office for Administration and Finance.

(1) Totals may not add due to rounding.
(2) The Executive Office for Administration and Finance reviews capital expenditures on an annual basis and reserves the right to change out-year projections.
(3) CA/T spending is based on the February 2006 cash flow projection update prepared by the Massachusetts Turnpike Authority and presented in "Central Artery/Tunnel Project" below.
(4) In addition to annual borrowing to fund the capital investment plan, includes CA/T spending from the TIF allocated to general obligation bond proceeds that were used to fund the TIF.
(5) Operating revenues include Registry of Motor Vehicle fees transferred to the CA/T Project and the Statewide Road and Bridge Infrastructure Fund.

Central Artery/Tunnel Project

The largest single component of the Commonwealth's capital program in recent years has been the Central Artery/Ted Williams Tunnel Project (CA/T Project), a major construction project that is part of the completion of the federal interstate highway system. The CA/T Project involves the depression of a portion of Interstate 93 in downtown Boston (the Central Artery), formerly an elevated highway, and the construction of a new tunnel under Boston harbor (the Ted Williams Tunnel) linking the Boston terminus of the Massachusetts Turnpike (Interstate 90) to Logan International Airport and points north. Substantial completion of the CA/T Project, defined as the opening of all roadway, tunnel, bridge, and ramp elements in their final alignments, occurred on January 13, 2006. The major components of the work remaining for final completion of the CA/T Project include reconstruction of the downtown surface street system, completion of the Integrated Project Control System (IPCS) for traffic management and construction of certain parks. The final completion of the surface roadways is expected to occur by mid-Summer of 2006. The remaining work will be completed in fiscal 2007 or 2008. The CA/T Project is administered by the Massachusetts Turnpike Authority (Turnpike Authority).

The most recent CA/T Project cost/schedule update (CSU 11) was completed and filed by the Turnpike Authority on July 1, 2004. Under CSU 11, the estimate of total project cost remained at $14.625 billion. On April 1, 2005, the Turnpike Authority released an interim report revising certain elements of the budget in CSU 11. Revised figures in the April 1, 2005 report were based on utilization of contingency reserves, realization of cost savings and other factors. The total CA/T Project cost estimate did not increase as the result of this revision. Because the CA/T Project is near completion, the Turnpike Authority does not contemplate submitting another new, full cost/schedule update; however, it is continuing to publish periodic management reports, which include construction progress reports and updated completion and cost estimates. CA/T Project management believes that since the submission of CSU 11 and its April 2005 update, no new developments or information have arisen which require an increase of the CA/T Project's $14.625 billion budget.

As of February 28, 2006, approximately $14.199 billion was under contract or agreement, which constitutes 97.1% of total budgeted costs for the CA/T Project.

Project Budget Oversight. In recent years, the Executive Office for Administration and Finance has engaged an independent consulting firm to review the annual CA/T Project cost/schedule update prepared by the Turnpike Authority. With respect to CSU 11, the report of the consulting firm concluded that the total cost estimate of $14.625 billion was aggressive but did not recommend that the estimate be increased.

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

On October 23, 2000, federal legislation was approved that requires the U. S. Secretary of Transportation to withhold obligation of federal funds and all project approvals for the CA/T Project in each federal fiscal year unless the Secretary has approved an annual update of the CA/T Project finance plan for such year and has determined that the Commonwealth is in full compliance with the June 22, 2000 project partnership agreement described above and is maintaining a balanced statewide transportation program, including spending at least $400 million each state fiscal year for construction activities and transportation projects other than the CA/T Project. In addition, the legislation limited total federal funding to $8.549 billion, consistent with the project partnership agreement. Finally, the legislation tied future federal funding for the project to an annual finding by the Inspector General of the U.S. Department of Transportation that the annual update of the CA/T Project finance plan is consistent with Federal Highway Administration financial plan guidance. Should any federal assistance be withheld from the project pursuant to such legislation, such funding would nonetheless be available to the Commonwealth for projects other than the CA/T Project. Moreover, the legislation provides that federal funds will not be withheld if the Secretary of

Administration and Finance certifies that such funds are required to pay all or any portion of the principal of federal grant anticipation notes issued for the CA/T Project.

The CA/T Project finance plans submitted pursuant to this legislation through October 2003 have received the requisite approvals. Through the federal fiscal year ended September 30, 2004, according to federal records the CA/T Project had received obligation authority with respect to all but $81 million of the federal financial assistance available to the project (other than amounts allocable to principal of federal grant anticipation notes). The remaining $81 million has not yet been made available pending federal approval of the most recent finance plan, based on CSU 11, which was submitted on July 30, 2004.

A question regarding the amount of the remaining federal support for the CA/T Project has come to light recently. State records indicate that the state has received federal reimbursements for the project in an amount that is approximately $8 million less than the amount indicated by federal records. As a result, there exists a discrepancy between federal and state records about the amount of federal reimbursement that remains available for the project. The Commonwealth is reviewing this discrepancy. The CA/T cash flow projection presented on the following page and other information in this Information Statement continue to assume that federal reimbursements of $141 million remain available to the project, an amount consistent with the state's records. If the discrepancy is not resolved accordingly, the remaining amount of federal support may be only $133 million, creating a funding shortfall of $8 million in addition to the $67 million discussed below.

Federal review of the 2004 finance plan is ongoing. The review is believed to remain open with respect to the costs of dealing with water infiltration and back charges, liquidated damages, cost recovery, and self-insurance loss portfolio transfer. The Turnpike Authority believes that correcting the leak issues is within the scope of existing contracts and will not result in significant additional costs for either the Turnpike Authority or the Commonwealth. The Turnpike Authority has responded to federal requests for information regarding the matters under review. The 2004 finance plan includes among the sources of funding $94 million to be realized from the disposition of the CA/T Project headquarters and contiguous parcels at Kneeland Street in Boston. Based on the response in December 2004 to a request for bids for the Kneeland Street property, the Turnpike Authority is no longer relying on this source of funding and is reviewing alternative sources (including in particular investment earnings on funds previously set aside to finance project costs and interest payments due to the CA/T Project). The Turnpike Authority has identified $27 million in added interest earnings on the sale proceeds of certain land in Allston as a partial source of funding this amount. The Turnpike Authority has been seeking to secure the remaining $67 million from the state's Transportation Infrastructure Fund (TIF). Final agreement has not been reached regarding the use of additional elements from the TIF for this purpose. Resolution of this question is required for federal approval of the finance plan.

Pending their determination that project costs, schedule, and funding sources in the 2004 finance plan are reasonable, federal authorities continue to withhold approval of the plan and the federal obligation authority remaining to reach the cap on federal assistance to the CA/T Project. In addition, approximately $51 million of federal reimbursements for amounts already expended are in abeyance pending approval of the finance plan.

As the 2004 finance plan was not approved prior to the end of federal fiscal year 2005 on September 30, 2005, the Commonwealth applied the unobligated authority to other eligible transportation projects within the Commonwealth and to principal of the grant anticipation notes. Once the 2004 finance plan is approved, the remaining federal support will be allocated from federal obligation authority in federal fiscal year 2006 or thereafter.

CA/T Project Cash Flow. The following table provides historical cash flow information and future cash flow estimates based on the Turnpike Authority's current estimations. Actual amounts and timing of construction costs may differ significantly from such estimates.

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

	Cumulative Through 2005(2)	Projected 2006	Projected 2007	Projected 2008	Totals
Project Construction Uses:	$13,880	$461	$209	$75	$14,625
Project Construction Sources:					
Federal Highway Reimbursements	6,908	131	10		7,049
Commonwealth GO Bond/Note (3)	1,589	--	--	--	1,589
State Interest on Turnpike Authority Funds	45	--			45
Third Party Contributions (4)	1,686	128	79	--	1,893
Grant Anticipation Notes	1,500	--			1,500
Transportation Infrastructure Fund (5)	2,100	202	107	75	2,409
Insurance Trust Revenue	52	--	13	75	140
Total Sources	$13,880	$461	$209	$75	$14,625

SOURCE: Massachusetts Turnpike Authority.

(1) Totals may not add due to rounding.
(2) This table is based on the Commonwealth's fiscal year, which ends on June 30; the Turnpike Authority's fiscal year ends on December 31.
(3) Does not include bonds or notes authorized by May 17, 2000 legislation, which are included in the TIF line.
(4) Payments to be received from the Turnpike Authority and the Port Authority described in the October 2000, 2001 and 2002 Finance Plans, but excluding payments to be received from the Turnpike Authority and the Port Authority as required by May 17, 2000 legislation. (The latter payments are included in the TIF line.) The fiscal year amounts assume that the Commonwealth will finance costs in anticipation of such receipts through cash advances funded by general revenues or through the issuance of interim debt, if necessary.
(5) Central Artery and Statewide Road and Bridge Transportation Infrastructure Fund (TIF) established pursuant to legislation approved by the Governor on May 17, 2000. Includes $1.5 billion of state general obligation debt, $200 million received from the Turnpike Authority, $65 million received from the Massachusetts Port Authority, and certain Registry of Motor Vehicle fee revenues.

Claims and Economic Risks. The annual finance plan budgets for the potential cost of change orders and contractor claims on awarded and un-awarded contracts. The Claims and Changes Department of the CA/T Project has made substantial progress in recent years in resolving contractor claims, although significant items remain open. The CA/T Project reports that recent settlements have been within expectations on an overall basis and that contingency reserves are expected to be adequate.

Media reports have referred to the financial difficulties of a particular CA/T Project contractor. The Turnpike Authority is monitoring that contractor's progress with respect to its obligations under CA/T Project contracts and its continuing ability to complete those obligations on an ongoing basis. The contractor continues to progress in its work on the CA/T Project, and the Turnpike Authority has not received information that the contractor's financial status will prevent its contractual obligations from being met or the CA/T Project from being completed in accordance with the current schedule.

Media reports have discussed a number of water infiltration problems in the project's tunnels. The Turnpike Authority and project staff have indicated that the tunnels have been surveyed, flaws have been identified, and remedies have been designed and are being implemented, including the repair of flaws in tunnel walls and the sealing of leaks at a large number of tunnel wall and roof interfaces. Amounts spent and anticipated to be spent by the CA/T Project for these purposes are expected to fall within the $14.625 billion finance plan. A continuing program to identify and seal leaks will, however, be necessary indefinitely. This program and any additional maintenance and repairs necessitated by continuing infiltration will require higher maintenance costs in the future. The Turnpike Authority has estimated that it will assume responsibility for ongoing leak repairs from the project and its contractors in 2007 at an initial cost of $1.3 million for that year declining to $156,000 in 2010 and thereafter, excluding inflation. An independent evaluation has suggested that, based on current productivity compared with that assumed in the Turnpike Authority's estimate, the cost could be double the amount projected and warns that the estimate is based on experience with the ongoing leak repair program for the Callahan Tunnel, which does not share the CA/T's slurry wall construction. The Turnpike Authority's current operation and maintenance budget does not specifically include amounts for leak repairs and maintenance.

Federal Safety Review. In December 2004 a team of Federal Highway Administration (FHWA) experts from around the United States, including geotechnical and hydraulics experts and structural engineers, conducted a tunnel leak assessment of the CA/T Project. On April 4, 2005, FHWA Administrator Mary E. Peters wrote to the Chairman of the Turnpike Authority, stating that the FHWA had completed its interim leak assessment report and stating: "In summary, FHWA found that the CA/T is structurally sound and remains safe for traffic." The letter further stated that the FHWA will issue another report upon completion of slurry wall inspections, sealing of low-level leaks and repair of slurry wall defects.

MassHighway Safety Review. On March 15, 2005 the Governor directed the Executive Office of Transportation and the Massachusetts Highway Department to conduct an examination of the safety of the tunnel elements of the CA/T Project open to traffic. This examination is ongoing.

LONG-TERM LIABILITIES

The following table shows long-term debt of the Commonwealth as issued and retired from fiscal 2001 through fiscal 2005:

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

	Fiscal 2001	Fiscal 2002	Fiscal 2003(2)	Fiscal 2004	Fiscal 2005
Fiscal Year Beginning Balance (as of July 1)	$12,383,101	$13,999,454	$14,955,135	$15,962,506	$17,382,172
General and Special Obligation Debt Issued(1)	1,752,198	1,470,272	1,845,458(3)	1,925,990	1,267,281
Grant Anticipation Notes Issued(1)	577,605	-	-	-	-
Subtotal	14,712,904	15,469,726	16,800,593	17,888,496	18,649,453
Debt Retired or Defeased, Exclusive of Refunding	(770,434)	(692,341)	(737,832)	(758,444)	(882,266)
Refunding Debt Issued, Net of Refunded Debt	56,984	177,750	(100,255)	252,120(4)	89,612
Fiscal Year Ending Balance (June 30)	$13,999,454	$14,955,135	$15,962,506	$17,382,172	$17,856,799

SOURCE: Office of the Comptroller.
(1) Including premium and discount.
(2) On July 16, 2003, the Commonwealth issued special obligation notes for the purpose of refunding approximately $408.0 million of federal grant anticipation notes in a crossover refunding. Interest on the refunding notes will be paid solely from an escrow funded by proceeds of the issue until the crossover dates in 2008 and 2010.
(3) Includes $116.0 million of bonds, which, although not legally defeased, will be paid in fiscal 2006 and 2008 from funds held in escrow by a third-party trustee.
(4) Includes $408.0 million of grant anticipation notes, which, although not legally defeased, will be paid in fiscal 2009 and 2011 from funds held in escrow by a third-party trustee.

General Authority to Borrow

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

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

Statutory Limit on Direct Debt. Legislation enacted in December 1989 imposes a limit on the amount of outstanding "direct" bonds of the Commonwealth. The law, which is codified in Section 60A of Chapter 29, set a fiscal 1991 limit of $6.8 billion and provided that the limit for each subsequent fiscal year was to be 105% of the previous fiscal year's limit. This limit is calculated under the statutory basis of accounting, which differs from GAAP in that the principal amount of outstanding bonds is measured net of discount and costs of issuance. The law further provides that bonds to be refunded from the proceeds of Commonwealth refunding bonds are to be excluded from outstanding "direct" bonds upon the issuance of the refunding bonds. Pursuant to Chapter 33 of the Acts of 1991, the Commonwealth's outstanding special obligation highway revenue bonds are not to be counted in computing the amount of bonds subject to this limit. Pursuant to Chapter 5 of the Acts of 1991, $287.2 million of Commonwealth refunding bonds issued in September and October 1991 are not counted in computing the amount of the bonds subject to this limit. Pursuant to Chapter 11 of the Acts of 1997, federal grant anticipation notes are also not to be counted in computing the amount of the bonds subject to this limit. Pursuant to Chapter 127 of the Acts of 1999, bonds issued to pay the operating notes issued by the Massachusetts Bay Transportation Authority or to reimburse the Commonwealth for advances to the MBTA are not to be counted in computing the amount of the bonds subject to this limit. See "SELECTED FINANCIAL DATA - Recent Financial Restructurings; *Massachusetts Bay Transportation Authority*." Pursuant to Chapter 87 of the Acts of 2000, as amended, bonds payable from the Central Artery and Statewide Road and Bridge Infrastructure Fund are not to be counted in computing the amount of the bonds subject to this limit. See "COMMONWEALTH CAPITAL ASSET INVESTMENT PLAN - Central Artery/Tunnel Project." Pursuant to Chapter 201 of the Acts of 2004, up to $1 billion of bonds issued to finance the Massachusetts School Building Authority are not to be counted in computing the amount of bonds subject to this limit. See "SELECTED FINANCIAL DATA - Recent Financial Restructurings; *School Building Assistance Program*." The statutory limit on "direct" bonds during fiscal 2006 is $14.137 billion.

The outstanding Commonwealth debt amounts excluded from the limit are shown in the following table:

Calculation of the Debt Limit (in thousands)

	2001	2002	2003	2004	2005
Balance as of June 30	$13,999,454	$14,995,135	$15,962,506	$17,382,172	$17,856,799
Less amounts excluded:					
(Discount)/Premium and issuance costs	(282,829)	(181,910)	(68,718)	1,120	70,937
Ch. 5, Acts of 1992 Refunding	(71,054)	(22,043)	(10,600)	-	-
Special Obligation Principal	(539,242)	(772,812)	(748,124)(1)	(1,347,822)	(1,485,548)
Federal Grant Anticipation Notes Principal	(1,500,000)	(1,500,000)	(1,500,000)(2)	(1,908,015)(2)	(1,908,015)(2)
County Debt Assumed	(1,375)	(1,115)	(855)	(675)	(600)
MBTA Forward Funding	(325,000)	(625,000)	(680,869)	(601,027)	(511,546)
CA/T Project	(999,995)	(838,193)	(1,386,869)	(1,066,638)	(1,336,741)
MSBA SMART Bonds	-	-	-	-	(500,000)
Outstanding Direct Debt	$10,279,959	$11,054,062	$11,566,472	$12,459,055	12,185,286
Statutory Debt Limit	$11,076,483	$11,630,307	$12,211,823	$12,822,414	$13,463,535

SOURCE: Office of the Comptroller.

(1) Includes $116.0 million of bonds, which, although not legally defeased, will be paid in fiscal 2006 and 2008 from funds held in escrow by a third-party trustee.
(2) On July 16, 2003, the Commonwealth issued special obligation notes for the purpose of refunding approximately $408.0 million of federal grant anticipation notes in a crossover refunding. Interest on the refunding notes will be paid solely from an escrow funded by proceeds of the issue until the crossover dates in 2008 and 2010. The refunding notes will effectively lower outstanding debt in comparison to the statutory debt limit on grant anticipation notes.

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

Debt Service Expenditures (in millions)(1)

Fiscal Year	Budgeted Debt Service	Total Budgeted Expenditures and Other Uses	Percentage
2001	$599.7(2)	$22,133.7	2.7%
2002	1,219.0	22,800.3	5.4
2003	1,203.5	22,439.1	5.4
2004	1,227.0	22,848.3	5.4
2005	1,398.7	23,779.1	5.9

SOURCE: Office of the Comptroller.

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

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

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

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

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

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

The following table sets forth the amount of Commonwealth debt and debt related to general obligation contract assistance liabilities outstanding as of April 2, 2006:

Commonwealth Debt and Debt Related to General Obligation Contract Assistance Liabilities
As of April 2, 2006
(in thousands)

	Long-Term (4)	Short-Term
COMMONWEALTH DEBT		
General Obligation Debt	$15,230,355(5)(8)	$25,100(7)
Special Obligation Debt (1)	1,410,360(8)	-
Federal Grant Anticipation Notes (2)	1,849,095(6)	-
Subtotal Commonwealth Debt	$18,489,810	$25,100
DEBT RELATED TO GENERAL OBLIGATION CONTRACT ASSISTANCE LIABILITIES (3)		
Massachusetts Convention Center Authority	$ 18,427	-
Massachusetts Development Finance Agency	21,765	-
Foxborough Industrial Development Financing Authority	62,160	-
Subtotal GO Contract Assistance Debt	$ 102,352	-
TOTAL	$18,592,162	$25,100

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

(1) Includes $116.0 million of bonds, which, although not legally defeased, will be paid in fiscal 2006 and 2008 from funds held in escrow by a third-party trustee. Also includes a second series of $80.1 million of bonds, which, although not legally defeased, will be paid in fiscal 2006, 2008 and 2012 from funds held in escrow by a third-party trustee.
(2) Includes $408.0 million of federal grant anticipation notes, which, although not legally defeased, will be paid in fiscal 2009 and fiscal 2011 from funds held in escrow by a third-party trustee.
(3) Does not include general obligation contract assistance liabilities to the Massachusetts Water Pollution Abatement Trust and the Massachusetts Turnpike Authority.
(4) Long-term debt includes discount and costs of issuance.
(5) Includes interest on Commonwealth general obligation capital appreciation bonds to be accrued from January 1, 2006 through their maturity in the amount of $53.7 million.
(6) Includes capital appreciation interest accrued from January 1, 2006 through their maturity in the amount of $30.8 million.
(7) Includes $25.1 million of commercial paper issued as bond anticipation notes in anticipation of certain payments to be received by the Commonwealth from the Massachusetts Port Authority to reimburse the Commonwealth for capital costs of the CA/T Project. Excludes $200.0 million of commercial paper issued as revenue anticipation notes.
(8) Amounts are preliminary.

General Obligation Debt

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

Notes. The Commonwealth is authorized to issue short-term general obligation debt as revenue anticipation notes or bond anticipation notes. Revenue anticipation notes may be issued by the State Treasurer in any fiscal year in anticipation of the receipts for that year. Revenue anticipation notes must be repaid no later than the close of the fiscal year in which they are issued. Bond anticipation notes may be issued by the State Treasurer in anticipation of the issuance of bonds, including special obligation convention center bonds. See "Special Obligation Debt." The Commonwealth currently has liquidity support for a $1 billion commercial paper program for general obligation notes, through five $200 million credit lines which expire in December 2006, March 2007, December 2007, September 2008 and November 2015, respectively.

Synthetic Fixed Rate Bonds. In connection with the issuance of certain general obligation bonds that were issued as variable rate bonds, the Commonwealth has entered into interest rate exchange (or "swap") agreements with certain counterparties pursuant to which the counterparties are obligated to pay the Commonwealth an amount equal to the variable rate payment on the related bonds and the Commonwealth is obligated to pay the counterparties a stipulated fixed rate. Only the net difference in interest payments is actually exchanged with the counterparty, and the Commonwealth is responsible for making interest payments to the variable rate bondholders. The effect of the agreements is to fix the Commonwealth's interest payment obligations with respect to the variable rate bonds. The Commonwealth will be exposed to a variable rate if the counterparties default or if the swap agreements are terminated. Termination of a swap agreement may also result in the Commonwealth's making or receiving a termination payment. The variable rate bonds associated with such swaps are supported by stand-by bond purchase liquidity facilities with commercial banks, which require the applicable bank to purchase any bonds that are tendered and not successfully remarketed. Unless and until remarketed, the Commonwealth would be required to pay the bank interest on such bonds at a rate equal to the bank's prime rate. In addition, the Commonwealth would be required to amortize the principal of any such bonds according to an accelerated schedule. Such liquidity facilities expire well before the final maturity date of the related bonds and are expected to be renewed. As of January 1, 2006, the amount of such variable rate bonds outstanding with a synthetic fixed rate agreement was $2.107 billion.

Variable Rate Demand Bonds, Auction Rate Securities and U.Plan Bonds. As of January 1, 2006, the Commonwealth had outstanding approximately $184.0 million of variable rate demand bonds (not converted to a synthetic fixed rate as described above) in a daily interest rate mode, with liquidity support provided by commercial banks under agreements terminating in February 2006. On March 3, 2006 the Commonwealth issued $350.0 million of additional variable rate demand bonds (not converted to a synthetic fixed rate as described above) in a daily interest rate mode, with liquidity support provided by commercial banks under agreements terminating in March 2011 and March 2013. As of January 1, 2006, the Commonwealth had outstanding $401.5 million of auction rate securities in a seven-day interest rate mode. As of January 1, 2006, the Commonwealth had outstanding approximately $87.1 million of variable rate "U.Plan" bonds, sold in conjunction with a college savings program administered by the Massachusetts Educational Financing Authority, which bear deferred interest at a rate equal to the percentage change in the consumer price index plus 2%, together with current interest at the rate of 0.5%.

Interest Rate Swap Agreement Dispute. The Commonwealth is party to an interest rate swap agreement relating to the Commonwealth's General Obligation Refunding Bonds, 2001 Series B and 2001 Series C, pursuant to which the Commonwealth makes payments at a fixed rate of 4.15% per annum and receives payments from its swap counterparty at a floating rate based on the actual rate on its bonds, which are variable rate obligation bonds. The notional amount of the swap currently is $496,225,000 and the scheduled termination date is January 1, 2021. Swap payments are made monthly, with the Commonwealth netting its fixed rate obligation against the floating rate amount due from the swap counterparty. The swap documentation provides that the method for determining the floating rate obligation of the counterparty may change upon an "Event of Taxability" as defined therein. The swap counterparty has asserted that an Event of Taxability has occurred and that, as a result, commencing May 3, 2004, the Commonwealth's monthly net payments to the counterparty must be increased. The Commonwealth disagrees with this assertion and, on April 23, 2004, filed a complaint in Suffolk County Superior Court seeking a declaratory judgment and related preliminary injunction relief (the "Action"). The swap payment made by the Commonwealth on May 3, 2004 and each monthly payment made thereafter have been calculated based on the pre-existing method. The Commonwealth and the swap counterparty have agreed that the Commonwealth may continue to make payments based on the pre-existing method pending the resolution of the Action, subject to the swap counterparty's right to recover the difference if the Action is decided adversely to the Commonwealth. As of January 1, 2006 this difference is estimated to be approximately $2.0 million. The Commonwealth estimates that the difference in the present value to the Commonwealth of paying under the pre-existing method, instead of the method asserted by the swap counterparty, is approximately $25.7 million calculated as of January 1, 2006.

Special Obligation Debt

Highway Fund. Section 2*O* of Chapter 29 of the General Laws authorizes the Commonwealth to issue special obligation bonds secured by all or a portion of revenues accounted to the Highway Fund. Revenues, which are currently accounted to the Highway Fund, are primarily derived from taxes and fees relating to the operation or use of motor vehicles in the Commonwealth, including the motor fuels excise tax. Chapter 33 of the Acts of 1991 authorizes the Commonwealth to issue such special obligation bonds in an aggregate amount not to exceed $1.125 billion. As of January 1, 2006, the Commonwealth had outstanding $770.1 million of such special obligation bonds, including $761.4 million of such bonds secured by a pledge of 6.86¢ of the 21¢ motor fuels excise tax. These amounts are exclusive of crossover refunding and convention center bonds, as described below.

Convention Center Fund. Chapter 152 of the Acts of 1997 authorizes $694.4 million of special obligation bonds to be issued for the purposes of building a new convention center in Boston ($609.4 million), the Springfield Civic Center ($66 million) and the Worcester convention center ($19 million). The bonds are payable from monies credited to the Convention Center Fund created by legislation, which include the receipts from a 2.75% convention center financing fee added to the existing hotel tax in Boston, Cambridge, Springfield and Worcester, sales tax receipts from establishments near the proposed Boston facility that first opened on or after July 1, 1997, a surcharge on car rentals in Boston, a parking surcharge at all three facilities, the entire hotel tax collected at hotels located near the new Boston facility and all sales tax and hotel tax receipts at new hotels in Boston and Cambridge first opened on or after July 1, 1997. The legislation requires a capital reserve fund to be maintained at a level equal to maximum annual debt service and provides that if the fund falls below its required balance the 2.75% convention center financing fee in Boston is to be increased (though the overall hotel tax in Boston, including the fee, cannot exceed 14%). In June 2004, the Commonwealth issued $686.7 million of special obligation bonds secured solely by the pledge of receipts of tax revenues within the special districts surrounding the centers and other special revenues connected to such facilities, $638.7 million of which remain outstanding as of January 1, 2006.

Federal Grant Anticipation Notes

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

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

As of January 1, 2006, $1,849.1 million of such notes, inclusive of the special obligation crossover refunding notes, remain outstanding.

Debt Service Requirements

The following table sets forth, as of April 2, 2006, 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 April 2, 2006

(in thousands)

Fiscal Year	General Obligation Bonds: Principal	Interest on CABS at Maturity	Current Interest	Sub Total	Federal Grant Anticipation Notes: Principal	Interest	Sub Total	Special Obligation Bonds: Principal	Interest	Sub Total	Total Debt Service Commonwealth Bonds
2006	$91,990	-	$150,020	$242,010	$59,650	$46,205	$105,855	$28,565	$20,045	$48,610	$396,475
2007	1,000,514	$5,189	739,958	1,745,661	123,825	87,887	211,712	37,605	73,259	110,864	2,068,236
2008	955,737	5,801	690,876	1,652,414	130,240	81,469	211,709	40,205	70,919	111,124	1,975,247
2009	980,661	6,900	642,432	1,629,993	137,230	74,478	211,708	42,020	69,006	111,026	1,952,727
2010	904,719	6,905	592,995	1,504,620	158,815	66,835	225,650	44,015	67,020	111,035	1,841,304
2011	915,754	7,763	543,798	1,467,315	214,620	57,206	271,826	46,190	64,844	111,034	1,850,175
2012	792,880	7,802	495,706	1,296,387	226,420	45,694	272,114	48,590	62,464	111,054	1,679,555
2013	861,319	8,611	452,816	1,322,746	208,410	35,110	243,520	51,115	59,912	111,027	1,677,293
2014	761,820	6,686	410,343	1,178,848	302,820	21,697	324,517	49,435	57,126	106,561	1,609,926
2015	746,244	6,201	372,557	1,125,002	287,065	7,185	294,250	98,520	54,557	153,077	1,572,329
2016	790,509	4,873	337,497	1,132,879	-	-	-	102,505	49,286	151,791	1,284,670
2017	786,292	3,302	299,387	1,088,981	-	-	-	108,385	43,803	152,188	1,241,169
2018	588,210	2,419	263,179	853,807	-	-	-	46,350	38,425	84,775	938,582
2019	576,375	20,002	234,544	830,921	-	-	-	48,775	36,121	84,896	915,816
2020	650,047	1,212	204,474	855,733	-	-	-	49,020	33,499	82,519	938,253
2021	848,946	1,044	166,944	1,016,933	-	-	-	51,515	31,064	82,579	1,099,513
2022	638,960	892	127,511	767,362	-	-	-	54,355	28,292	82,647	850,010
2023	520,285	670	99,110	620,065	-	-	-	36,960	25,428	62,388	682,453
2024	392,968	246	76,972	470,186	-	-	-	28,990	23,443	52,433	522,619
2025	320,000	69	60,256	380,325	-	-	-	30,625	21,848	52,473	432,798
2026	176,387	31	46,402	222,820	-	-	-	32,360	20,164	52,524	275,344
2027	175,820	-	38,612	214,432	-	-	-	34,190	18,384	52,574	267,006
2028	101,915	-	31,509	133,424	-	-	-	36,125	16,504	52,629	186,053
2029	178,335	-	24,368	202,703	-	-	-	38,170	14,517	52,687	255,390
2030	184,090	-	14,966	199,056	-	-	-	40,330	12,418	52,748	251,803
2031	192,960	-	5,067	198,027	-	-	-	42,610	10,199	52,809	250,837
2032	-	-	-	-				45,020	7,856	52,876	52,876
2033	-	-	-	-				47,565	5,380	52,945	52,945
2034	-	-	-	-				50,250	2,764	53,014	53,014
TOTAL	$15,133,737(3)	$96,618	$7,122,299	$22,352,650	$1,849,095(1)	$523,766	$2,372,861	$1,410,360(2)(3)	$1,038,547(2)	$2,448,907	$27,174,418

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

1) Includes $408.0 million of federal grant anticipation notes which, although not legally defeased, will be paid in fiscal 2009 and fiscal 2011 from funds held in escrow by a third-party trustee.

2) Includes $116.0 million of bonds, which, although not legally defeased, will be paid in fiscal 2006 and 2008 from funds held in escrow by a third-party trustee. Also includes a second series of $216.7 million of bonds, which, although not legally defeased, will be paid in fiscal 2006, 2008 and 2012 from funds held in escrow by a third-party trustee.

3) Amounts are preliminary.

General Obligation Contract Assistance Liabilities

Massachusetts Convention Center Authority. The Massachusetts Convention Center Authority (MCCA) was created for the purpose of promoting the economic development of the Commonwealth through the operation of the Hynes Convention Center, the Boston Common Parking Garage and the Springfield Convention Center (now called the MassMutual Center). In addition, the MCCA has overseen the construction of and is now operating the Boston Convention and Exhibition Center. The MCCA has issued bonds which are fully secured by contract assistance payments by the Commonwealth, which payments are limited by statute to an amount equal to the annual debt service on $200 million of bonds outstanding at any one time. The assistance contract is a general obligation of the Commonwealth for which its full faith and credit is pledged. As of January 1, 2006, the MCCA had $16.5 million of such bonds outstanding. These bonds do not include the 2004 bonds issued to finance construction of the Boston Convention and Exhibition Center and the renovation and expansion of the MassMutual Center; these projects were financed by the issuance of Commonwealth special obligation bonds.

Massachusetts Development Finance Agency. On September 30, 1998, the Massachusetts Government Land Bank and the Massachusetts Industrial Finance Agency were legally merged into a successor entity, the Massachusetts Development Finance Agency (MassDevelopment). MassDevelopment has succeeded to all of the assets and liabilities of the Government Land Bank. MassDevelopment assists in the development of state and federal surplus property for private use and in the development of substandard, blighted or decadent open areas in the Commonwealth. MassDevelopment has direct borrowing power. The Commonwealth is required to provide contract assistance payments necessary to defray debt service on up to $80 million of bonds issued to redevelop the former federal military base at Fort Devens. The contract with MassDevelopment is a general obligation of the Commonwealth for which the full faith and credit of the Commonwealth is pledged. As of January 1, 2006, MassDevelopment had $21.8 million of bonds outstanding, which are secured by the contract assistance from the Commonwealth. No more such bonds may be issued under current law.

Foxborough Industrial Development Financing Authority. Pursuant to legislation approved May 24, 1999, the Commonwealth entered into a contract for financial assistance with the Foxborough Industrial Development Financing Authority in June 2000 obligating the Commonwealth to pay the full amount of the debt service on bonds issued to finance up to $70 million of capital expenditures for infrastructure improvements related to the construction of a new professional football stadium in the town of Foxborough. The obligation of the Commonwealth to make such payments is a general obligation for which the full faith and credit of the Commonwealth is pledged. Under the authorizing legislation the Commonwealth is to receive $400,000 per year in parking fees for stadium-related events, an administrative fee of $1 million per year from the stadium lessee and will be entitled to recover from the stadium lessee a portion of its contract assistance payments if professional football ceases being played at the stadium during the term of the bonds. As of January 1, 2006, the Foxborough Industrial Development Financing Authority had $62.2 million of such bonds outstanding. No more such bonds may be issued under current law.

Massachusetts Turnpike Authority. The Commonwealth is obligated to pay contract assistance to the Massachusetts Turnpike Authority pursuant to legislation enacted in 1998 and a contract for financial assistance dated as of February 19, 1999 between the Turnpike Authority and the Commonwealth. The payments are in recognition of the financial burden imposed on the Turnpike Authority by virtue of its assumption of the responsibility for operation and maintenance of certain roadways in the Metropolitan Highway System that were formerly maintained by the Commonwealth. The Commonwealth's obligation to make such payments is a general obligation for which the faith and credit of the Commonwealth is pledged for the benefit of the Turnpike Authority and its bondholders. The contract provides that no later than September 1 of each year the Turnpike Authority is to submit to the Secretary of Transportation a certificate setting forth the total amount of costs incurred by the Turnpike Authority during the prior fiscal year in connection with the operation and maintenance of the roadways covered by the contract. The contract further provides that as soon as practicable following receipt of such certificate, but no later than December 1 of such year, the Commonwealth is to pay the Turnpike Authority the amount set forth in such certificate, subject to Commonwealth review, provided that such payment may not be less than $2 million on account of fiscal 2000, may not be less than $5 million on account of fiscal 2001 and each fiscal year thereafter prior to the fiscal year in which the final segment of the affected roadways is transferred to the Turnpike Authority and may not be more than $25 million on account of the fiscal year in which such transfer occurs and each fiscal year thereafter for 40 years.

Massachusetts Water Pollution Abatement Trust. The Massachusetts Water Pollution Abatement Trust was created to implement the Commonwealth's state revolving fund program under Title VI of the federal Clean Water Act and the federal Safe Drinking Water Act. The Trust is authorized to apply for and accept federal grants and associated Commonwealth matching grants to capitalize the revolving funds and to issue debt obligations to make loans to local governmental units to finance eligible water pollution abatement and water treatment projects. Under state law, each loan made by the Trust is required to provide for debt service subsidies or other financial assistance sufficient to result in the loan being the financial equivalent of a net zero percent interest loan or a two percent interest loan. To subsidize its loans, the Trust receives contract assistance payments from the Commonwealth. Pursuant to Sections 6, 6A and 18 of Chapter 29C of the Massachusetts General Laws, respectively, the annual contract assistance maximum for the Clean Water program is $71 million and the contract assistance maximum for the Safe Drinking Water program is $17 million. The contract assistance agreements constitute general obligations of the Commonwealth for which its faith and credit is pledged, and the Trust's right to receive payments thereunder may be pledged by the Trust as security for repayment of the Trust's debt obligations. As of June 30, 2005, the Trust had approximately $2.6 billion of bonds outstanding. Approximately 23% of the aggregate debt service on such bonds is expected to be paid from Commonwealth contract assistance.

Boston Housing Authority West Broadway Homes IV Project. In December 2003 the Boston Housing Authority (BHA) issued $10 million of housing project bonds to finance a portion of the costs of construction of a 133-unit lower income public housing project in South Boston. Proceeds of the bonds were lent by the BHA to the West Broadway Redevelopment Limited Partnership (Partnership), which owns and operates the project. The general partner of the Partnership is a Massachusetts non-profit corporation controlled by the BHA. In addition, proceeds of an approximately $11.0 million modernization grant from the Commonwealth and approximately $3.6 million in grants from the City of Boston and project reserve funds have been loaned to the Partnership by the BHA to be applied to costs of the project. The Partnership also expects to apply an equity investment from its limited partners to construction costs in the approximate amount of $10 million. In December 2003 the BHA also issued $9 million of housing project notes to mature December 1, 2006, the proceeds of which were loaned to the Partnership to be applied to construction costs in anticipation of the Partnership's equity investment. In accordance with an Amendment to Contract for Financial Assistance between the Commonwealth, acting by and through the Department of Housing and Community Development, and the BHA, the Commonwealth has agreed to advance additional grant funds to the BHA to be applied to the payment of the notes to the extent the Partnership's equity investment is not received in time or amount sufficient to pay the principal amount of the notes at maturity. The Commonwealth has also agreed in the Amendment to Contract for Financial Assistance to advance additional grant funds to the BHA in an amount sufficient to redeem all or a portion of the bonds on December 1, 2006 to the extent the project has failed to demonstrate budgeted revenue sufficiency by that date. Thereafter, the bonds will be secured by and payable solely from an assignment by the BHA of state operating subsidy funds allocable to the project and other state assisted public housing projects owned by the BHA, loan repayments from the Partnership payable from project net income and reserve funds funded from bond and grant loan proceeds to the Partnership. The project is now substantially complete and achieved 95% occupancy in November 2005, and the BHA anticipates that it will receive equity investment funds this year sufficient to retire the notes when due. The project has also demonstrated budget revenue sufficiency, and it is therefore not anticipated that the Commonwealth will need to advance any additional grant funds this year to redeem any portion of the bonds.

The following table sets forth the Commonwealth's general obligation contract assistance requirements pursuant to contracts with the Massachusetts Convention Center Authority, MassDevelopment, the Foxborough Industrial Development Financing Authority, the Massachusetts Turnpike Authority and the Massachusetts Water Pollution Abatement Trust. These figures are as of June 30, 2005, except that with respect to the Massachusetts Water Pollution Abatement Trust they are as of December 31, 2005.

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

Fiscal Year	Convention Center Authority	Massachusetts Development Finance Agency	Massachusetts Water Pollution Abatement Trust	Turnpike Authority(2)	Foxborough Industrial Development Financing Authority	Total
2006	$443	$13,280	$63,979	$25,000	$3,555	$115,383
2007	2,532	10,162	64,216	25,000	5,337	100,302
2008	2,533	--	67,267	25,000	5,336	89,763
2009	2,534	--	65,451	25,000	5,340	89,672
2010	2,534	--	65,255	25,000	5,338	89,476
2011	2,534	--	64,581	25,000	5,338	88,810
2012	2,533	--	62,950	25,000	5,338	87,193
2013	2,536	--	60,390	25,000	5,341	84,644
2014	2,536	--	57,433	25,000	5,339	81,697
2015	--	--	55,828	25,000	5,337	77,558
2016	--	--	51,020	25,000	5,337	72,834
2017	--	--	43,925	25,000	5,336	65,762
2018	--	--	38,619	25,000	5,339	60,462
2019	--	--	38,324	25,000	5,336	60,177
2020	--	--	32,616	25,000	5,335	54,476
2021	--	--	25,195	25,000	5,337	47,070
2022	--	--	15,919	25,000	5,340	37,788
2023	--	--	15,753	25,000	5,340	37,631
2024	--	--	8,087	25,000	5,340	30,340
2025	--	--	3,950	25,000	5,340	30,340
2026 through 2045	--	--	1,727	500,000(3)	--	500,000
Total	$20,715	$23,442	$902,487	$1,000,000	$104,979	$1,901,379

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

(1) Totals may not add due to rounding.

(2) Reimbursement funds operating and maintenance costs expended in the prior state fiscal year. These costs are projections and are subject to review pursuant to the contract for financial assistance. These projections do not include certain costs submitted by the Massachusetts Turnpike Authority for reimbursement, which the Executive Office for Administration and Finance has determined not to be reimbursable under the contract. The disputed costs remain subject to review and discussion.

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

Budgetary Contract Assistance Liabilities

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

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

Route 3 North Transportation Improvements Association Commonwealth Lease Revenue Bonds. In August 2000, the Route 3 North Transportation Improvements Association issued approximately $394.3 million of lease revenue bonds to finance the reconstruction and widening of a portion of state Route 3 North. In May 2002, the Route 3 North Transportation Improvements Association issued approximately $312.7 million of refunding lease revenue bonds. In connection with the financing, the Commonwealth leased the portion of the highway to be improved to the Association, and the Association leased the property back to the Commonwealth pursuant to a sublease. Under the sublease the Commonwealth is obligated to make payments equal to the debt service on the bonds and certain other expenses associated with the project. The obligations of the Commonwealth do not constitute a general obligation or a pledge of the credit of the Commonwealth and are subject to annual appropriation by the Legislature. The Commonwealth's sublease obligations related to these bonds are set forth in the table below. As of January 1, 2006, the Route 3 North Transportation Improvements Association had $403.6 million of such lease revenue bonds outstanding.

Saltonstall Building Redevelopment Corporation Project. In May 2002, MassDevelopment issued $195.8 million of lease revenue bonds pursuant to an agreement to loan the proceeds of the bonds to the MassDevelopment/ Saltonstall Building Redevelopment Corporation. The loan was used to finance the redevelopment of the Saltonstall State Office Building. Under the provisions of the legislation relating to the building's redevelopment, the building was leased to MassDevelopment for a term of up to 50 years, with extension terms permitted for an aggregate of 30 more years. MassDevelopment will pay $2.45 million per year to the Commonwealth for the lease. MassDevelopment has renovated the building and subleased half of it back to the Commonwealth for office space and related parking (for a comparable lease term) in respect of which sublease, the Commonwealth will make sublease payments to MassDevelopment. The remainder of the building has been redeveloped as private office space, as well as private housing units and retail establishments. The obligations of the Commonwealth under the office sublease do not constitute a general obligation or a pledge of the credit of the Commonwealth and are subject to annual appropriation by the Legislature. The Commonwealth's sublease obligations related to these bonds are set forth in the table below. The Commonwealth's full year costs include $7.065 million per year of base rent and parking space rent for the first five years, after which the parking space rent may be adjusted for fair market value every five years. In addition, included in the table below are the Commonwealth's estimated pro-rata share of office operating expense reimbursements, escalating at 3% per year and also the Commonwealth's replacement reserve contribution calculated at $.21 per rental square foot per year. As of June 30, 2005, MassDevelopment had $195.8 million of such lease revenue bonds outstanding for the Saltonstall Building redevelopment project.

Long-Term Operating Leases and Capital Leases. In addition to Commonwealth-owned buildings and facilities, the Commonwealth leases additional space from private parties. In certain circumstances, the Commonwealth has acquired certain types of capital assets under long-term capital leases; typically, these arrangements relate to computer and telecommunications equipment and to motor vehicles. Minimum future rental expenditure commitments of the Commonwealth under operating leases and long-term principal and interest obligations related to capital leases in effect at June 30, 2005 are set forth in the table below. These amounts represent expenditure commitments of both budgeted and non-budgeted funds.

Budgetary Contract Assistance Liabilities (in thousands)(1)

Fiscal Year	Plymouth County Certificates of Participation	City of Chelsea Commonwealth Lease Revenue Bonds	Route 3 North Transportation Improvements Association Commonwealth Lease Revenue Bonds	MassDevelopment/ Saltonstall Building Redevelopment Corporation Lease Revenue Bonds(3)	Other Leases	Total
2006	$10,248	$6,465	$26,755	$9,491	$155,620	$208,579
2007	10,246	6,465	26,756	9,562	121,921	174,950
2008	10,243	6,465	26,757	9,635	86,258	139,358
2009	10,247	6,465	26,756	9,710	65,997	119,175
2010	10,244	6,465	26,755	9,964	39,233	92,661
2011	10,245	6,453	26,756	10,043	39,233	92,730
2012	10,240	6,453	26,754	10,126	39,233	92,806
2013	10,245	6,453	26,754	10,210	39,233	92,895
2014	10,244	6,453	26,756	10,298	39,233	92,984
2015	10,250	6,453	26,756	10,601	14,326	68,386
2016	10,245	6,435	26,754	10,694	14,326	68,454
2017	10,238	6,435	26,758	10,789	14,326	68,546
2018	10,244	6,435	26,756	10,887	14,326	68,648
2019	10,244	6,435	26,754	10,989	14,326	68,748
2020	10,246	6,435	26,757	11,353	10,423	65,214
2021	10,243	6,435	26,754	11,460	10,423	65,315
2022	10,252	6,395	26,752	11,571	10,423	65,393
2023	--	6,379	26,752	11,685	10,423	55,239
2024	--	--	26,754	11,802	10,423	48,979
2025 through 2034	--	--	240,827(2)	130,410	74,771	446,008
Total	$174,164	$115,974	$749,173	$331,280	$824,447	$2,195,068

SOURCES: Plymouth County Certificates of Participation, City of Chelsea Commonwealth Lease Revenue Bonds and Route 3 North Transportation Improvements Association Commonwealth Lease Revenue Bonds columns – Executive Office for Administration and Finance and Other Leases column –Office of the Comptroller.

(1) Totals may not add due to rounding.
(2) Approximately $27 million per year for fiscal 2025 through fiscal 2033, inclusive.
(3) Cash flows from the Commonwealth represent gross payments to MassDevelopment. Table does not include lease payments from MassDevelopment to the Commonwealth in the amount of $2.45 million per year, under a lease for the undeveloped property which extends through the initial 50-year term of the lease, plus any extension periods. Table also do not include an initial $10 million payment made from MassDevelopment to the Commonwealth or potential parking space rent adjustments made every five years. Operating cost reimbursements are estimated; subject to change.

Contingent Liabilities

Massachusetts Bay Transportation Authority. The MBTA issues its own bonds and notes and is also responsible for the payment of obligations issued by the Boston Metropolitan District prior to the creation of the MBTA in 1964. Prior to July 1, 2000, the Commonwealth supported MBTA bonds and notes through guaranties of the debt service on its bonds and notes, contract assistance generally equal to 90% of the debt service on outstanding MBTA bonds and payment of the MBTA's net cost of service (current expenses, including debt service, minus current income). Beginning July 1, 2000, the Commonwealth's annual obligation to support the MBTA for operating costs and debt service is limited to a portion of the revenues raised by the Commonwealth's sales tax, but the Commonwealth remains contingently liable for the payment of MBTA bonds and notes issued prior to July 1, 2000. The Commonwealth's obligation to pay such prior bonds is a general obligation for which its full faith and credit have been pledged. As of January 1, 2006, the Massachusetts Bay Transportation Authority had approximately $1.681 billion of such prior bonds outstanding. Such bonds are currently scheduled to mature annually through fiscal 2030, with annual debt service in the range of approximately $270 million to $292 million through fiscal 2013 and declining thereafter. See "SELECTED FINANCIAL DATA – Recent Financial Restructurings; *Massachusetts Bay Transportation Authority*."

Woods Hole, Martha's Vineyard and Nantucket Steamship Authority. The Steamship Authority operates passenger ferries to Martha's Vineyard and Nantucket. The Steamship Authority issues its own bonds and notes.

Commonwealth support of the bonds and notes of Steamship Authority includes a Commonwealth guaranty pursuant to statutory provisions requiring the Commonwealth to provide the Authority with funds sufficient to meet the principal of and interest on their bonds and notes as they mature to the extent that funds sufficient for this purpose are not otherwise available to such entity and the Commonwealth's payment, under applicable statutory provisions, of the net cost of service of the Steamship Authority (current expenses, including debt service, minus current income). The Steamship Authority is currently self-supporting, requiring no net cost of service or contract assistance payments. As of December 31, 2005, the Steamship Authority had $68.0 million of bonds and notes outstanding. The Commonwealth's obligations to the Steamship Authority are general obligations for which its full faith and credit have been pledged.

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

University of Massachusetts Building Authority and Massachusetts State College Building Authority. Two higher education building authorities, created to assist institutions of public higher education in the Commonwealth, may issue bonds which are guaranteed as to their principal and interest by the Commonwealth. The guaranty is a general obligation of the Commonwealth for which its full faith and credit is pledged. In addition to such guaranty, certain revenues of these authorities, including dormitory rental income and student union fees, are pledged to their respective debt service requirements. While revenues thus far have been sufficient to meet debt service requirements, they have not been sufficient in all cases to pay operating costs. In such cases, the operating costs have been met by Commonwealth appropriations. As of June 30, 2005, the University of Massachusetts Building Authority had approximately $189.0 million of Commonwealth-guaranteed debt outstanding, and the Massachusetts State College Building Authority had approximately $61.9 million of Commonwealth-guaranteed debt outstanding.

Massachusetts Housing Finance Agency. MassHousing is authorized to issue bonds to finance multi-family housing projects within the Commonwealth and to provide mortgage loan financing with respect to certain single-family residences within the Commonwealth. Such bonds are solely the obligations of MassHousing, payable directly or indirectly from, and secured by a pledge of, revenues derived from MassHousing's mortgage on or other interest in the financed housing. MassHousing's enabling legislation also permits the creation of a capital reserve fund in connection with the issuance of such bonds. As of December 31, 2005, no single-family housing bonds secured by capital reserve funds were outstanding, and no such bonds had been issued by MassHousing since 1985. As of December 31, 2005, MassHousing had outstanding approximately $436.7 million of multi-family housing bonds secured by capital reserve funds. Any such capital reserve fund must be in an amount at least equal to the maximum annual debt service in any succeeding calendar year on all outstanding bonds secured by such fund. As of December 31, 2005, the capital reserve funds were maintained at their required levels. If amounts are withdrawn from a capital reserve fund to pay debt service on bonds secured by such fund, upon certification by the chairperson of MassHousing to the Governor of any amount necessary to restore the fund to the above-described requirement, the Legislature may, but is not legally bound to, make an appropriation in such amount. No such appropriation has been necessary to date.

Authorized But Unissued Debt

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

Authorized but Unissued Debt (in thousands)

Fiscal Year	Authorized But Unissued Debt
1999	$12,004,017
2000	11,585,706
2001	9,590,418
2002	8,483,658
2003	8,721,581
2004	6,827,993
2005	9,506,821

SOURCE: Office of the Comptroller.

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

There is $38.0 million of authorized but unissued debt under Chapter 33 of the Acts of 1991 that can only be issued as special obligation bonds secured by receipts in the Commonwealth's Highway Fund as of January 1, 2006. See "Special Obligation Debt." In addition, several of the statutes authorizing general obligation bonds for transportation purposes also authorize such bonds to be issued as special obligation highway bonds, at the discretion of the Governor and the State Treasurer.

STATE WORKFORCE

The following table sets forth information regarding the Commonwealth's workforce as of the end of fiscal years 2001 through 2005 and as of December 31, 2005.

Budget-Funded Workforce (1)

	June 2001	June 2002	June 2003	June 2004	June 2005	Dec. 2005
Executive Office	88	72	86	65	63	63
Office of the Comptroller	109	107	102	102	124	124
Executive Departments						
Administration and Finance	3,180	2,974	2,921	2,791	2,913	2,963
Environmental Affairs	2,555	2,312	2,156	1,997	1,984	1,992
Housing and Community Development	117	109	98	92	94	92
Early Education and Care	___	___	___	___	___	166
Health and Human Services	23,157	21,803	21,440	20,682	21,066	21,096
Transportation and Construction	1,254	843	445	344	1,139(2)	1,102
Board of Library Commissioners	20	18	13	12	11	11
Economic Development	1,140	1,094	922	879	935	968
Department of Education	272	277	248	223	241	259
Board of Higher Education	15,481	14,038	14,117	11,844	13,198	13,881
Public Safety	9,686	9,567	9,148	8,765	8,109(2)	8,237
Elder Affairs	41	43	38	28	51	51
Subtotal under Governor's authority	57,100	53,257	51,734	47,824	49,926	51,005
Judiciary	7,944	7,379	7,233	7,175	7,435	7,395
Other (3)	7,418	7,119	7,056	7,020	7,152	7,290
Total	72,462	67,755	66,024	62,019	64,513	65,690

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) Effective July 2004, the Registry of Motor Vehicles was transferred from the Executive Office of Public Safety to the Executive Office of Transportation. Approximately 814 FTEs were involved in transfer.

(3) Other includes staff of the Legislature and Executive Council, the office of the State Treasurer, Secretary, Auditor and Attorney General, the eleven District Attorneys, the seven former county sheriffs that have become state agencies, and other agencies independent from the Governor; it excludes elected members of the Legislature and Executive Council.

Unions and Labor Negotiations

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

The Trial Court, the Lottery Commission, the Registries of Deeds under the control of the Secretary of the Commonwealth and public higher education management negotiate directly with their respective employee representatives, but all wage increases and other economic provisions contained in agreements negotiated by the

Lottery Commission, Registries of Deeds and higher education management are subject to the review of the Governor and to funding approval by the Legislature. If the Governor does not recommend the requested appropriation to fund contractual increases, he may refer the contracts back to the parties for further negotiation.

Approximately 39,675 executive branch full-time-equivalent state employees are organized in twelve bargaining units, the employees of the Commonwealth's colleges and universities are organized in 33 bargaining units, and the employees of the judicial branch and the Lottery Commission are organized in six bargaining units. Public employees of the Commonwealth do not have a legal right to strike or otherwise withhold services.

Negotiations are currently underway with the Massachusetts Nurses Association, representing employees in Unit 7, to replace their contract which expired June 30, 2003; the State Police Association of Massachusetts, representing Unit 5A, and the Massachusetts Correction Officers Federated Union, representing employees in Unit 4, to replace their contracts which expired December 31, 2003; and the Coalition of Public Safety to replace their contract which expired June 30, 2004.

The Commonwealth has reached agreements with the following bargaining units:

(1) The International Brotherhood of Correctional Officers/National Association of Government Employees has a three-year contract from July 2003 to June 2006. The contract provides a 3% increase in January 2005, a 2% increase in July 2005, and a 1% increase in January 2006. The total estimated cost of additional compensation provided by the contract is $921,478.

(2) The Massachusetts Organization of State Engineers and Scientists is under contract until June 2007. A three-year contract from July 2003 to June 2006 provides a 4% increase in January 2005, and a 2% increase in July 2005. A one-year contract from July 2006 to June 2007 provides a 3% increase in July 2006. The total estimated cost of additional compensation provided by the contracts covering this period is $8.3 million.

(3) The National Association of Government Employees, representing Units 1, 3 and 6, is under contract until June 2007. A three-year contract from July 2003 to June 2006 provides a 3% increase in January 2005, and a 2% increase in July 2005. A one-year contract from July 2006 to June 2007 provides a 3% increase in July 2006. The total estimated cost of additional compensation provided by the contracts covering this period is $43 million.

(4) The Alliance Unit 2 (American Federation of State, Country and Municipal Employees) is under contract until June 2006. A three-year contract from July 2003 to June 2006 provides a 2% increase in July 2004, a 2% increase in January 2005, and a 2% increase in July of 2005. The total estimated cost of the contract is $29.8 million.

5) The Service Employees International Union's contract expires in December 2006. A contract from July 2004 to December 2006 provides a 2% salary increase in January 2005, and a 2% increase in January 2006. The total estimated cost of additional compensation provided by the contract is $32.8 million.

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

Human Resources Division Bargaining Units(1)(2)

Contract Unit	Bargaining Union	Type of Employee	FTEs	Contract Expiration Dates
1	National Association of Government Employees	Clerical	3,133	6/30/07
2	Alliance/American Federation of State, County & Municipal Employees and Service Employees International Union	Institutional services	9,688	06/30/06
3	National Association of Government Employees	Skilled trades	601	6/30/07
4	Massachusetts Correction Officers Federated Union	Corrections	3,752	12/31/03
4A	Corrections Captains	Corrections	90	6/30/06
5	Coalition of Public Safety	Law enforcement	215	6/30/04
5A	State Police Association of Massachusetts	State Police	1,855	12/31/03
6	National Association of Government Employees	Administrative professionals	7,892	6/30/07
7	Massachusetts Nurses Association	Health professionals	1,723	6/30/03
8	Alliance/Service Employees International Union	Social workers	7,267	12/31/06
9	Massachusetts Organization of State Engineers and Scientists	Engineers/scientists	2,845	6/30/07
10	Alliance/Service Employees International Union	Secondary education	614	12/31/06
	Total		39,675	

SOURCE: Executive Office for Administration and Finance.

(1) Totals may not add due to rounding.
(2) Numbers represent full-time equivalent filled positions (FTEs) in the standard workforce as of March 4, 2006 whose positions are established in accounts funded by all sources (the annual operating budget, capital projects funds, direct federal grants and expendable trusts and other non-appropriated funds).

LEGAL MATTERS

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

Programs and Services

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

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

On July 14, 2004, a subset of plaintiffs filed a motion to reopen the case and enforce the final order of May 25, 1993, asserting various reasons why the Department of Mental Retardation is not in compliance with the 1993 final order, mostly relating to the Commonwealth's plan to close the Fernald Developmental Center. Another subgroup of plaintiffs (representing class members from the Dever and Wrentham Developmental Centers) continues to engage in a mediation process with the Department pursuant to a process prescribed by the final order. The Department filed a responsive pleading on August 16, 2004, asserting that all of the requirements of the final order were met. On August 28, 2004, the Disability Law Center filed a motion to intervene, asserting an interest on behalf of persons with disabilities in the closing of the facility, which was allowed. The Court has continued to call the parties in on an occasional basis to discuss ongoing issues such as plaintiffs' access to certain records. A status conference took place on February 8, 2006. The judge ordered all transfers from Fernald halted indefinitely and appointed United States Attorney Michael Sullivan as court monitor over the closure of Fernald.

Rolland v. Romney (U.S. District Court C.A. No. 98-32208 KPN) is a class action by mentally retarded nursing home patients seeking community placements and services. The court approved a settlement agreement entered into by the parties, which will provide certain benefits to nursing home residents with mental retardation and other developmental disabilities until 2007. The Department of Mental Retardation estimates that the agreement will cost approximately $5 million per fiscal year for seven years.

Lima v. Preston (Suffolk Superior Court). Plaintiffs in a class action seek to expand the scope of emergency medical services for certain immigrants for which Medicaid reimbursement may be obtained and seek changes in associated notification requirements. Following denial of the plaintiffs' motion for partial summary judgment in early 2006, the parties are exploring possibilities for final resolution of the dispute through settlement or appellate proceedings.

Health Care for All v. Romney et al. (United States District Court). A group of individual plaintiffs brought this action for injunctive and declaratory relief, challenging the Commonwealth's administration of the MassHealth dental program. Specifically, the plaintiffs assert that the Commonwealth's administration of the dental program fails to comply with the requirements allegedly imposed by federal Medicaid law.

By memorandum of decision entered July 15, 2005, the District Court determined that, with respect to eligible children, the Commonwealth has violated sections of the Medicaid Act that require prompt provision of services, adequate notice, and treatment at reasonable intervals. The court further held that these violations resulted, in part, from insufficient reimbursement to providers of dental services. No violations were found with respect to adult enrollees. The court ordered the parties to develop a joint remedial program and judgment. A joint proposed remedial plan, to be implemented over the next several years, was submitted to the Court. Proposals contained in the proposed plan include an increase in dental reimbursement rates for Medicaid eligible children, effective July 1, 2006, and the hiring of a third party administrator for the dental program at a possible yearly cost of approximately $6.6 million and other program changes and monitoring mechanisms that would further increase MassHealth spending by an estimated amount of $10 million to $30 million over the next several years, although the cost could be higher if utilization rates change more than expected. Final judgment incorporating the agreed-on remedial plan and payment of attorneys' fees was entered in January 2006.

Rosie D. v. Governor. The plaintiffs asserted claims under the Early and Periodic Screening, Diagnostic and Treatment provisions of the federal Medicaid law. Specifically, the plaintiffs asserted that the Commonwealth is required to but does not provide them with intensive home-based mental health services. The plaintiffs have not quantified the cost of the services they seek. Trial was held from April 25 through June 9, 2005. On January 26, 2006, the Court issued its decision finding in favor of the plaintiffs on two of three counts of the complaint and ordering the parties to meet and attempt to achieve an agreed upon plan. The parties are currently engaged in negotiations.

Jane Doe, by John Doe, her father and next friend v. Ronald Preston, Secretary of the Executive Office of Health and Human Services, United States District Court. This is a civil rights action asserting that the defendants have maintained a policy that allows juveniles in the custody of the Department of Youth Services (DYS) to be strip-searched in violation of their constitutional rights. The plaintiff is seeking certification of a class of juveniles committed to the custody of DYS. No class has yet been certified but potential class size would be approximately 15,000 to 20,000 juveniles. Defendants have sought summary judgment on qualified immunity grounds, which, if granted, would likely dispose of the entire case. Potential liability if summary judgment is not granted for the defendants could exceed $20 million due to the expected size of the class.

Taxes and Revenues

There are several tax cases pending which could result in significant refunds if taxpayers prevail. It is the policy of the Attorney General and the Commissioner of Revenue to defend such actions vigorously on behalf of the Commonwealth and the descriptions that follow are not intended to imply that the Commissioner has conceded any liability whatsoever. As of June 30, 2005, approximately $125 million in contingent liabilities exist in the aggregate in tax cases pending before the Appellate Tax Board, Appeals Court or Supreme Judicial Court. These contingent liabilities include both taxes and interest. Several cases comprise a sizeable share of these liabilities.

TJX Companies v. Commissioner of Revenue, Appellate Tax Board. The taxpayer is challenging a tax liability of approximately $21 million arising from the Commissioner's disallowance of deductions for various royalty payments and interest taken in connection with transactions between several subsidiaries of the taxpayer. The case was tried at the Appellate Tax Board in January 2005 and remains under advisement.

Commonwealth of Massachusetts v. Philip Morris Inc., RJ Reynolds Tobacco Company, Lorillard Tobacco Company, et al., Middlesex Superior Court. This matter arises under the Tobacco Master Settlement Agreement ("MSA"), entered into in 1998, that settled litigation and claims by Massachusetts and 45 other states, DC, Puerto Rico, Guam, the Virgin Islands, American Samoa, and the Northern Marianas (collectively the "States"), against the major tobacco manufacturers. Under the MSA, payments made by the Original Participating Manufacturers ("OPMs") and subsequent Participating Manufacturers (collectively the Participating Manufacturers or "PMs") are potentially subject to a number of adjustments. One such adjustment is the Non-Participating Manufacturer ("NPM") Adjustment, which can be triggered if, among other things, the OPMs suffer a specified market share loss. Because the OPMs did suffer the requisite market share loss, the OPMs are seeking to reduce, by $1.1 billion (or 18.6%), the $6.2 billion payment they made to the States for 2003. Under the MSA, a payment will not be subject to adjustment if a nationally recognized economic firm selected jointly by the States and the OPMs determines that "the disadvantages experienced" by the PMs as a result of complying with the MSA were not "a significant factor contributing to the Market Share Loss" for 2003. The "significant factor proceeding" referred to above began in June 2005 and is being handled on behalf of the States by the law firm of Edwards Angell Palmer & Dodge LLP. A preliminary determination recently issued finding that the MSA was a significant factor contributing to the Market Share Loss.

On March 27, 2006, a final determination was issued by the economic consultants holding that the Tobacco Master Settlement Agreement (MSA) was a significant factor contributing to the Market Share Loss. Based on that determination, certain Participating Manufacturers (PMs) withheld approximately $806 million from the April 2006 MSA payment to the States, which would reduce the initial 2006 MSA payout to Massachusetts by approximately $32.5 million. On April 18, 2006 the Commonwealth filed an emergency motion for entry of an enforcement order and a declaratory order under the MSA that would require that the April 2006 payment be made in full.

Even though a "significant factor" determination factor has been made, a particular State's allocated payment under the MSA is not subject to a Non-Participating Manufacturer adjustment if the State continuously had a "qualifying statute," as defined in the MSA, "in full force and effect during the entire calendar year immediately preceding the year in which the payment in question is due, and diligently enforced the provisions of such statute during such entire calendar year." Massachusetts had such a "qualifying statute" in effect for the relevant period. Nonetheless, the PMs may continue to withhold the portion of Massachusetts' allocated April 2006 payments as estimated above and litigation may be necessary to determine if Massachusetts diligently enforced its "qualifying statute." If the Commonwealth is found to have diligently enforced its qualifying statute, the PMs will not have sustained their burden and the withheld amounts will have to be released to the Commonwealth. If the PMs ultimately obtain a determination of "lack of diligent enforcement" that is not overturned on appeal, the April 2006 MSA payment to Massachusetts would be reduced by the amount withheld or by potentially some greater amount yet to be determined, depending on the outcome of proceedings in other states.

Grand River Enterprises Six Nations, Ltd. v. William Pryor et al., United States District Court, New York. This case challenges certain state statutes enacted following the execution of the Tobacco Master Settlement Agreement ("MSA"). The plaintiffs are a group of companies that manufacture, import or distribute cigarettes manufactured by tobacco companies that are not parties to the MSA, otherwise called Non-Participating Manufacturers ("NPMs"). The plaintiffs challenge so-called "escrow" or "qualifying" statutes enacted by various states, including Massachusetts, which require, among other things, each NPM to establish and fund an escrow or reserve account in an amount determined by the manufacturer's sales volume in the state. The plaintiffs sued 31 attorneys general, including the Massachusetts Attorney General, alleging that the defendants have commenced or threatened enforcement actions against them for failure to establish or adequately fund their escrow accounts. The plaintiffs contend that these enforcement actions and the related statutes are unconstitutional, violate the Sherman Anti-Trust Act, and are pre-empted by the Federal Cigarette Labeling Act. The U.S. District Court dismissed the complaint against the Massachusetts Attorney General and the other non-New York defendants in September 2003, finding that it lacked personal jurisdiction over these parties and dismissed all causes of action except the anti-trust claim against the Attorney General of New York. The plaintiffs appealed, and, on September 28, 2005, the Court of Appeals for the Second Circuit held that the District Court has personal jurisdiction over the non-New York defendants and that the plaintiffs' complaint sufficiently alleged a claim of violation of the domestic Commerce Clause of the United States Constitution. (The opinion also appears to permit the anti-trust claims to proceed against all defendants.) The defendant states, including Massachusetts, sought rehearing in the Second Circuit, which was denied. The affected states, including Massachusetts, are considering seeking certiorari in the United States Supreme Court. If the plaintiffs ultimately obtain a judgment declaring the states' escrow statutes invalid, that result could make it more likely that the so-called NPM Adjustment referred to in the preceding paragraph might apply to reduce future payments to Massachusetts and other states under the MSA in amounts that could be significant but cannot be estimated at this time.

Environment

The Commonwealth is engaged in various lawsuits concerning environmental and related laws, including an action brought by the U.S. Environmental Protection Agency alleging violations of the Clean Water Act and seeking to reduce the pollution in Boston Harbor. *United States v. Metropolitan District Commission*. See also *Conservation Law Foundation v. Metropolitan District Commission* and *United States v. South Essex Sewerage District*. The Massachusetts Water Resources Authority (MWRA), successor in liability to the Metropolitan District Commission (MDC), has assumed primary responsibility for developing and implementing a court-approved plan and timetable for the construction of the treatment facilities necessary to achieve compliance with the federal requirements. The MWRA currently projects that the total cost of construction of the wastewater facilities required under the court's order, not including CSO costs, will be approximately $3.142 billion in current dollars, with approximately $131 million to be spent after June 30, 2001. With CSO costs, the MWRA anticipates spending approximately $633 million after that date. Under the Clean Water Act, the Commonwealth may be liable for any cost of complying with any judgment in these or any other Clean Water Act cases to the extent the MWRA or a municipality is prevented by state law from raising revenues necessary to comply with such a judgment.

Wellesley College is seeking contribution from the Commonwealth for costs related to the clean up of environmental contamination on the Wellesley College campus and adjacent areas, including Lake Waban. On September 5, 2001, the court entered judgment incorporating a partial settlement between the parties, under which the College will fund a clean up of hazardous materials at the campus and the northern shoreline of Lake Waban, which is expected to cost approximately $40 million. The Judgment has since been amended by agreement of the parties and approval by the court. Pursuant to the terms of the partial settlement and Judgment, the Commonwealth has reimbursed the College about $1,068,000 (about 2.5%) from an escrow account, after the Department of Environmental Protection determined that the clean up in the shoreline of Lake Waban was properly performed. No further reimbursement is due to the College under the Judgment. The clean up of the remainder of Lake Waban, downstream areas and groundwater is not addressed under the current settlement, because the Department of Environmental Protection has not yet selected a remedy for these areas. Once a remedy is determined and costs are known, negotiations may be reopened with the College. The Commonwealth and the College have reserved their rights against each other regarding liability for the future clean up costs for this part of the site, which could involve tens of millions of dollars.

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

Conservation Law Foundation v. Romney. An environmental group has brought a Clean Air Act citizens' suit in United States District Court seeking to compel the Commonwealth to improve the state's mass transit system in connection with the approaching completion of the Central Artery/Tunnel project. Two specific mass transit projects that the plaintiff is advocating for but that the Commonwealth is not itself currently planning to build are the restoration of the Arborway branch of the Massachusetts Bay Transportation Authority's Green Line in the Jamaica Plain section of Boston and the construction of a subway line in downtown Boston connecting the Charles/MGH station on the MBTA's Red Line with the Bowdoin station on the MBTA's Blue Line. The Commonwealth has moved to dismiss certain of the plaintiff's claims on the ground that they are not legally cognizable under the Clean Air Act. That motion was allowed in part and denied in part.

Other

Shwachman v. Commonwealth. The Commonwealth, through its Division of Capital Asset Management, took by eminent domain certain property in Worcester to build a new courthouse for Worcester County. Suit was filed in Worcester Superior Court in May 2004 seeking additional compensation for the taking of land for the new Worcester County Courthouse. The plaintiff may seek an additional $30 million in such an action. Discovery is ongoing.

Perini Corp., Kiewit Construction. Corp., Jay Cashman, Inc., d/b/a Perini - Kiewit - Cashman Joint Venture v. Commonwealth. In six consolidated cases and related potential litigation, plaintiffs make claims for alleged increased costs arising from differing site conditions and other causes of delay on the Central Artery/Tunnel Project. Plaintiffs have asserted claims in excess of $150 million. These claims are at various stages of resolution, including the Supreme Judicial Court, Appeals Court, Superior Court, and the Central Artery Tunnel Project Dispute Review Board panels.

American Council of Engineering Cos. v. Mass Turnpike, Mass Highway Department and the Commonwealth. Suffolk Superior Court. The plaintiff, a trade association of consulting engineers, asserts that, due to the financial difficulties of two insurers who are part of the Central Artery/Tunnel Project's Owner-Controlled Insurance Program (OCIP), the CA/T Project is contractually required to replace two insurance policies totaling $25 million. The Commonwealth's motion to dismiss has been denied and the case is at the discovery stage.

Central Artery/Tunnel Cost Recovery Program Litigation. In 2004, the Commonwealth and the Massachusetts Turnpike Authority filed ten civil actions in Suffolk Superior Court against section design consultants of the Central Artery/Tunnel Project, claiming that the designers' errors and omissions caused the CA/T Project to expend additional costs during construction. The actions were filed as part of the CA/T Project's Cost Recovery Program to recoup extra costs directly attributable to the designers' errors and omissions in design. The Commonwealth and the Turnpike Authority also filed a complaint in 2004 in Suffolk Superior Court against the Project's management consultant, Bechtel/Parsons Brinckerhoff, a joint venture. The main claim in this case, which was stayed until December 31, 2005, is B/PB's failure to disclose the true cost of the CA/T Project. The cost recovery efforts were transferred to the Attorney General's office effective February 1, 2005.

Nathaniel Lavallee et al. v. Justices of Hampden Superior Court et al., Michael Carabello et al. v. Justices of Hampden Superior Court et al., and Rosemary Cooper v. Region V Administrative Justice et al. Supreme Judicial

Court for Suffolk County. In these companion cases, the Supreme Judicial Court (SJC) decided in July 2004 that the constitutional rights of indigent criminal defendants in Hampden County had been violated the Committee for Public Counsel Services (CPCS) could not appoint attorneys for them because statutory rates of State-paid compensation were so low that many Hampden County bar advocates had become unwilling to accept appointments. The court ruled that indigent criminal defendants must be released from custody if they have been incarcerated pending trial for more than seven days without counsel, and that charges must be dismissed without prejudice after 45 days without counsel. The court declined, at that time, to order an increase in rates of bar advocate compensation.

The cases were remanded to the SJC Single Justice, who then created a mechanism for the appointment of counsel by Hampden County courts, parallel to the CPCS structure. Since then, attorneys have been appointed within permissible time limits in every case to date. One lawyer, Rosemary Cooper, seeks compensation at a rate that may be in excess of the statutory maximums. That case is on appeal to the Supreme Judicial Court. With the exception of that aspect of the Lavallee cases, the litigation is not currently active, but could be resumed if the shortage of available attorneys recurs.

Arianna S. et al. v. Commonwealth, Supreme Judicial Court for Suffolk County. This is a class action on behalf of all indigent persons who are constitutionally entitled to State-compensated counsel in civil and criminal proceedings. The petitioners claim to have been deprived of the effective assistance of counsel because of the low rates paid to bar advocates, and to represent a statewide class consisting of all indigent persons similarly situated. The relief sought includes a court-ordered increase in bar advocate compensation. No reliable estimate has been made of the amount of expenditures sought, but it is foreseeable that an increase in spending could total as much as $80-90 million per year. The Commonwealth has moved to dismiss the case, and proceedings have been stayed. Recently, the plaintiffs moved to dismiss the stay, but a Single Justice of the Supreme Judicial Court denied that motion. A bill containing significant changes affecting the provision of legal services to indigents was just signed into law. The effect of that legislation on these cases, if any, is unclear.

City of Springfield v. Board of Education et al., Hampden Superior Court. The City of Springfield, the members of its School Committee and the Superintendent of Schools seek declaratory and injunctive relief to resolve a controversy with respect to the responsibility for paying the cost of implementing orders for racial imbalance in its public school system. Section 1I of M.G.L. c. 15 provides, in pertinent part, that the Commonwealth shall, subject to appropriation and approval of the Board of Education, pay to a city one hundred percent of the cost of transportation of certain pupils. Springfield claims that sufficient funds have not been paid over to the City dating back more than 20 years. While a specific dollar amount is not demanded in the complaint, plaintiffs have made statements in the press that the city is owed $400 million.

Goldberg v. Commonwealth, Suffolk Superior Court. This case involves billboards at the East Boston entrance to Logan Airport. One billboard was removed as part of parkland mitigation for the CA/T Project. The plaintiff claims to be subject to a regulation that prohibits billboards within 300 feet of a park. Thus, the plaintiff expects to lose the rest of his billboards and values the loss of these property rights at approximately $20 million.

Suffolk Construction Co. and NER Construction Management, Inc. d/b/a Suffolk/NER v. Commonwealth of Massachusetts Division of Capital Asset Management, Suffolk Superior Court. The general contractor for the historic renovation project for the Suffolk County Courthouse sued the Division of Capital Asset Management claiming that it is owed additional amounts for extra costs and delays associated with the project. Total exposure is approximately $60 million ($16 million in claims of the general contractor and $44 million in pass-through claims from subcontractors).

Edward J. Sullivan, as Clerk-Magistrate of the Middlesex Superior Court et al. v. Robert J. Mulligan, as Chief Justice of Administration and Management & others (Middlesex Superior Court, Supreme Judicial Court for Suffolk County). On April 7, 2006, plaintiffs who work in the Edward J. Sullivan Courthouse in Cambridge sought a temporary restraining order to stop scheduled elevator-repair work due to concerns about asbestos. The requested order was denied by both the Middlesex Superior Court and the Supreme Judicial Court for Suffolk County, which remanded the matter for further proceedings.

MISCELLANEOUS

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

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

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

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

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

CONTINUING DISCLOSURE

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

On behalf of the Commonwealth, the State Treasurer will provide to each NRMSIR within the meaning of Rule 15c2-12 of the SEC, no later than 270 days after the end of each fiscal year of the Commonwealth, certain financial information and operating data relating to such fiscal year, as provided in said Rule 15c2-12, together with audited financial statements of the Commonwealth for such fiscal year. To date, the Commonwealth has complied with all of its continuing disclosure undertakings relating to the general obligation debt of the Commonwealth. However, the annual filings relating to the fiscal year ended June 30, 2001 for the Commonwealth’s special obligation debt and for the Commonwealth’s federal highway grant anticipation notes were filed two days late, on March 29, 2002. Proper notice of the late filings was provided on March 29, 2002 to the Nationally Recognized Municipal Securities Information Repositories and the Municipal Securities Rulemaking Board.

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

AVAILABILITY OF OTHER FINANCIAL INFORMATION

Questions regarding this Information Statement or requests for additional information concerning the Commonwealth should be directed to Patrick F. Landers, III, Assistant Treasurer, Office of the Treasurer and Receiver-General, One Ashburton Place, 12th floor, Boston, Massachusetts 02108, telephone 617/367-3900 (ext. 226), or to Carlo DeSantis, Assistant Secretary for Capital Finance, 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 LLP, One International Place, Boston, Massachusetts 02110, telephone 617/951-7000.

THE COMMONWEALTH OF MASSACHUSETTS

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

By /s/ Thomas H. Trimarco
Thomas H. Trimarco
Secretary of Administration and Finance

April 18, 2006

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ECONOMIC INFORMATION

The information in this section was prepared by the Massachusetts State Data Center (MassSDC) at the University of Massachusetts Donahue Institute and may be relevant in evaluating the economic and financial condition and prospects of the Commonwealth of Massachusetts. The State Data Center archives much of the data about Massachusetts. The demographic information and statistical data, which have been obtained by the MassSDC 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. **The section was prepared for release on January 31, 2006. Information in the text, tables, charts, and graphs was current as of December 31, 2005.** Sources of information are indicated in the text or immediately following the charts and tables, and also on the *Sources List* on the last page of the Exhibit A section. Although the Commonwealth considers the sources to be reliable, the Commonwealth has made no independent verification of the information presented herein and does not warrant its accuracy.

Statistical Overview

Population *(p. A-2)*	***Massachusetts***	***United States***
Estimated Percent Change in Population, April 1, 2000–July 1, 2005	0.8%	5.3%
Personal Income, Consumer Prices, and Poverty *(p. A-7)*		
Per Capita Personal Income, 2004	$42,102	$33,041
Average Annual Pay, All Industries, 2004	$48,916	$39,354
Percent Change in CPI-U, 2003-2004*	2.7%	2.7%
Percent Change in CPI-U, November 2004-November 2005*	3.3%	3.5%
Poverty Rate, 2003-2004 Average	9.7%	12.6%
Average Weekly Earnings, Manufacturing Production Workers: Nov. 2005(p)	$736.21	$687.60
Percent Change, Nov. 2004-Nov. 2005(p)	1.0%	3.3%
Employment *(p. A-15)*		
Percent Change in Nonfarm Payroll Employment, Nov. 2004-Nov. 2005(p)	0.5%	1.5%
Unemployment Rate, 2004	5.1%	5.5%
Unemployment Rate, November, 2005	4.9%	5.0%
Economic Base and Performance *(p. A-21)*		
Percent Change in Gross State Product, 2003-2004	6.9%	6.6%
Percent Change in International Exports, 2003-2004	17.0%	13.0%
Percent Change in Housing Permits Authorized, 2003-2004	14.2%	6.2%
Human Resources and Infrastructure *(p. A-38)*		
Expenditure Per Pupil, 2003	$10,460	$8,044
Percent of Adults with a Bachelor's Degree or higher, 2004	37.4%	27.0%

* NOTE: Percent changes in the CPI-U are for the Boston area & 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-five 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 the next twenty-five years. Just as the working-age population has increased, income levels in Massachusetts since 1980 have grown significantly more than the national average, and a variety of measures of income show that Massachusetts residents have significantly higher amounts of annual income than the national average. These higher levels of income have been accompanied by a significantly lower poverty rate and, with the exception of the recession of the early 1990s, considerably lower unemployment rates in Massachusetts than in the United States since 1980. The state is now recovering from the recession of 2001, but is lagging behind the nation in many indicators, particularly employment levels.

The following five sections provide detailed information on population characteristics, personal income, employment, economic base and performance, and human resources and infrastructure.

Population Characteristics

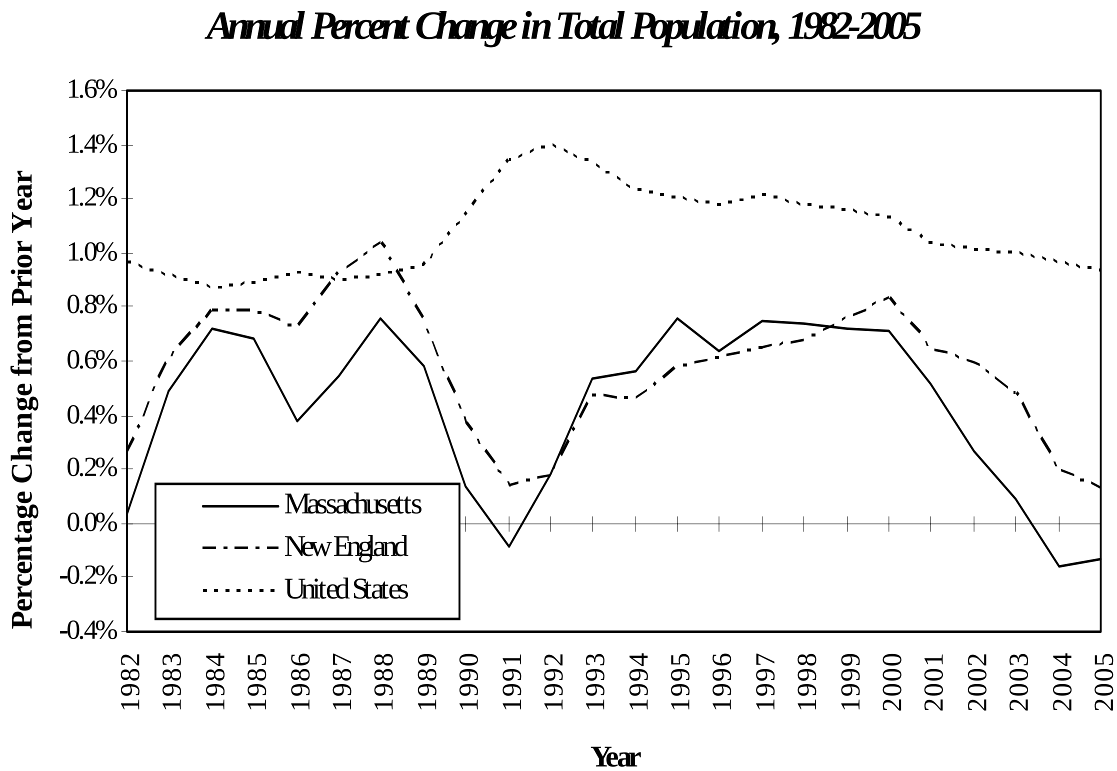
Massachusetts is a relatively slow growing but densely populated state with a comparatively large percentage of its residents living in metropolitan areas. The population density of Massachusetts was estimated as of July 1, 2005 to be 816.2 persons per square mile, as compared to 83.8 for the United States as a whole. Among the 50 states, only Rhode Island and New Jersey have a greater population density. Massachusetts also ranked just behind the same two states in percentage of residents living in metropolitan areas according to the metropolitan definitions released in 2003 which are based on whole counties. According to this new definition, the entire state is considered metropolitan except for the two island counties (99.6 percent of state residents in 2004) while Rhode Island, New Jersey and D.C. are wholly metropolitan.

The State's population is concentrated in its eastern portion. The city of Boston is the largest city in New England, with a 2004 population estimated at 569,165, or 9.0 percent of the state's population. Boston is the hub of the seven-county Boston-Cambridge-Quincy, MA-NH Metropolitan Statistical Area (MSA), which includes the two southeastern New Hampshire counties, and which had a total population in 2003 estimated at 4,439,971; over 30 percent of the total New England population. The three-county Boston-Quincy, MA Metropolitan Division is the largest component of that MSA, with a total population in 2003 estimated at 1,822,557.

The second largest MSA in the state is the Worcester, MA MSA, with a 2004 population estimated at 779,488. The city of Worcester, situated approximately 40 miles west of Boston with a 2004 population estimated at 175,966, is the third largest city in New England as well as the second largest in the state. 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 third largest MSA in Massachusetts is the three-county Springfield MSA, with a 2004 population estimated at 687,973. Springfield, the third largest city in the Commonwealth with a 2004 population estimated at 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 Baystate Health System, Big Y Supermarkets, MassMutual Financial Group, and Hasbro Games (Milton Bradley). In addition, Springfield is home to three independent colleges.

As the following chart and table indicate, the population in Massachusetts generally grows more slowly than the population of New England and much more slowly than the nation as a whole. According to the Census Bureau's latest revised estimates, only the District of Columbia, North Dakota, and West Virginia have grown more slowly than Massachusetts since Census 2000, and the state has even had a slight population loss since apparently peaking in 2003.



SOURCE: United States Department of Commerce, Bureau of the Census.
Note: Figures for all years shown are estimates as of July 1.

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

Population, 1972-2005

(in thousands)

	Massachusetts		*New England*		*United States*	
Year	*Total*	*Percent Change*	*Total*	*Percent Change*	*Total*	*Percent Change*
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	6,023	0.1%	13,230	0.4%	249,623	1.1%
1991	6,018	-0.1%	13,248	0.1%	252,981	1.3%
1992	6,029	0.2%	13,271	0.2%	256,514	1.4%
1993	6,061	0.5%	13,334	0.5%	259,919	1.3%
1994	6,095	0.6%	13,396	0.5%	263,126	1.2%
1995	6,141	0.8%	13,473	0.6%	266,278	1.2%
1996	6,180	0.6%	13,555	0.6%	269,394	1.2%
1997	6,226	0.7%	13,642	0.6%	272,647	1.2%
1998	6,272	0.7%	13,734	0.7%	275,854	1.2%
1999	6,317	0.7%	13,838	0.8%	279,040	1.2%
2000	6,362	0.7%	13,953	0.8%	282,193	1.1%
2001	6,395	0.5%	14,043	0.6%	285,108	1.0%
2002	6,412	0.3%	14,126	0.6%	287,985	1.0%
2003	6,418	0.1%	14,194	0.5%	290,850	1.0%
2004	6,407	-0.2%	14,222	0.2%	293,657	1.0%
2005	6,399	-0.1%	14,240	0.1%	296,410	0.9%

SOURCE: United States Department of Commerce, Bureau of the Census. 1980 figures are census counts as of April 1, 1980; figures for all other years shown are estimates as of July 1.

The next twenty-five years are expected to bring about a continued change in the age distribution of the Massachusetts population. As the following table and chart show, the share of the 65 and over age group and especially the 85 and over age group will continue to grow. The chart, table and population pyramids (below, and on the following page) show the projected population by age for Massachusetts for 2000 through 2030.

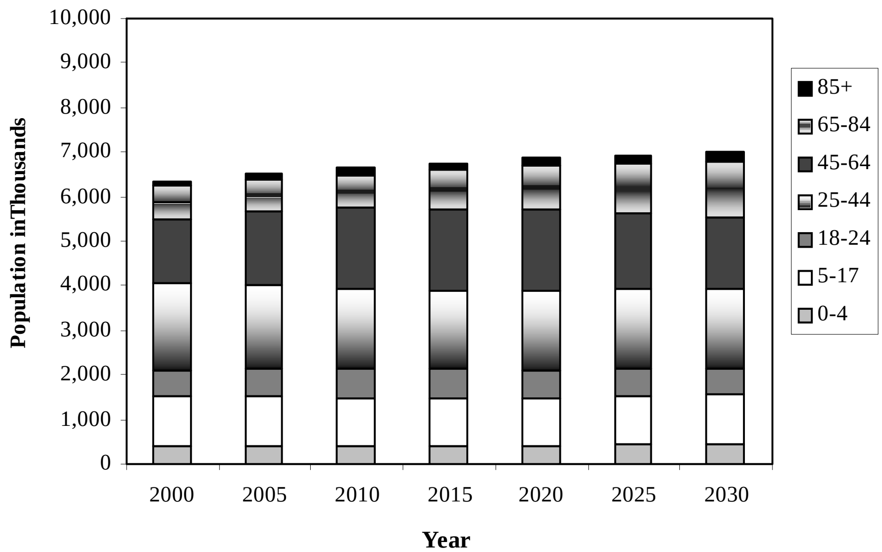
Projected Massachusetts Population by Age Group, 2000-2030

(in thousands)

Year	*0-4*	*5-17*	*18-24*	*25-44*	*45-64*	*65-84*	*85+*	*All Ages*	*Median Age*
2000	397.3	1,102.8	579.3	1,989.8	1,419.8	743.5	116.7	6,349.1	36.5
2005	406.3	1,119.2	611.8	1,874.6	1,649.0	720.7	137.4	6,518.9	37.8
2010	400.7	1,083.1	670.2	1,769.7	1,817.1	750.6	158.0	6,649.4	38.8
2015	409.7	1,064.2	656.0	1,746.1	1,857.1	856.5	168.9	6,758.6	39.2
2020	422.3	1,070.9	617.5	1,775.8	1,809.3	987.8	172.0	6,855.5	39.5
2025	431.0	1,087.7	616.2	1,782.5	1,703.3	1,137.8	180.1	6,938.6	39.7
2030	430.6	1,115.0	610.7	1,783.9	1,608.7	1,251.2	211.9	7,012.0	40.2

Actual Census 2000 counts as of April 1; all other figures are projections as of July 1 of the indicated year. Interim Population Projections through 2030 released April 21, 2005 by the Population Division, Bureau of the Census, United States Department of Commerce.

Projected Massachusetts Population by Age Group 2000-2030

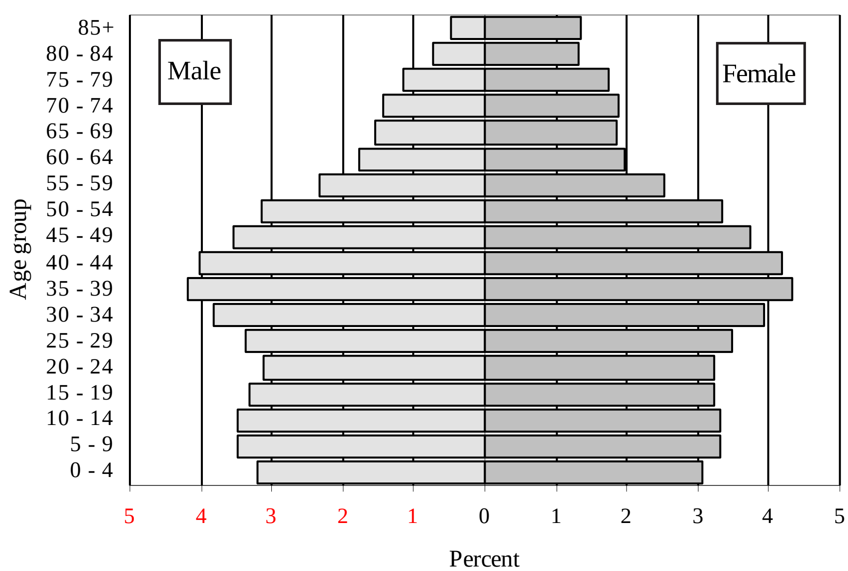


Actual Census 2000 counts as of April 1; all other figures are projections as of July 1 of the indicated year. Interim Population Projections through 2030 released April 21, 2005 by the Population Division, Bureau of the Census, United States Department of Commerce.

Population Pyramids of Massachusetts

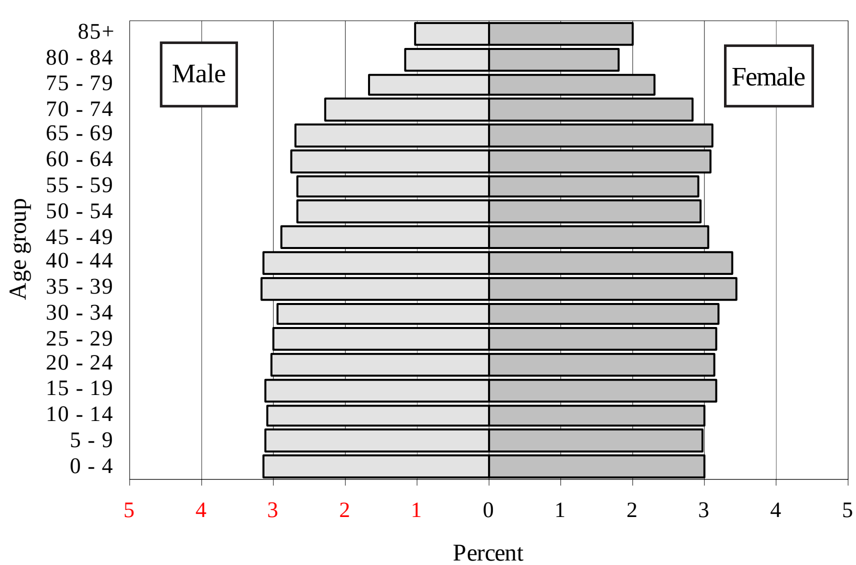
(percent of total population)

2000*



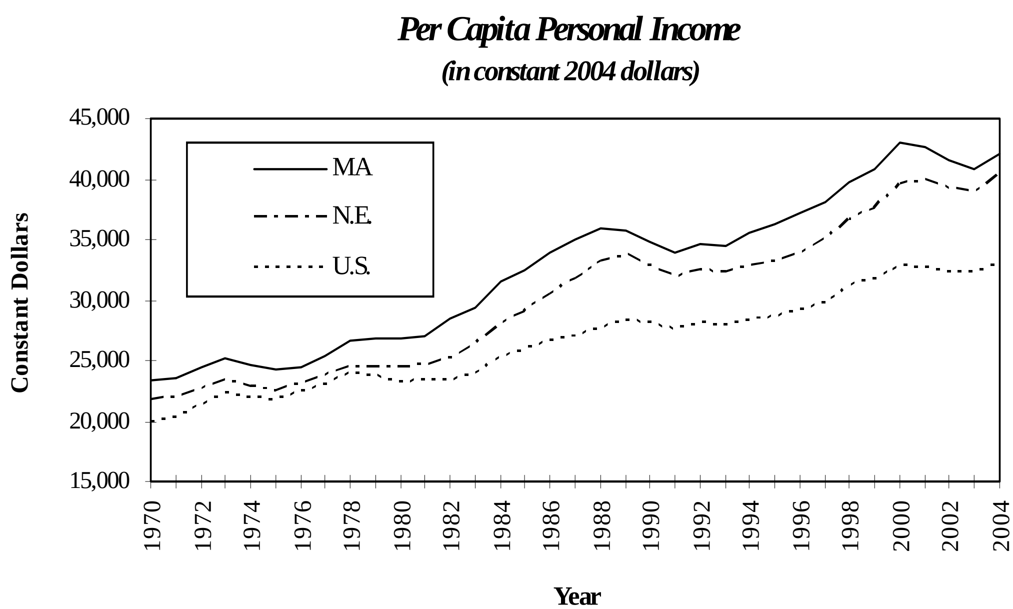
*Note: Actual Census 2000 counts as of April 1.

2030



SOURCE: U.S. Census Bureau, Population Division, Interim State Population Projections, 2005
Internet Release Date: April 21,2005

Personal Income. Since at least 1929, real and nominal per capita income levels have been consistently higher in Massachusetts than in the United States. After growing at an annual rate higher than that for the United States between 1982 and 1988, real income levels in Massachusetts declined between 1989 and 1991. Real per capita income levels in Massachusetts increased faster than the national average between 1994 and 1997. In 2000 Massachusetts had its highest per capita income growth in 16 years, exceeding the national growth rate by 2.4 percentage points. From 2000 to 2003 real income in both Massachusetts and the United States declined, with a steeper decline in Massachusetts. However, real income levels in Massachusetts remained well above the national average. In 2004, income in the state grew faster than in the nation and only the District of Columbia and Connecticut had higher levels of per capita personal income. The following chart illustrates real per capita personal income in Massachusetts, New England, and the United States since 1970.



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

The following table compares per capita personal income in Massachusetts, New England, and the United States for the period 1970-2004.

Per Capita Personal Income, 1970-2004

	Nominal Income (in current dollars)			Real Income (in 2004 dollars)			Percent Change in Real Income		
Year	MA	N.E.	U.S.	MA	N.E.	U.S.	MA	N.E.	U.S.
1970	4,483	4,445	4,085	23,363	21,641	19,888	0.3%	0.5%	0.7%
1971	4,752	4,680	4,342	23,591	21,828	20,252	1.0%	0.9%	1.8%
1972	5,109	5,029	4,717	24,493	22,727	21,317	3.8%	4.1%	5.3%
1973	5,547	5,481	5,231	25,099	23,319	22,255	2.5%	2.6%	4.4%
1974	6,016	5,958	5,707	24,616	22,829	21,867	-1.9%	-2.1%	-1.7%
1975	6,459	6,381	6,172	24,250	22,405	21,671	-1.5%	-1.9%	-0.9%
1976	6,998	6,959	6,754	24,435	23,103	22,422	0.8%	3.1%	3.5%
1977	7,620	7,593	7,405	25,299	23,669	23,083	3.5%	2.4%	2.9%
1978	8,430	8,413	8,245	26,598	24,374	23,888	5.1%	3.0%	3.5%
1979	9,385	9,392	9,146	26,860	24,437	23,797	1.0%	0.3%	-0.4%
1980	10,602	10,629	10,114	26,890	24,367	23,186	0.1%	-0.3%	-2.6%
1981	11,798	11,846	11,246	26,925	24,617	23,370	0.1%	1.0%	0.8%
1982	12,941	12,871	11,935	28,389	25,195	23,363	5.4%	2.3%	0.0%
1983	14,009	13,829	12,618	29,408	26,228	23,931	3.6%	4.1%	2.4%
1984	15,723	15,422	13,891	31,461	28,039	25,255	7.0%	6.9%	5.5%
1985	16,910	16,546	14,758	32,382	29,048	25,909	2.9%	3.6%	2.6%
1986	18,148	17,722	15,442	33,886	30,545	26,615	4.6%	5.2%	2.7%
1987	19,575	19,119	16,240	35,021	31,792	27,005	3.3%	4.1%	1.5%
1988	21,341	20,811	17,331	35,998	33,231	27,674	2.8%	4.5%	2.5%
1989	22,342	22,083	18,520	35,649	33,641	28,213	-1.0%	1.2%	1.9%
1990	23,043	22,712	19,477	34,755	32,826	28,150	-2.5%	-2.4%	-0.2%
1991	23,432	22,969	19,892	33,855	31,856	27,589	-2.6%	-3.0%	-2.0%
1992	24,538	24,172	20,854	34,594	32,545	28,078	2.2%	2.2%	1.8%
1993	25,176	24,752	21,346	34,496	32,357	27,905	-0.3%	-0.6%	-0.6%
1994	26,303	25,687	22,172	35,574	32,741	28,261	3.1%	1.2%	1.3%
1995	27,457	26,832	23,076	36,269	33,258	28,603	2.0%	1.6%	1.2%
1996	28,933	28,194	24,175	37,119	33,944	29,106	2.3%	2.1%	1.8%
1997	30,498	29,687	25,334	38,054	34,940	29,817	2.5%	2.9%	2.4%
1998	32,524	31,677	26,883	39,684	36,710	31,155	4.3%	5.1%	4.5%
1999	34,227	33,126	27,939	40,742	37,560	31,679	2.7%	2.3%	1.7%
2000	37,756	36,118	29,845	43,082	39,621	32,739	5.7%	5.5%	3.3%
2001	38,949	37,334	30,575	42,610	39,822	32,612	-1.1%	0.5%	-0.4%
2002	38,975	37,379	30,814	41,553	39,249	32,356	-2.5%	-1.4%	-0.8%
2003	39,776	38,026	31,487	40,868	39,039	32,326	-1.6%	-0.5%	-0.1%
2004	42,102	40,269	33,041	42,102	40,269	33,041	3.0%	3.2%	2.2%

SOURCE: United States Department of Commerce, Bureau of Economic Analysis.
Notes: Estimated population as of July 1. Massachusetts real income is calculated using Boston CPI-U data.

Annual pay in nominal dollars has grown steadily in Massachusetts over the past decade. 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. The level of annual pay in Massachusetts in 2004 was 24 percent higher than the national average: $48,916 compared to $39,354.

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 personal income of the recipients whose place of residence differs from their place of work will be correctly assigned to their state of residence. The table below details Wage and Salary Disbursements since 1990. Between 1991 and 2000, Massachusetts shares of the New England and overall US totals steadily increased, but in the subsequent years, its shares have dropped back somewhat from their 2000 peaks.

Annual Wage and Salary Disbursements, 1990-2004

(in millions of dollars)

Year	*U.S.*	*N.E.*	*MA*	*MA as a pct. of N.E.*
1990	$ 2,743,016	$171,448	$83,129	48.5%
1991	$ 2,811,076	$170,333	$82,311	48.3%
1992	$ 2,972,287	$177,810	$86,014	48.4%
1993	$ 3,076,276	$183,236	$89,047	48.6%
1994	$ 3,227,483	$190,661	$93,164	48.9%
1995	$ 3,415,368	$201,946	$99,194	49.1%
1996	$ 3,615,699	$213,667	$105,573	49.4%
1997	$ 3,874,011	$230,032	$113,579	49.4%
1998	$ 4,179,922	$247,851	$123,054	49.6%
1999	$ 4,463,650	$266,554	$134,045	50.3%
2000	$ 4,825,906	$293,889	$150,842	51.3%
2001	$ 4,939,944	$300,698	$153,131	50.9%
2002	$ 4,976,552	$298,533	$150,108	50.3%
2003	$ 5,105,689	$304,736	$151,998	49.9%
2004	$ 5,383,759	$321,340	$160,157	49.8%

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

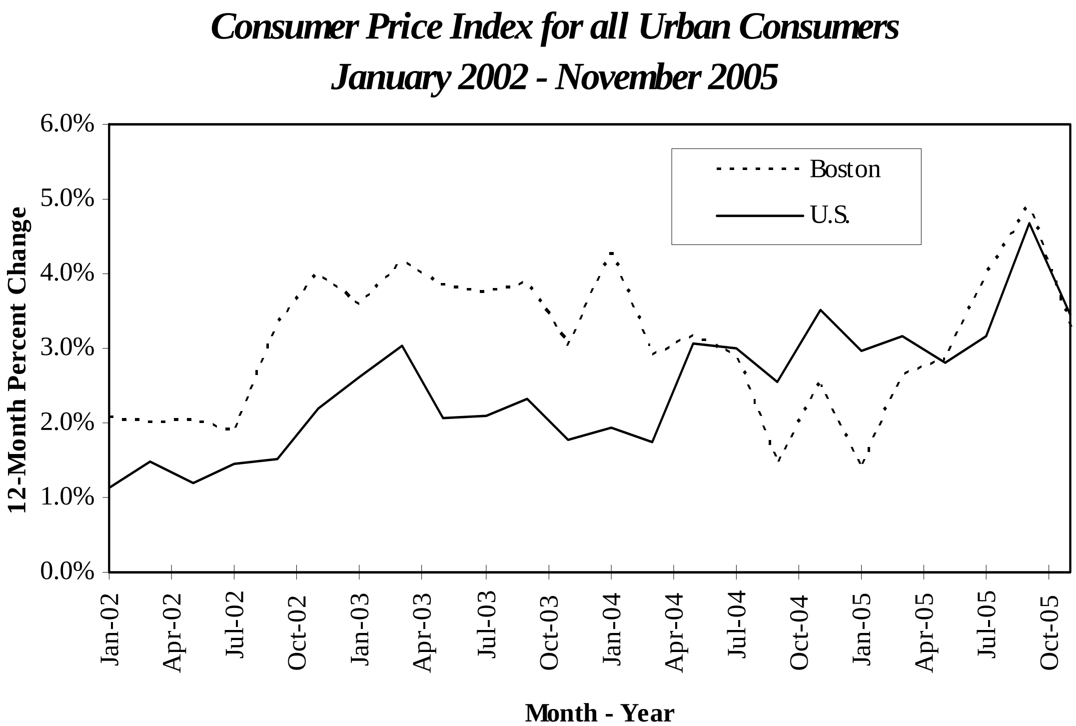
Consumer Prices. Higher income levels in Massachusetts relative to the rest of the United States are offset to some extent by the higher cost of living in Massachusetts. The following table presents consumer price trends for the Boston metropolitan area and the United States for the period between 1970 and 2004. The table shows the Consumer Price Index for All Urban Consumers (CPI-U) and the percentage change in that index from the previous year. In 2004, the CPI-U for both Boston and the United States as a whole increased 2.7 percent. The latest available data for November 2005 show that the CPI-U for the Boston metropolitan area grew at a rate of 3.3 percent from November 2004, compared with 3.5 percent for the U.S.

Consumer Price Index for all Urban Consumers (CPI-U), 1970-2004

(not seasonally adjusted, (1982-1984=100))

	Boston Metro Area		United States	
Year	CPI-U	Pct.Change	CPI-U	Pct. Change
1970	40.2		38.8	
1971	42.2	5.0%	40.5	4.4%
1972	43.7	3.6%	41.8	3.2%
1973	46.3	5.9%	44.4	6.2%
1974	51.2	10.6%	49.3	11.0%
1975	55.8	9.0%	53.8	9.1%
1976	60.0	7.5%	56.9	5.8%
1977	63.1	5.2%	60.6	6.5%
1978	66.4	5.2%	65.2	7.6%
1979	73.2	10.2%	72.6	11.3%
1980	82.6	12.8%	82.4	13.5%
1981	91.8	11.1%	90.9	10.3%
1982	95.5	4.0%	96.5	6.2%
1983	99.8	4.5%	99.6	3.2%
1984	104.7	4.9%	103.9	4.3%
1985	109.4	4.5%	107.6	3.6%
1986	112.2	2.6%	109.6	1.9%
1987	117.1	4.4%	113.6	3.6%
1988	124.2	6.1%	118.3	4.1%
1989	131.3	5.7%	124.0	4.8%
1990	138.9	5.8%	130.7	5.4%
1991	145.0	4.4%	136.2	4.2%
1992	148.6	2.5%	140.3	3.0%
1993	152.9	2.9%	144.5	3.0%
1994	154.9	1.3%	148.2	2.6%
1995	158.6	2.4%	152.4	2.8%
1996	163.3	3.0%	156.9	3.0%
1997	167.9	2.8%	160.5	2.3%
1998	171.7	2.3%	163.0	1.6%
1999	176.0	2.5%	166.6	2.2%
2000	183.6	4.3%	172.2	3.4%
2001	191.5	4.3%	177.1	2.8%
2002	196.5	2.6%	179.9	1.6%
2003	203.9	3.8%	184.0	2.3%
2004	209.5	2.7%	188.9	2.7%
Nov-04	211.7		191.0	
Nov-05	218.6	3.3%	197.6	3.5%

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



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

Consumer Confidence, Present Situation, and Future Expectations. These three measures offer multiple insights into consumer attitudes. The U.S. and New England measures are compiled from a national monthly survey of 5,000 households and are published by The Conference Board, Inc. The survey for Boston is conducted in a similar manner and the results are published by the Mass Insight Corporation, based on quarterly polling of 500 adult residents of Massachusetts. The "Present Situation" index measures consumers' appraisal of business and employment conditions at the time of the survey. The "Future Expectations" index focuses on consumers' expectations six months hence regarding business and employment conditions, as well as expected family income. The overall "Consumer Confidence" index is a weighted average of the two sub-indices. 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 the recent record of these three measures.

Quarterly Measures of Consumer Confidence, Present Situation, and Future Expectations for Massachusetts, New England, and the U.S., January 2001 - October 2005

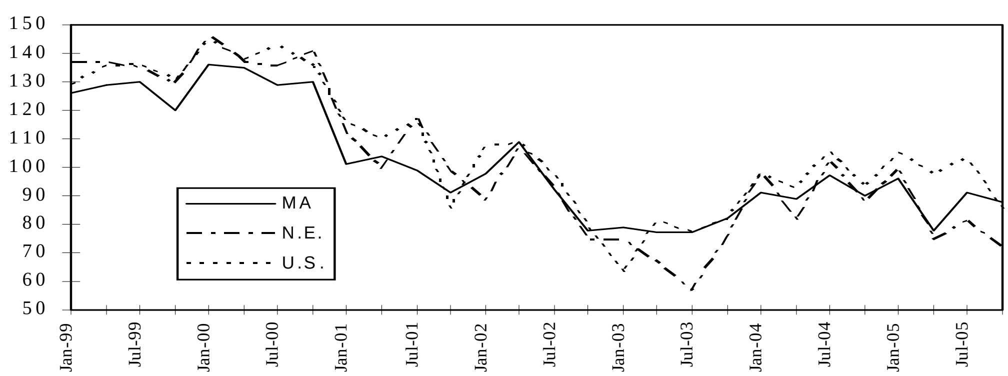
(not seasonally adjusted, except United States (1985=100))

	Consumer Confidence			Present Situation			Future Expectations		
	MA	**N.E.**	**U.S.**	**MA**	**N.E.**	**U.S.**	**MA**	**N.E.**	**U.S.**
Jan-01	101.0	111.9	115.7	139.0	173.9	170.4	76.0	70.5	79.3
Apr-01	104.0	99.5	109.9	124.0	161.7	156.0	91.0	58.0	79.1
Jul-01	99.0	117.5	116.3	108.0	170.8	151.3	93.0	82.0	92.9
Oct-01	91.0	98.6	85.3	94.0	105.6	107.2	90.0	64.0	70.7
Jan-02	97.8	88.5	107.0	98.1	85.5	72.0	97.6	90.5	130.0
Apr-02	109.0	106.7	108.5	84.0	115.5	106.8	125.0	100.8	109.6
Jul-02	92.0	92.4	97.4	68.0	96.3	99.4	108.0	89.9	96.1
Oct-02	78.0	74.2	79.6	48.0	70.8	77.2	97.0	76.5	81.1
Jan-03	78.8	74.4	63.0	75.3	63.9	28.0	81.1	81.5	86.0
Apr-03	77.0	66.4	81.0	31.0	52	75.2	108.0	76.0	84.8
Jul-03	77.0	56.8	77.0	41.0	42.8	63.0	101.0	66.2	86.3
Oct-03	82.0	75.5	81.7	36.0	57.4	67.0	112.0	87.6	91.5
Jan-04	91.0	98.2	97.7	48.0	86.5	86.1	119.0	106.1	105.3
Apr-04	89.0	81.2	93.0	53.0	74.8	90.4	113.0	85.5	94.8
Jul-04	97.0	101.4	105.7	66.0	102.9	106.4	119.0	100.3	105.3
Oct-04	90.0	87.7	92.9	64.0	91.4	94.0	108.0	85.3	92.2
Jan-05	96.0	98.9	105.1	70.0	101.9	112.1	114.0	96.9	100.4
Apr-05	78.0	74.4	97.5	63.0	90.2	113.8	88.0	63.9	86.7
Jul-05	91.0	81.3	103.6	80.0	120.2	119.3	99.0	55.4	93.2
Oct-05	88.0	71.6	85.2	80.0	105.7	107.8	95.0	48.9	70.1

SOURCES: The Conference Board, Inc. (for U.S. and N.E.measures), Mass Insight Corporation (for MA measure).

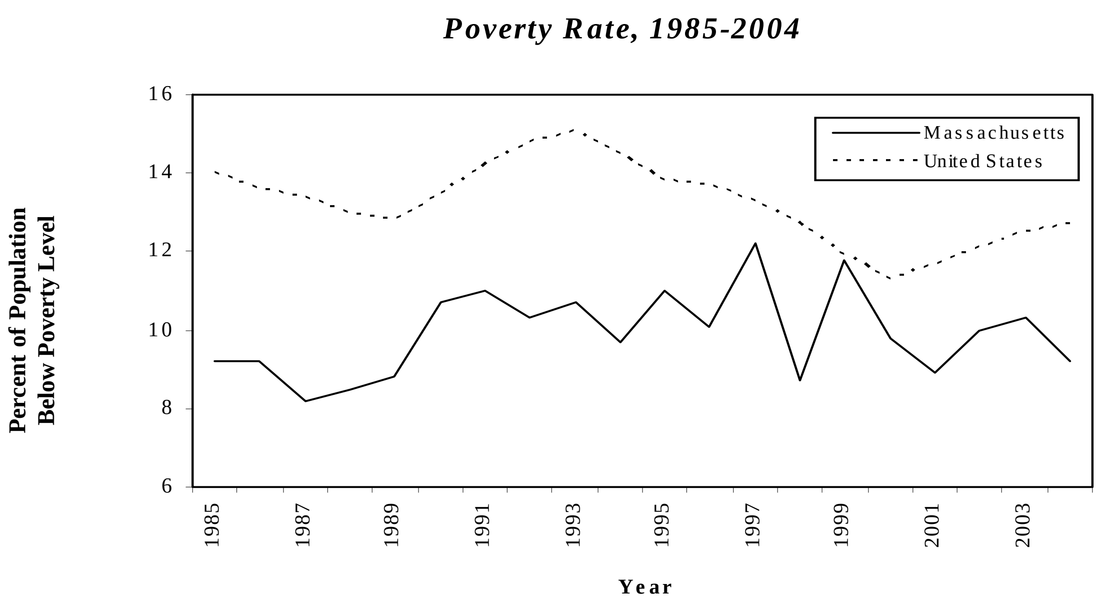
Consumer Confidence for Massachusetts, New England, and the U.S. January 1999 – October 2005

(not seasonally adjusted, except United States (1985=100))



SOURCES: The Conference Board, Inc. (for U.S. and N.E. measures), Mass Insight Corporation (for MA measure).

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 11.3 percent and 15.1 percent. In 2004, the poverty rate in Massachusetts decreased to 9.2 percent while the poverty rate in the United States rose slightly to 12.7 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 illustrates the lower poverty rates in Massachusetts (1985 - 2004) compared with the national average during similar periods. Poverty estimates for states are not as reliable as national estimates. One should use caution when comparing poverty rate estimates across states, or poverty rates for the same state across years, because their variability is high.

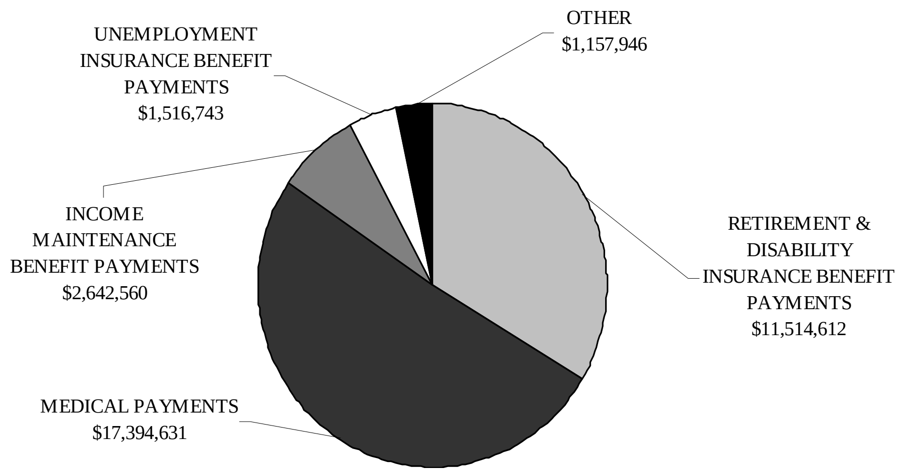


SOURCE: United States Department of Commerce, Bureau of the Census.

Transfer Payments. Transfer payment income is payment to individuals from all levels of government and from businesses, for which no current services are performed, including payments to nonprofit institutions serving individuals. These payments accounted for more than 13 percent of total personal income in Massachusetts in 2004. The chart below does not include transfer payments from business or payments to non-profit organizations. Total transfer payments to individuals in Massachusetts totaled 35.5 billion dollars for 2004. Approximately 51 percent of total transfer payments were medical payments.

Transfer Payments from Governments to Individuals in Massachusetts in 2004 (From Annual State Personal Income Estimates)

(in thousands of current dollars)

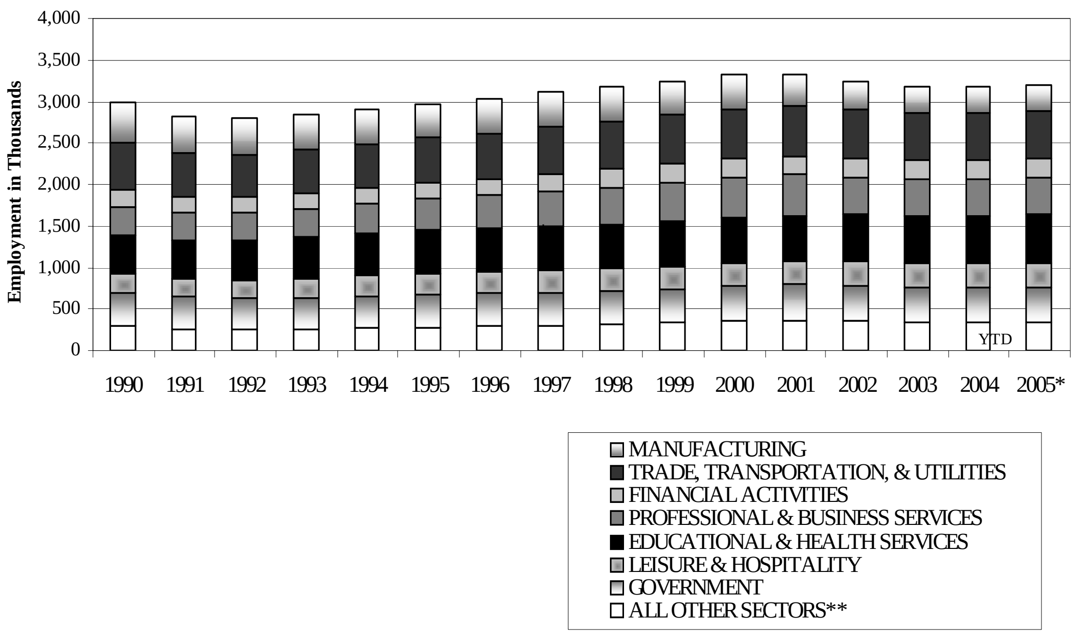


SOURCE: U.S. Department of Commerce, Bureau of Economic Analysis.
NOTE: The category “other” includes veterans’ benefit payments, federal education and training assistance payments, and a small residual of miscellaneous other payments to individuals.

Employment by Industry. The chart on this page shows the annual level of non-agricultural payroll employment in Massachusetts on the new North American Industry Classification System (NAICS) basis for the seven largest NAICS super-sectors starting with 1990, the earliest year for which NAICS data are available. The chart on the following page compares the super-sector shares for the 2003-2004 period with the corresponding shares for the 1990-1991 period. Like many industrial states, Massachusetts has seen a steady decline of its manufacturing jobs base over the last two decades, not only as a share of total employment, but in absolute numbers of jobs as well. Several NAICS service sectors have grown to take the place of manufacturing in driving the Massachusetts economy. The combined service sectors now account for more than half of total payroll employment.

Total non-agricultural employment in Massachusetts declined 2.4 percent in 2002 and another 1.9 percent in 2003 but only 0.1 percent in 2004. The preliminary unadjusted estimates for the first eleven months of 2005 are in fact 0.7 percent above those for the same months in 2004. In 2004, manufacturing employment declined 3.2 percent from the year before; a significantly smaller decline than the annual declines in the previous three years and very close to the long-term average rate of decline since 1990 (3.0 percent per year). In fact, the unadjusted estimates for manufacturing for the first eleven months of 2005 are only 0.3 percent below the corresponding 2004 average.

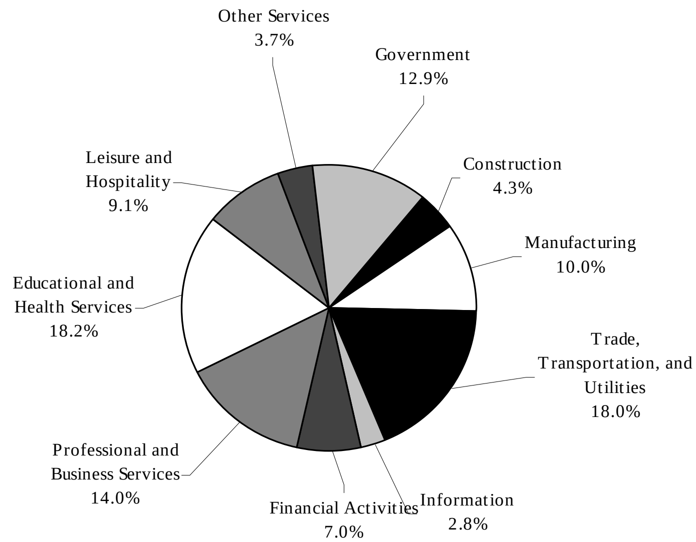
Annual Average Employment in Massachusetts, NAICS Super-Sectors, 1990-2004 with Year-To-Date through November, 2005



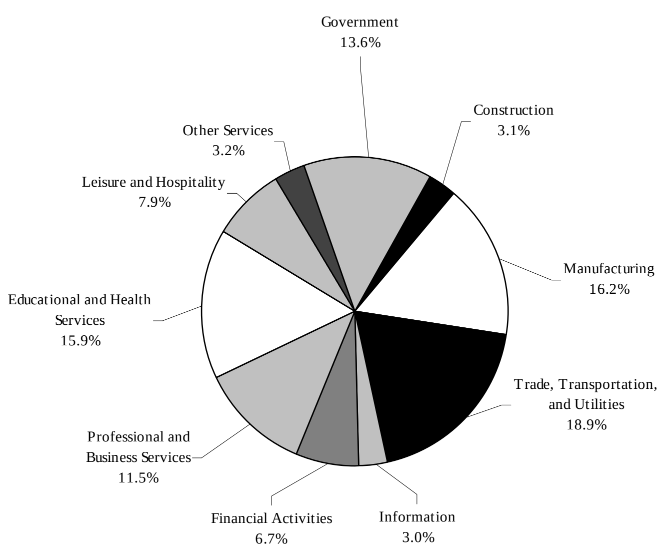
SOURCE: MA Division of Unemployment Assistance
**Includes Mining & Natural Resources, Construction, Information, and Other Services

Massachusetts Non-Farm Payroll Employment (NAICS Industry basis)

NAICS Super-Sectors: 2003-2004 Average Share



NAICS Super-Sectors: 1990-1991 Average Share



SOURCE: MA Division of Unemployment Assistance.

Largest Employers in Massachusetts. The following table lists the twenty-five largest private employers in Massachusetts based upon UI-covered employment data for June 2005. The list is unchanged from the previous list based on March, 2005 employment.

Twenty-five Largest Private Employers in Massachusetts in June, 2005

(listed alphabetically)

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

SOURCE: MA Division of Unemployment Assistance.

Unemployment. The economic recession of the early 1990s caused unemployment rates in Massachusetts to rise significantly above the national average, as much as 2.1 points above in 1991. However, since 1994 the unemployment rate in Massachusetts has been consistently below the national average. The following table compares the annual civilian labor force, the number unemployed, and the unemployment rates of Massachusetts, the New England states, and the United States between 1970 and 2004.

Annual Average Civilian Labor Force and Unemployment, 1970 - 2004

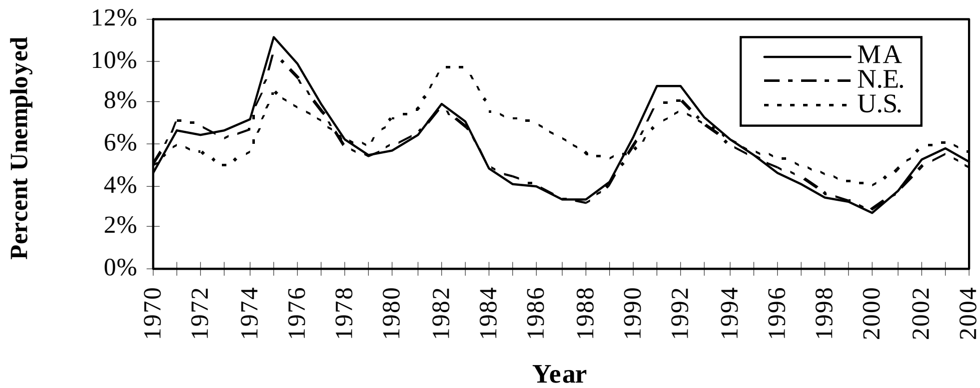
(in thousands)

	Civilian Labor Force			Unemployed			Unemployment Rate			MA Rate as
Year	**MA**	**N.E.**	**U.S.**	**MA**	**N.E.**	**U.S.**	**MA**	**N.E.**	**U.S.**	**Pct. of U.S.**
1970	2,465	5,128	82,771	113	253	4,093	4.6%	4.9%	4.9%	92.9%
1971	2,459	5,157	84,383	163	364	5,016	6.6%	7.1%	5.9%	111.8%
1972	2,487	5,260	87,035	161	363	4,882	6.5%	6.9%	5.6%	115.4%
1973	2,557	5,387	89,430	171	336	4,365	6.7%	6.2%	4.9%	136.7%
1974	2,637	5,514	91,951	190	368	5,156	7.2%	6.7%	5.6%	128.4%
1975	2,725	5,633	93,775	305	578	7,928	11.2%	10.3%	8.5%	132.2%
1976	2,726	5,714	96,159	268	521	7,406	9.8%	9.1%	7.7%	127.5%
1977	2,760	5,820	99,009	218	437	6,992	7.9%	7.5%	7.1%	112.1%
1978	2,809	5,936	102,251	173	343	6,202	6.2%	5.8%	6.1%	101.8%
1979	2,863	6,080	104,964	156	326	6,138	5.5%	5.4%	5.8%	93.4%
1980	2,886	6,154	106,940	164	365	7,637	5.7%	5.9%	7.1%	79.6%
1981	2,938	6,268	108,670	189	400	8,273	6.4%	6.4%	7.6%	84.6%
1982	2,966	6,345	110,205	236	489	10,678	8.0%	7.7%	9.7%	82.3%
1983	2,972	6,386	111,550	209	434	10,717	7.0%	6.8%	9.6%	73.2%
1984	3,032	6,540	113,544	146	318	8,539	4.8%	4.9%	7.5%	63.9%
1985	3,049	6,630	115,461	125	290	8,312	4.1%	4.4%	7.2%	56.8%
1986	3,080	6,724	117,835	123	264	8,237	4.0%	3.9%	7.0%	57.0%
1987	3,114	6,827	119,865	104	228	7,425	3.4%	3.3%	6.2%	54.1%
1988	3,156	6,907	121,669	104	215	6,700	3.3%	3.1%	5.5%	60.0%
1989	3,189	7,004	123,846	132	274	6,520	4.2%	3.9%	5.3%	78.9%
1990	3,226	7,128	125,840	204	409	7,047	6.3%	5.7%	5.6%	112.9%
1991	3,199	7,112	126,346	283	558	8,628	8.8%	7.8%	6.8%	129.4%
1992	3,181	7,105	128,105	281	573	9,613	8.8%	8.1%	7.5%	117.7%
1993	3,173	7,062	129,200	232	486	8,940	7.3%	6.9%	6.9%	105.8%
1994	3,188	7,041	131,062	199	415	7,997	6.2%	5.9%	6.1%	102.1%
1995	3,205	7,053	132,304	176	375	7,404	5.5%	5.3%	5.6%	97.9%
1996	3,231	7,118	133,943	148	340	7,236	4.6%	4.8%	5.4%	84.6%
1997	3,293	7,228	136,297	135	315	6,739	4.1%	4.4%	4.9%	82.6%
1998	3,322	7,257	137,673	113	253	6,210	3.4%	3.5%	4.5%	75.2%
1999	3,355	7,327	139,368	110	234	5,880	3.3%	3.2%	4.2%	77.4%
2000	3,367	7,353	142,583	90	203	5,692	2.7%	2.8%	4.0%	66.8%
2001	3,401	7,420	143,734	126	267	6,801	3.7%	3.6%	4.7%	78.4%
2002	3,428	7,515	144,863	181	364	8,378	5.3%	4.8%	5.8%	91.2%
2003	3,414	7,551	146,510	198	410	8,774	5.8%	5.4%	6.0%	96.9%
2004	3,393	7,529	147,401	174	363	8,149	5.1%	4.8%	5.5%	92.6%

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

EXHIBIT A-18

Annual Average Unemployment Rate, 1970 -2004, Massachusetts, New England, and United States

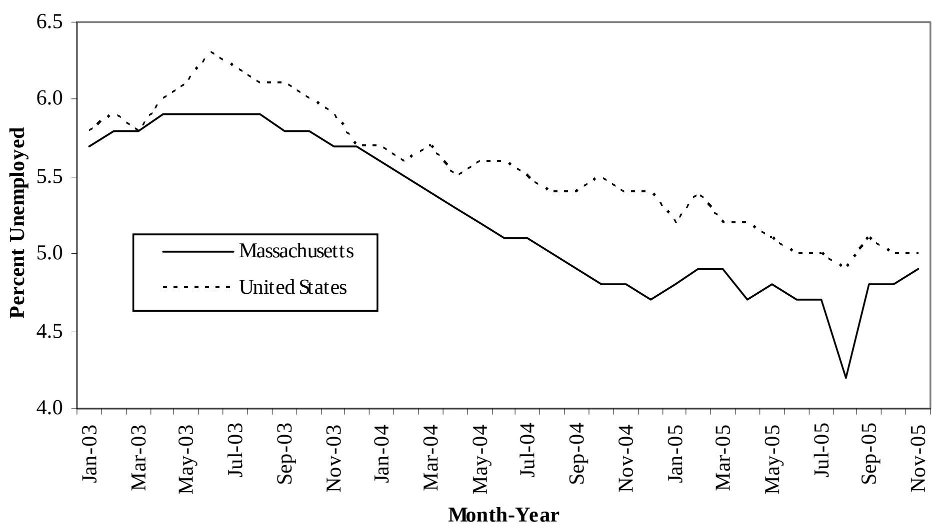


SOURCE: United States Department of Labor, Bureau of Labor Statistics.

The unemployment rate in Massachusetts has been consistently below that of the United States ever since the recovery from the recession of early 1990, with the exception of two months in 2003, when the two rates were equal. Unemployment levels in the United States as a whole and in the New England region have shown similar patterns in the last two years, peaking in mid-2003, then falling slowly but fairly steadily through mid-2005. In the last three months both rates have been slightly above the low figures reached in August. The unemployment rate in Massachusetts rose slightly from 4.8 to 4.9 percent between November 2004 and November 2005, while the United States unemployment rate dropped from 5.4 to 5.0 percent over those same twelve months, significantly narrowing the state's advantage. The following chart shows the unemployment rates for Massachusetts and the United States from each of the past thirty-five months.

Monthly Unemployment Rate, January 2003-November 2005 Massachusetts and United States

(seasonally adjusted)



SOURCE: MA Division of Employment Assistance.

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, 1989-2005ytd

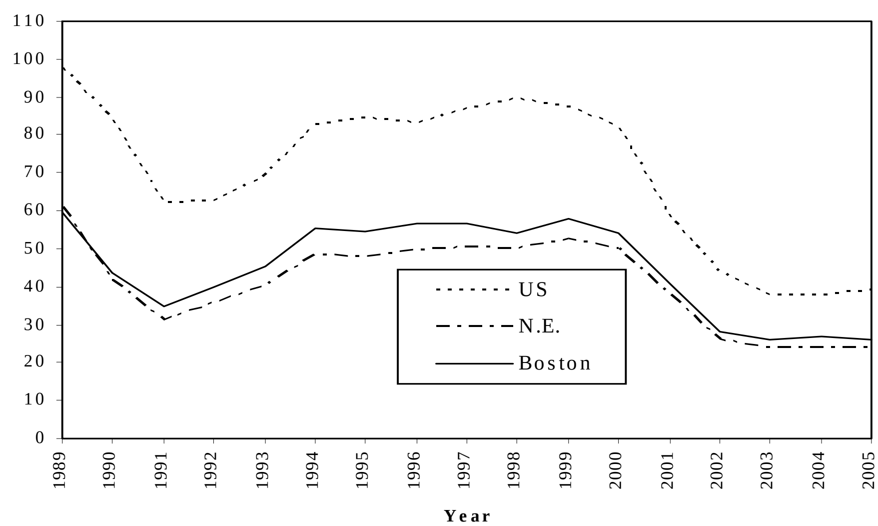
(seasonally adjusted 1987-100)

	US	% Change	N.E.	% Change	Boston	% Change
1989	98.0		60.8		59.5	
1990	83.8	-14.5%	41.5	-31.8%	43.5	-26.9%
1991	62.0	-26.0%	31.0	-25.3%	34.7	-20.3%
1992	62.5	0.8%	35.8	15.3%	39.9	15.1%
1993	69.4	11.1%	40.3	12.6%	45.4	13.8%
1994	82.9	19.4%	48.1	19.5%	55.4	22.0%
1995	84.3	1.6%	47.8	-0.7%	54.5	-1.7%
1996	83.2	-1.3%	49.8	4.2%	56.8	4.3%
1997	87.0	4.6%	50.6	1.7%	56.7	-0.3%
1998	89.4	2.8%	50.0	-1.2%	54.0	-4.7%
1999	87.3	-2.4%	52.4	4.8%	57.8	7.1%
2000	82.4	-5.5%	50.0	-4.6%	54.1	-6.5%
2001	58.3	-29.3%	37.7	-24.7%	40.9	-24.3%
2002	43.8	-24.9%	25.9	-31.2%	28.0	-31.6%
2003	37.8	-13.5%	23.8	-8.4%	25.8	-7.7%
2004	37.8	0.0%	23.9	0.7%	26.8	3.9%
2005*	39.0	3.1%	23.8	-0.7%	25.8	-3.7%

*U.S. & N.E. thru 10/05; Boston thru 9/05
SOURCE: The Conference Board, Inc.

Help Wanted Advertising Index, 1989-2005ytd

(seasonally adjusted 1987=100)



*U.S. & N.E. thru 10/05; Boston thru 9/05
SOURCE: The Conference Board, Inc.

EXHIBIT A-20

Unemployment Insurance Trust Fund. The unemployment insurance system is a federal-state cooperative program established by the Social Security Act and the Federal Unemployment Tax Act to provide for the payment of benefits to eligible individuals when they become unemployed through no fault of their own. Benefits are paid from the Commonwealth's Unemployment Insurance Trust Fund, financed through employer contributions. The assets and liabilities of the Commonwealth Unemployment Insurance Trust Fund are not assets and liabilities of the Commonwealth. As of December 31, 2005, the Massachusetts Unemployment Trust Fund had a balance of $520 million, of which the private contributory sector portion was $421 million. The Division of Unemployment Assistance's January 2006 Unemployment Insurance Trust Fund report indicates that under the current economic outlook the refinancing measures included in Chapter 142 of the Massachusetts Acts of 2003 (effective January 1, 2004), provide for employer contributions that should result in private contributory account reserves of $1.729 billion at the end of 2009.

ECONOMIC BASE AND PERFORMANCE

According to the Bureau of Economic Analysis, Gross State Product (GSP) is the value added in production by the labor and property located in a state. GSP for a State is derived as the sum of the gross state product originating in all industries in a State. In concept, an industry's GSP, referred to as its "value added", is equivalent to its gross output (sales or receipts and other operating income, commodity taxes, and inventory change) minus its intermediate inputs (consumption of goods and services purchased from other U.S. industries or imported). Thus, GSP is often considered the state counterpart of the nation's gross domestic product (GDP), Bureau of Economic Analysis's featured measure of U.S. output.

Real GSP is an inflation-adjusted measure of each state's gross product that is based on national prices for the goods and services produced within that state. The estimates of real GSP and of quantity indexes with a base year of 2000 are derived by applying national implicit price deflators to the current-dollar GSP estimates for the 63 SIC industries for years 1977-1997, and for the 81 NAICS industries for years 1997 forward. Then, the chain-type index formula that is used in the national accounts is used to calculate the estimates of total real GSP and of real GSP at more aggregated industry levels.

Between 1997 and 2004, gross state product in Massachusetts, New England and the sum of all states GSP grew approximately 40 percent in current dollars. Massachusetts had larger increases than those in New England and the sum of all states GSP between 1998 through 2000, but then lagged both areas respectively from 2001 to 2003. The Massachusetts economy is the largest in New England, contributing 48 percent to New England's total GSP, and thirteenth largest in the U.S., contributing 2.7 percent to the nation's total GSP.

Gross State Product - Cumulative Change, 1997-2004

(millions of chained 2000 dollars)

	Massachusetts		***New England***		***United States***	
Year	*GSP*	*Change from 1997*	*GSP*	*Change from 1997*	*GSP*	*Change from 1997*
1997	$227,074		$487,671		$8,620,955	
1998	$241,535	6.4%	$512,367	5.1%	$9,004,669	4.5%
1999	$256,659	12.6%	$534,094	9.3%	$9,404,249	8.9%
2000	$276,786	20.5%	$568,212	15.7%	$9,749,104	12.6%
2001	$279,434	21.4%	$573,703	16.7%	$9,836,571	13.5%
2002	$278,213	21.0%	$573,700	16.7%	$10,009,433	15.2%
2003	$284,286	23.2%	$588,536	19.2%	$10,289,220	18.0%
2004	$298,066	28.0%	$617,107	24.1%	$10,734,763	22.3%

U.S. Department of Commerce, Bureau of Economic Analysis. Revised October 2005

EXHIBIT A-21

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 - Annual Change, 1997-2004

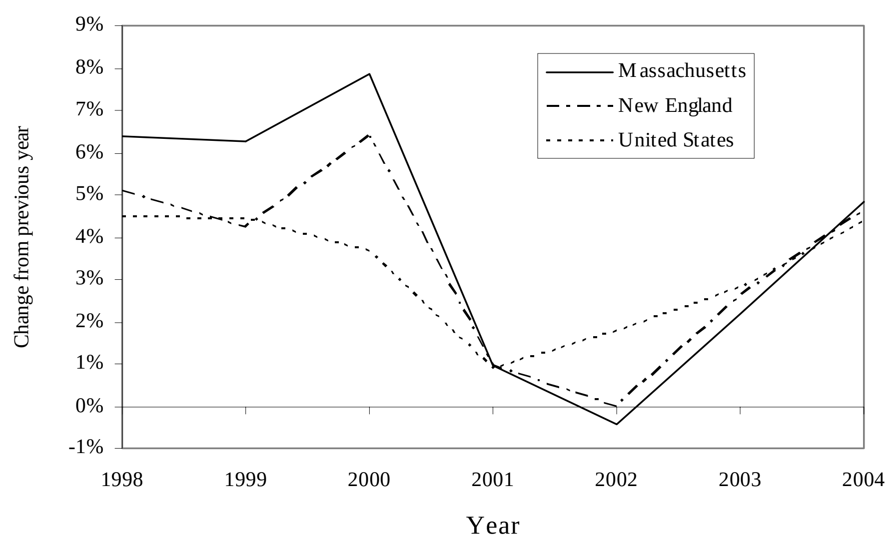
(millions of chained 2000 dollars)

	Massachusetts		***New England***		***United States***	
Year	*GSP*	*Annual change*	*GSP*	*Annual change*	*GSP*	*Annual change*
1997	$227,074		$487,671		$8,620,955	
1998	$241,535	6.4%	$512,367	5.1%	$9,004,669	4.5%
1999	$256,659	6.3%	$534,094	4.2%	$9,404,249	4.4%
2000	$276,786	7.8%	$568,212	6.4%	$9,749,104	3.7%
2001	$279,434	1.0%	$573,703	1.0%	$9,836,571	0.9%
2002	$278,213	-0.4%	$573,700	0.0%	$10,009,433	1.8%
2003	$284,286	2.2%	$588,536	2.6%	$10,289,220	2.8%
2004	$298,066	4.8%	$615,736	4.6%	$10,734,763	4.3%

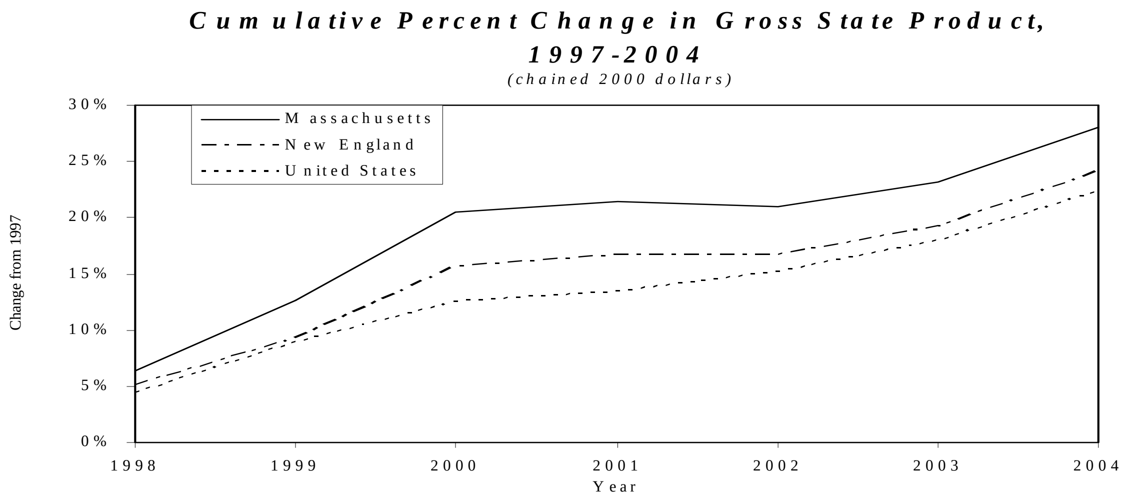
U.S. Department of Commerce, Bureau of Economic Analysis. Revised October 2005

Annual Percent Change in Gross State Product, 1997-2004

(chained 2000 dollars)



U.S. Department of Commerce, Bureau of Economic Analysis. Revised October 2005



SOURCE: U.S. Department of Commerce, Bureau of Economic Analysis. Revised October 2005

The commercial base of Massachusetts is anchored by the twenty-four 2005 Fortune 1000 companies (eleven of which are Fortune 500) headquartered in Massachusetts. Exiting the Massachusetts 2004 Fortune 500 list after being purchased by companies headquartered outside Massachusetts were FleetBoston (140th) and John Hancock Financial Services (192nd). The 2006 Fortune 500 list for Massachusetts will not include Gillette as it was purchased by Ohio based Procter and Gamble (26th) in January 2005. Allmerica Financial lost its Fortune 500 ranking, joining the Fortune 1000 (550th). When comparing the 2005 Fortune 500 to 2004's, five Massachusetts companies gained and seven lost rank. Perini, the Framingham based construction services firm and Fortune 1000 member, climbed 111 places on the list (from 910th to 799th); the largest leap for a Massachusetts company.

Massachusetts Companies in the 2005 Fortune 500 and 1000 Lists

Rank 2005	2004	*Company*	*Industry*	*2004 revenues (millions)*
83	90	Mass. Mutual Life Ins (Springfield)	Insurance: Life, Health (mutual)	$23,159
103	107	Raytheon (Waltham)	Aerospace and Defense	$20,245
111	116	Liberty Mutual Ins. Group (Boston)	Insurance: P & C (stock)	$19,754
141	148	TJX (Framingham)	Specialty Retailers	$14,914
146	152	Staples (Framingham)	Specialty Retailers	$14,448
215	192	Gillette (Boston)	Household and Personal Products	$10,477
266	215	EMC (Hopkinton)	Computer Peripherals	$8,230
284	277	BJ's Wholesale Club (Natick)	Specialty Retailers	$7,375
341	299	State St. Corp. (Boston)	Commercial Banks	$5,861
352	330	Boston Scientific (Natick)	Medical Products & Equipment	$5,624
483	477	Reebok International (Canton)	Apparel	$3,785
550	494	Allmerica Financial (Worcester)	Insurance: P & C (stock)	$3,111
575	538	NSTAR (Boston)	Utilities: Gas & Electric	$2,954
623	699	Analog Devices (Norwood)	Semiconductors and Other Electronic Components	$2,634
680	685	Thermo Electron (Waltham)	Scientific, Photo, Control Equipment	$2,325
708	N/A	Biogen Idec (Cambridge)	Pharmaceuticals	$2,210
713	782	Genzyme (Cambridge)	Pharmaceuticals	$2,201
775	758	Cabot (Boston)	Chemicals	$1,934
799	910	Perini (Framingham)	Engineering, Construction	$1,842
811	857	Iron Mountain (Boston)	Diversified Outsourcing	$1,818
817	809	Commerce Group (Webster)	Insurance: P & C (stock)	$1,807
824	921	Teradyne (Boston)	Scientific, Photo, Control Equipment	$1,792
855	840	PerkinElmer (Wellesley)	Scientific, Photo, Control Equipment	$1,691
962	936	Boston Properties (Boston)	Real Estate	$1,404

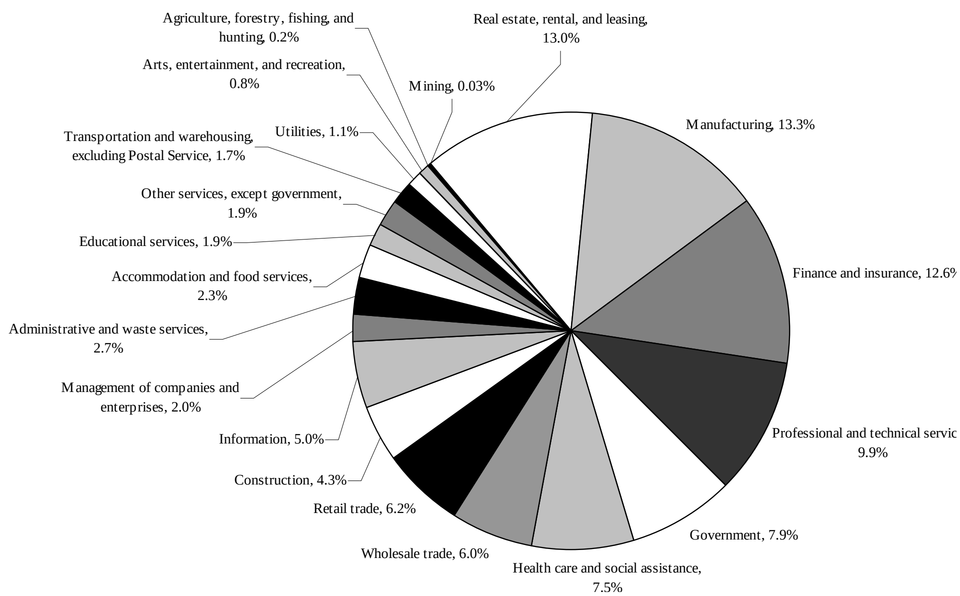
SOURCE: *Fortune***,** April 2005

Economic Base and Performance - Sector Detail (NAICS Basis)

The Massachusetts economy remains diversified among several industrial and non-industrial sectors. The four largest sectors of the economy (manufacturing, real estate and rental and leasing, finance and insurance, and professional and technical services, on the 2002 NAICS basis) contributed 48.8 percent of the GSP in 2004. The data below show the contributions to the Massachusetts Real Gross State Product of all industrial and non-industrial sectors.

NAICS* Sector Composition of Massachusetts Gross State Product 2004

(in current dollars)



*North American Industry Classification System
SOURCE: United States Department of Commerce, Bureau of Economic Analysis. Revised June 2005

When measured in chained 2000 dollars, the cumulative change in Massachusetts total GSP was 28.0 percent between 1997 and 2004. Between 1997 and 2003 (the latest data available for subsector data), several industries grew much faster than the state average; computer and electronic product manufacturing, securities/commodity contracts/investments, and forestry/fishing/related activities. Substantial cumulative losses were in the paper manufacturing, machinery manufacturing, and funds/trusts/other financial vehicles sectors. Industry subsectors that experienced substantial cumulative growth or reduction and accounted for one percent or more of Massachusetts GSP are listed in the following chart:

Industry Subsectors with a Substantial Growth or Reduction

(chained 2000 dollars)

NAICS Industry Subsector*	*Cumulative percent change 1997-2004*
Computer and electronic product manufacturing	344.5%
Securities, commodity contracts, investments	259.2%
Forestry, fishing, and related activities	150.4%
Computer systems design and related services	66.3%
Broadcasting and telecommunications	60.8%
Paper manufacturing	-33.4%
Machinery manufacturing	-37.4%
Funds, trusts, and other financial vehicles	-48.8%

*North American Industry Classification System.
SOURCE: United States Department of Commerce, Bureau of Economic Analysis. Revised June 2005

Gross State Product by Industry in Massachusetts, 1997-2004

(millions of chained 2000 dollars)

NAICS* Industry Sector	1997	1999	2000	2001	2002	2003	2004
Total Gross State Product	$227,074	$256,659	$276,786	$279,434	$278,213	$284,286	$298,066
Private industries	204,714	233,424	253,492	255,947	254,795	261,066	274,528
Agriculture, forestry, fishing, and hunting	442	469	540	587	679	713	734
Mining	67	93	97	103	94	105	102
Utilities	3,319	3,223	3,455	3,161	3,104	3,371	3,384
Construction	10,193	11,645	12,168	13,299	13,217	12,704	12,703
Manufacturing	24,737	30,063	37,132	34,972	35,255	37,957	39,611
Wholesale trade	14,359	17,878	16,335	18,065	17,593	17,492	17,777
Retail trade	12,130	13,677	14,557	15,768	16,550	17,493	18,511
Transportation and warehousing, excluding Postal Service	4,352	4,769	5,180	5,071	4,941	5,012	5,009
Information	9,764	12,049	12,986	13,629	13,422	13,630	14,951
Finance and insurance	21,589	26,971	30,333	30,227	30,546	33,237	37,584
Real estate, rental, and leasing	32,268	34,607	35,978	38,599	37,830	36,949	38,612
Professional and technical services	20,551	24,640	28,469	28,505	27,408	27,652	29,523
Management of companies and enterprises	6,985	6,870	7,506	6,151	5,767	5,767	6,006
Administrative and waste services	7,646	8,252	8,382	7,392	7,305	7,631	8,025
Educational services	5,575	5,602	5,934	5,866	5,913	5,740	5,665
Health care and social assistance	19,716	19,505	20,374	20,480	21,075	21,918	22,360
Arts, entertainment, and recreation	1,796	1,908	1,913	2,026	2,139	2,187	2,239
Accommodation and food services	5,555	6,258	6,605	6,522	6,552	6,634	6,953
Other services, except government	4,943	5,304	5,545	5,466	5,390	5,386	5,705
Government	22,491	23,264	23,293	23,487	23,417	23,261	23,631

* North American Industry Classification System
SOURCE: United States Department of Commerce, Bureau of Economic Analysis. Revised October 2005

Cumulative Percent Change in GSP by Industry in Massachusetts, 1997-2004

(millions of chained 2000 dollars)

NAICS* Industry Sector	1997-98	1999-00	2000-01	2001-02	2002-03	2003-04
Total Gross State Product	6.4%	20.5%	21.4%	21.0%	23.2%	28.0%
Private industries	6.9%	22.2%	23.1%	22.7%	25.1%	30.3%
Agriculture, forestry, fishing, and hunting	-12.9%	24.1%	32.8%	48.4%	53.4%	56.4%
Mining	20.9%	40.0%	46.2%	37.5%	49.2%	46.3%
Utilities	0.9%	4.3%	-4.2%	-6.0%	2.6%	3.0%
Construction	7.5%	18.3%	27.6%	26.9%	23.1%	23.1%
Manufacturing	12.7%	44.1%	38.2%	39.0%	46.7%	51.1%
Wholesale trade	13.1%	14.6%	25.1%	22.5%	22.0%	23.6%
Retail trade	5.4%	18.8%	27.1%	32.1%	37.8%	43.6%
Transportation and warehousing, excluding Postal Service	4.8%	18.0%	15.9%	13.3%	14.7%	14.7%
Information	6.1%	30.2%	35.1%	33.6%	35.2%	44.9%
Finance and insurance	12.7%	36.0%	35.7%	36.7%	45.5%	58.6%
Real estate, rental, and leasing	2.2%	11.1%	18.4%	16.4%	14.1%	18.6%
Professional and technical services	9.6%	34.5%	34.7%	30.8%	31.7%	38.5%
Management of companies and enterprises	-2.8%	7.6%	-10.4%	-16.6%	-16.6%	-12.5%
Administrative and waste services	5.5%	9.4%	-2.4%	-3.6%	0.8%	6.0%
Educational services	0.3%	6.4%	5.3%	6.1%	3.1%	1.8%
Health care and social assistance	-0.6%	3.4%	3.9%	6.8%	10.8%	12.8%
Arts, entertainment, and recreation	2.5%	6.4%	12.3%	17.9%	20.1%	22.5%
Accommodation and food services	8.5%	17.9%	16.6%	17.1%	18.3%	23.1%
Other services, except government	4.9%	11.7%	10.3%	8.9%	8.8%	14.8%
Government	0.8%	3.5%	4.4%	4.1%	3.4%	5.0%

* North American Industry Classification System
SOURCE: United States Department of Commerce, Bureau of Economic Analysis.

Gross State Product by Industry in Massachusetts, 1997-2004

(as a percent of total GSP chained 2000 dollars)

NAICS* Industry Sector	1997	1999	2001	2002	2003	2004
Total Gross State Product	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Private industries	90.2%	90.9%	91.6%	91.6%	91.8%	92.1%
Agriculture, forestry, fishing, and hunting	0.2%	0.2%	0.2%	0.2%	0.3%	0.2%
Mining	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Utilities	1.5%	1.3%	1.1%	1.1%	1.2%	1.1%
Construction	4.5%	4.5%	4.8%	4.8%	4.5%	4.3%
Manufacturing	10.9%	11.7%	12.5%	12.7%	13.4%	13.3%
Wholesale trade	6.3%	7.0%	6.5%	6.3%	6.2%	6.0%
Retail trade	5.3%	5.3%	5.6%	5.9%	6.2%	6.2%
Transportation and warehousing, excluding Postal Service	1.9%	1.9%	1.8%	1.8%	1.8%	1.7%
Information	4.3%	4.7%	4.9%	4.8%	4.8%	5.0%
Finance and insurance	9.5%	10.5%	10.8%	11.0%	11.7%	12.6%
Real estate, rental, and leasing	14.2%	13.5%	13.8%	13.6%	13.0%	13.0%
Professional and technical services	9.1%	9.6%	10.2%	9.9%	9.7%	9.9%
Management of companies and enterprises	3.1%	2.7%	2.2%	2.1%	2.0%	2.0%
Administrative and waste services	3.4%	3.2%	2.6%	2.6%	2.7%	2.7%
Educational services	2.5%	2.2%	2.1%	2.1%	2.0%	1.9%
Health care and social assistance	8.7%	7.6%	7.3%	7.6%	7.7%	7.5%
Arts, entertainment, and recreation	0.8%	0.7%	0.7%	0.8%	0.8%	0.8%
Accommodation and food services	2.4%	2.4%	2.3%	2.4%	2.3%	2.3%
Other services, except government	2.2%	2.1%	2.0%	1.9%	1.9%	1.9%
Government	9.9%	9.1%	8.4%	8.4%	8.2%	7.9%

* North American Industry Classification System

SOURCE: United States Department of Commerce, Bureau of Economic Analysis. Revised October 2005

1998 data omitted due to space constraints

Rank of Industry Contribution to GSP in Massachusetts, 1997-2004

(millions of chained 2000 dollars)

NAICS* Industry Sector	1997	1999	2001	2002	2003	2004
Total Gross State Product						
Private industries						
Agriculture, forestry, fishing, and hunting	19	19	19	19	19	19
Mining	20	20	20	20	20	20
Utilities	17	17	17	17	17	17
Construction	9	10	10	10	10	10
Manufacturing	2	2	2	2	1	1
Wholesale trade	7	7	7	7	8	8
Retail trade	8	8	8	8	7	7
Transportation and warehousing, excluding Postal Service	16	16	16	16	16	16
Information	10	9	9	9	9	9
Finance and insurance	4	3	3	3	3	3
Real estate, rental, and leasing	1	1	1	1	2	2
Professional and technical services	5	4	4	4	4	4
Management of companies and enterprises	12	12	13	14	13	13
Administrative and waste services	11	11	11	11	11	11
Educational services	13	14	14	13	14	15
Health care and social assistance	6	6	6	6	6	6
Arts, entertainment, and recreation	18	18	18	18	18	18
Accommodation and food services	14	13	12	12	12	12
Other services, except government	15	15	15	15	15	14
Government	3	5	5	5	5	5

* North American Industry Classification System

SOURCE: United States Department of Commerce, Bureau of Economic Analysis. Revised October 2005

1998 data omitted due to space constraints

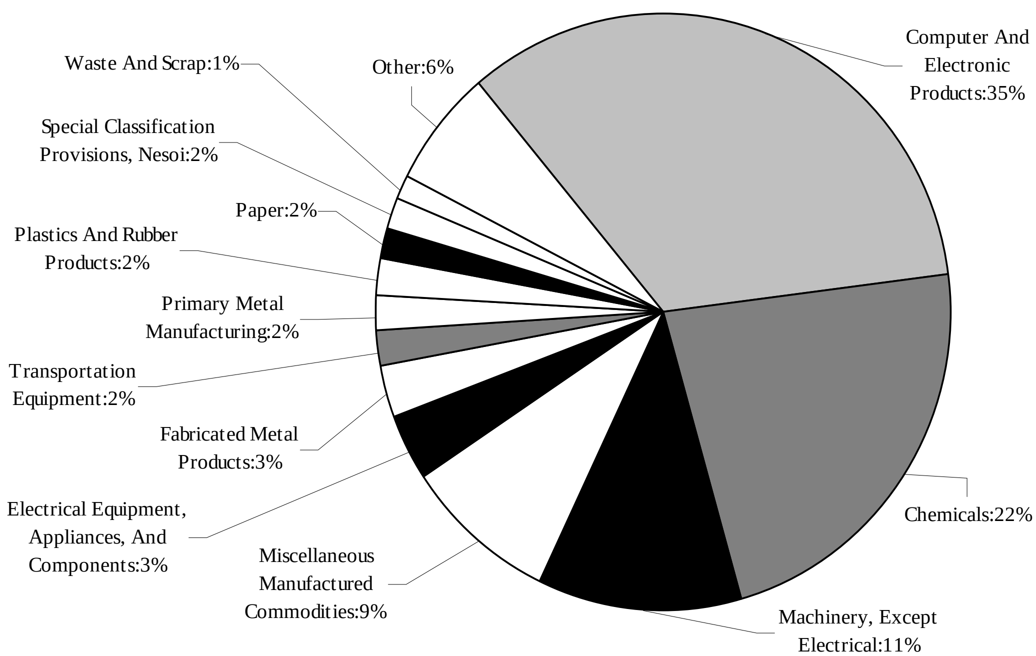
Between 1997 and 2004, the portion of the total GSP in chained 2000 dollars, from the private industry sector increased 2.0 percent while it decreased 2.0 percent in the government sector. Contributions by each industry to total GSP have remained steady for most sectors. The exceptions were finance and insurance (+3.1 percent, and manufacturing +2.4 percent). When the 1997 to 2004 industry contributions to total annual GSP are ranked according to their dollar value, the top five have remained constant; real estate, rental and leasing, manufacturing, finance and insurance, professional and technical services, and government.

Trade and International Trade. Massachusetts ranked 10th in the United States, and first in New England, with $21.84 billion in international exports in 2004. This represents a 17.0 percent increase from the previous year's exports from the Commonwealth, while national exports increased by 13.0 percent in the same period. Through October 2005, Massachusetts's exports totaled $18.20 billion, a decrease of 0.7 percent compared with exports in the first ten months of 2004. National exports were up 10.3 percent and New England, 4.4 percent during 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' five most important trading partners for 2004 were: Canada, with $2.90 billion in purchases of Massachusetts exports; the Netherlands, with $2.52 billion; Japan, with $1.81 billion; Germany, with $2.52 billion; and the United Kingdom, with $1.50 billion in purchases. Between 2003 and 2004, the most significant growth in Massachusetts's exports among its top ten trading partners was in exports to Taiwan (80.1 percent), Germany (57.3 percent, Netherlands (43.0 percent), and France (38.8 percent).

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

Composition of Massachusetts Exports by Industry Group, 2004



SOURCE: U.S. Census Bureau, Foreign Trade Division. Prepared by the World Institute for Strategic Economic Research (WISER).

Value of International Shipments from Massachusetts, 1997-2004

(top ten industry groups ranked by value of 2004 exports, in millions)

Major Industry Group	*1997*	*1998*	*1999*	*2000*	*2001*	*2002*	*2003*	*2004*
Computer And Electronic Products	$7,857	$7,458	$8,056	$10,215	$8,122	$7,024	$7,688	$7,475
Chemicals	$1,174	$1,223	$1,357	$1,600	$1,534	$2,267	$3,216	$4,907
Machinery, Except Electrical	$1,885	$1,694	$1,705	$2,545	$2,044	$1,786	$1,668	$2,456
Miscellaneous Manufactured Commodities	$768	$835	$925	$1,053	$1,213	$1,210	$1,571	$1,927
Electrical Equipment, Appliances, And Components	$570	$596	$720	$834	$691	$649	$592	$752
Fabricated Metal Products, Nesoi	$748	$597	$601	$649	$569	$692	$539	$621
Transportation Equipment	$655	$637	$698	$659	$449	$346	$383	$453
Primary Metal Manufacturing	$282	$335	$283	$358	$272	$248	$425	$423
Plastics And Rubber Products	$323	$357	$389	$374	$400	$406	$375	$404
Paper	$311	$334	$364	$435	$386	$373	$355	$366
Total Exports, Top Massachusetts Industries	$14,574	$14,065	$15,098	$18,722	$15,679	$15,002	$16,812	$19,784
Total Massachusetts Exports	$16,526	$15,878	$16,805	$20,514	$17,490	$16,708	$18,663	$21,837
Percent Change from Prior Year		-3.9%	5.8%	22.1%	-14.7%	-4.5%	11.7%	17.0%

SOURCE: World Institute for Strategic Economic Research (WISER). These figures reflect the changeover in export statistics reporting to the NAICS system from the SIC system. Categories and state totals are not comparable between systems. Pre-1997 data is not available.

Transportation and Warehousing, and Utilities. Between 1997 and 2004, the combined real gross state product of the transportation and warehousing and utilities sector increased 9.4 percent when measured with year 2000 chained dollars. These combined sectors contributed 2.8 percent to the total Massachusetts Real Gross State Product in 2004, a 0.6 percent less than it did in 1997.

Massachusetts's major air and seaports are managed by the Massachusetts Port Authority (Massport), an independent public authority. Massport reported fiscal 2004 operating income of $33.7 million (up 32.7 percent from fiscal 2003), with operating revenues up 11 percent ($415.0 million in 2004 versus $373.8 million in 2003) and operating costs up 9 percent ($381.3 million in 2004 versus $348.4 million in 2003).

As of October 2005, airline service at Logan, both scheduled and unscheduled, was provided by 39 airlines, including 8 U.S. major air carrier airlines, 18 non-U.S. flag carriers, and 13 regional and commuter airlines. As of October 2005, Logan flights and passenger counts were up 1.7 and 3.9 percent respectively while cargo and mail volume was down 1.9 percent from October 2004. Based on total passenger volume in calendar year 2004 data, Logan Airport was the most active airport in New England and the 19th most active in the U.S., according to Airports Council International (ACI).

According to ACI, in calendar year 2004, Logan Airport ranked 19th in the nation in total air cargo volume. In fiscal year 2004, the airport handled 366,298 metric tons of cargo, a 0.9 percent increase from 2003. As of June 30, 2004, Logan was served by 7 all-cargo and small package/express carriers.

At Massport's Port of Boston properties, 2004 cargo throughput was 13.9 million metric tons (a 5 percent increase from 2003), automobile processing decreased 13 percent to 10,910 units, and cruise passenger trips decreased less than one percent to 199,453. For the first eleven months of 2005, total containerized cargo increased 7.8 percent, there were 17.2 percent more cruise passengers and 8 percent less automobiles processed, when compared to the first eleven months of 2004. Massachusetts total waterborne cargo shipped or received in 2003 (from the Army Corps of Engineers data), increased 17.4 percent (30,655,000 short tons), as did New England and the U.S. (11.6 and 2.3 percent, respectively).

Construction and Housing. In 2004, construction activity contributed 4.3 percent to the total Massachusetts Gross State Product when measured in 2000 chained dollars. The construction sector contributed 4.5 percent to state GSP in 1997. Overall growth between 1997 and 2004 was 24.6 percent.

The following table shows the number of housing permits authorized on an annual basis in Massachusetts, New England, and the United States.

Housing Permits Authorized, 1969-2004 (with ytd thru November, 2005)

	Massachusetts		***New England***		***United States***	
Year	*Total Permits*	*Percent Change*	*Total Permits*	*Percent Change*	*Total Permits*	*Percent Change*
1969	33,572		70,539		1,330,161	
1970	38,330	14.2%	74,068	5.0%	1,354,746	1.8%
1975	17,697	-27.5%	41,645	-21.0%	934,511	-12.4%
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%	1,636,700	2.4%
2002	17,122	2.8%	47,173	10.3%	1,747,600	6.8%
2003	18,574	8.5%	48,845	3.5%	1,889,400	8.1%
2004	21,206	14.2%	56,268	15.2%	2,006,600	6.2%
2005*	22,964	8.3%	56,842	1.0%	2,145,818	6.9%

*Year to date through November
SOURCES: Federal Reserve Bank of Boston; United States Department of Commerce.

Both the economic recession of 1990-1991 and the subsequent economic recovery were strongly reflected in the Massachusetts housing sector, but the recession that began in 2001 has had a less pronounced impact on home sales. Significant declines in existing home sales in Massachusetts in 1989 and 1990 (of 10.9 percent and 28.8 percent, respectively) were followed by rapid sales growth between 1991 and 1993, when home sales in Massachusetts increased at a yearly rate substantially higher than the national average. Following this period of rapid growth, the growth in existing home sales slowed to a rate of 0.7 percent in 1994 and declined 2.6 percent in 1995. In 1996, 1997, and 1998, however, growth in existing home sales in Massachusetts was significant, outpacing the New England and 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 10 percent and did not start growing again until 2002 when they surged 32.5 percent On a seasonally adjusted annual basis, existing home sales for the Commonwealth, New England, and the United States appear in the following table.

Existing Home Sales, 1981-2005 Q3

(seasonally adjusted annual rates, in thousands)

	Massachusetts		***New England***		***United States***	
Year	*Sales*	*% Change*	*Sales*	*% Change*	*Sales*	*% Change*
1981	43.0		105.8		2,575.0	
1982	42.6	-0.8%	98.6	-6.9%	2,117.5	-17.8%
1983	59.2	39.0%	141.3	43.3%	2,875.0	35.8%
1984	54.9	-7.3%	140.7	-0.4%	3,027.5	5.3%
1985	60.2	9.7%	157.0	11.6%	3,382.5	11.7%
1986	67.0	11.3%	169.2	7.8%	3,772.5	11.5%
1987	76.4	14.1%	174.5	3.1%	3,767.5	-0.1%
1988	76.6	0.2%	178.5	2.3%	3,882.5	3.1%
1989	68.2	-10.9%	163.0	-8.7%	3,672.0	-5.4%
1990	48.6	-28.8%	134.0	-17.8%	3,603.5	-1.9%
1991	53.4	10.0%	140.5	4.9%	3,533.3	-1.9%
1992	62.5	17.0%	170.6	21.4%	3,889.5	10.1%
1993	70.9	13.4%	193.8	13.6%	4,220.3	8.5%
1994	71.4	0.7%	200.3	3.4%	4,409.8	4.5%
1995	69.6	-2.6%	185.7	-7.3%	4,342.3	-1.5%
1996	81.2	16.6%	200.7	8.1%	4,705.3	8.4%
1997	90.1	11.0%	219.4	9.3%	4,908.8	4.3%
1998	99.9	10.8%	248.3	13.2%	5,585.3	13.8%
1999	98.5	-1.3%	253.3	2.0%	5,922.8	6.0%
2000	88.7	-10.0%	242.0	-4.4%	5,831.8	-1.5%
2001	87.5	-1.4%	239.6	-1.0%	6,026.3	3.3%
2002r	115.9	32.5%	262.8	9.7%	5,631.0	-6.6%
2003r	118.3	2.1%	269.3	2.5%	6,183.0	9.8%
2004r	141.7	19.8%	308.4	14.5%	6,784.0	9.7%
2005 Q3 p	162.7				7,237.0	
2004 Q3 - 2005 Q3 p		11.2%				6.5%

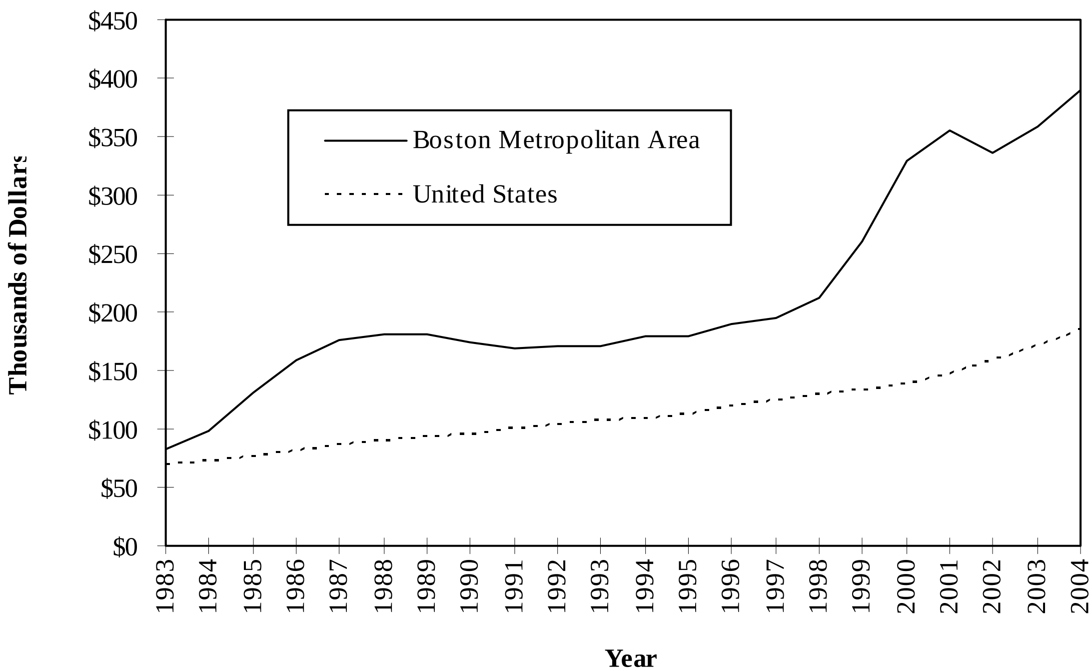
SOURCES: National Association of Realtors; Federal Reserve Bank of Boston. r = Revised, p = Preliminary.

EXHIBIT A-30

Median single-family home prices for the Boston Metropolitan area and the U.S. from 1983 to 2004 are compared in the following graph. While Boston housing prices were 118.1 percent of the U.S. median in 1983, by 1987 Boston housing prices as a percent of the national median had reached 205.7 percent. After dipping to 160.9 percent of the median in 1993 and remaining as low as 162.9 percent in 1998, Boston home prices soared to 211.7 percent of the national median in 2004. The Boston metropolitan area median home price rose to $389,700 in 2004, compared to the national home price of $184,100. The third quarter 2005 preliminary median prices were $215,900 for the U.S. and $430,900 for the Boston metro. This was a 14.7 percent increase for the U.S. and a 5.5 percent increase for the Boston metro, when compared to their third quarter 2004 prices. The September 2005 revisions reflect new metropolitan statistical area definitions from the U.S. Census Bureau.

Boston Metropolitan Area and U.S. Median Annual Home Prices, 1983-2004

(single-family, not seasonally adjusted)

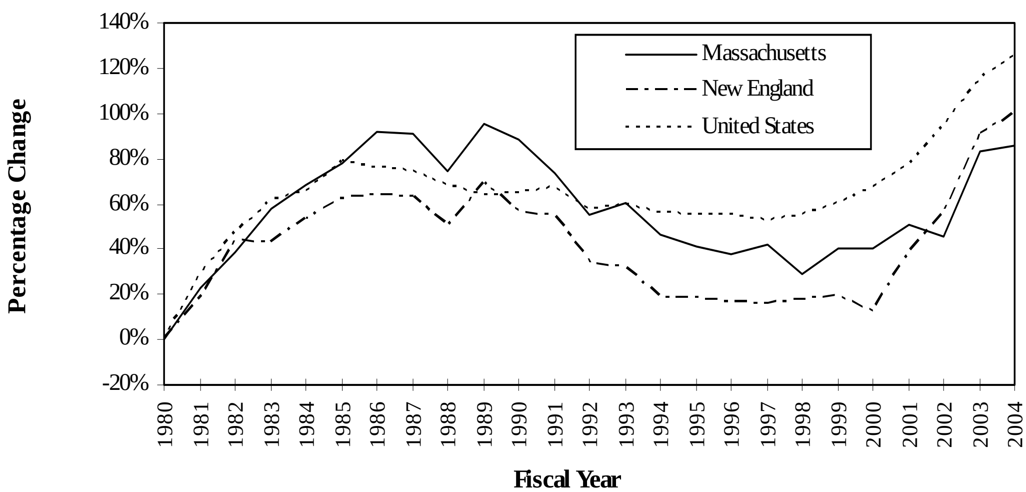


SOURCES: Federal Reserve Bank of Boston; National Association of Realtors. Revised September 2005.

Defense. Following a peak at $8.7 billion in the value of military prime contracts awarded to Massachusetts firms in fiscal 1986, defense-related contracts declined 17.2 percent by fiscal 1988 to $7.2 billion. By fiscal 1995, the value of defense-related prime contracts had declined to $4.8 billion. The net value of prime contract awards in Massachusetts oscillated between $4.2 and $5.2 billion from 1995 to 2002, but jumped 29.2 percent from 2002 to 2004 to $7.0 billion. The chart below illustrates the yearly changes in the value of Massachusetts military prime contracts from 1980 to 2004.

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

(baseline year = 1980)



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

The importance of the defense industry to the Massachusetts economy is reflected in table on the following page, which shows the value of Department of Defense prime contract awards between 1980 and 2004. From the early 1980s to 2001, the Commonwealth's share of New England's prime contract awards had remained around 50 percent. While Massachusetts' contract total has increased significantly in the past two years, its share in the New England region has slipped to 36.5 percent in 2004. In 2002, the Commonwealth's share of the national total reached its lowest point in over two decades, 3.1 percent, and has increased only slightly to 3.3 percent in 2004. Despite this trend, Massachusetts remains the eighth largest recipient in defense spending.

Net Value of Department of Defense Prime Contract Awards, 1980-2004

(in millions)

Fiscal Year	MA	N.E.	U.S.	Massachusetts' Share (as a Percent) of New England	of U.S.
1980*	$3,743	$8,775	$68,070	42.7%	5.5%
1981*	4,605	10,372	87,761	44.4%	5.2%
1982*	5,317	13,037	103,858	40.8%	5.1%
1983	6,328	12,967	118,744	48.8%	5.3%
1984	7,029	14,249	123,995	49.3%	5.7%
1985	7,714	15,487	140,096	49.8%	5.5%
1986	8,735	15,748	136,026	55.5%	6.4%
1987	8,685	15,606	133,262	55.7%	6.5%
1988	7,212	13,673	125,767	52.7%	5.7%
1989	8,757	16,268	119,917	53.8%	7.3%
1990	8,166	14,271	121,254	57.2%	6.7%
1991	6,933	13,889	124,119	49.9%	5.6%
1992	5,686	11,033	112,285	51.5%	5.1%
1993	5,936	10,779	114,145	55.1%	5.2%
1994	5,106	9,329	110,316	54.7%	4.6%
1995	4,846	9,375	109,005	51.7%	4.4%
1996	4,675	9,237	109,408	50.6%	4.3%
1997	4,910	9,152	106,561	53.6%	4.6%
1998	4,245	9,284	109,386	45.7%	3.9%
1999	4,715	9,456	114,875	49.9%	4.1%
2000	4,737	8,745	123,295	54.2%	3.8%
2001	5,248	11,094	135,225	47.3%	3.9%
2002	4,929	13,029	158,737	37.8%	3.1%
2003	6,800	17,544	191,221	38.8%	3.6%
2004	6,961	19,062	212,740	36.5%	3.3%

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.

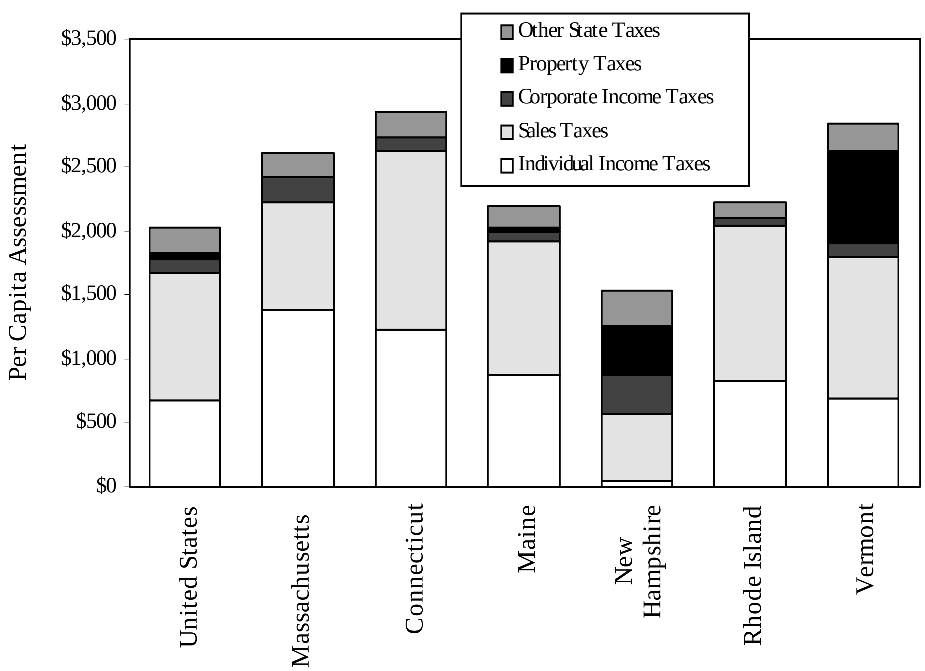
Travel and Tourism. The travel and tourism industry represents a substantial component of the overall Massachusetts economy. Massachusetts is one of the nation's most popular tourist and travel destinations for both domestic and international visitors. The greater Boston area is New England's most popular 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 21.8 million domestic travelers traveled to or within the Commonwealth in 2004, an increase of 15.6 percent from 2003. Additionally, 4.2 million international travelers visited Massachusetts in 2004, an increase of 10.1 percent from 2003. Leisure is the primary reason for 77 percent of tourist trips to Massachusetts. According to MassPort, there were 5 percent fewer cruise vessel calls in 2004 than in 2003, 95 versus 100 and 899 fewer cruise passengers, 199,453 versus 200,352. Between January and November 2005, Massport had 233,702 cruise passengers, a 17.2 percent increase compared to the same period in 2004. The latest available economic impact data indicates that direct spending by visitors to Massachusetts totaled $11.7 billion in 2002.

State Taxes. Per capita state taxes in Massachusetts are significantly higher, 28.5 percent, than the national average. In 2004, the total per capita state tax bill in the United States was $2,025. Citizens of the Commonwealth however, paid $2,602 on average, the seventh highest in the nation and an increase of 7.2 percent from the previous year's $2,427. In New England, citizens in Connecticut and Vermont paid more per capita, and all New England states except New Hampshire (47th), ranked in the top 16 for per capita state tax collections.

In 2004, over half (52.9 percent) of the state taxes in Massachusetts came from the state income tax. Per capita individual income taxes in Massachusetts were $1,376, up 10.3 percent from $1,248 in 2003. Also increasing in 2004 were sales receipts, 1.2 percent, corporate net income, 10.1 percent, and other taxes (licenses, death and gift, and documentary and stock transfer) 12.3 percent. Across the New England states, there is wide variation in both total per capita state taxes and in the breakdown of those taxes, as illustrated in the following chart.

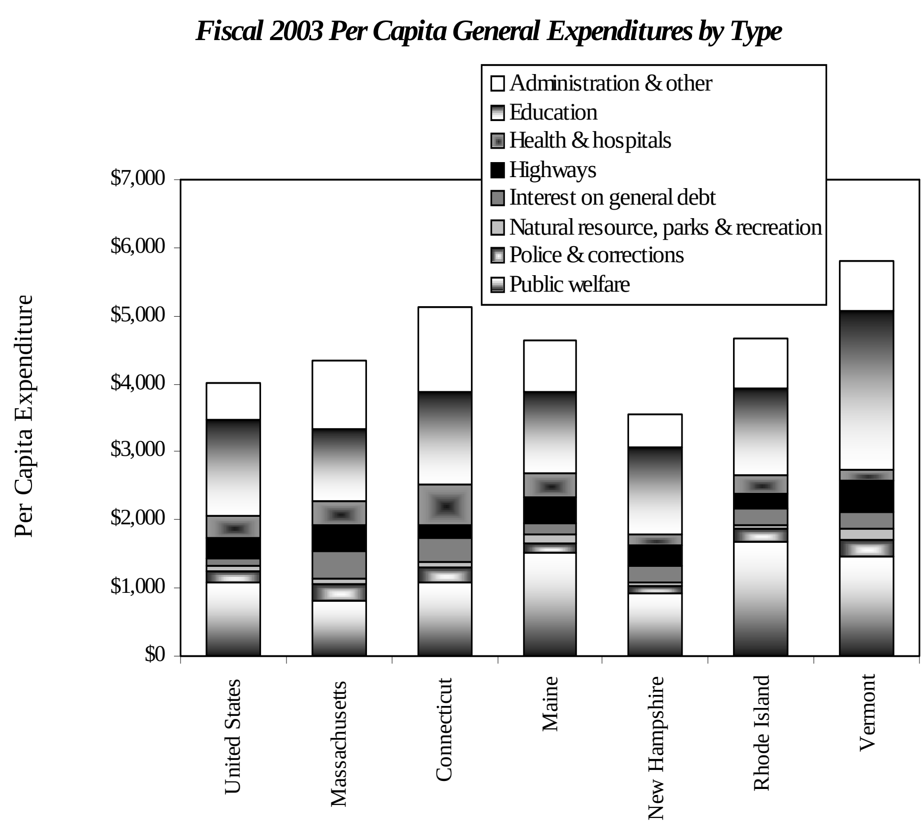
Fiscal 2004 Per Capita State Taxes, by Type



SOURCE: U.S. Bureau of the Census, Governments Division

State Government Spending in Massachusetts. The following chart depicts fiscal 2003 per capita state general expenditures by category for the six New England states and the U.S. average state expenditure. Massachusetts ranked 16th in the nation in per capita expenditures ($5,095) in 2003 while it ranked 13th and spent more ($5,122) in 2002. This represents a 0.5 percent decrease in per capita expenditures from 2002 to 2003.

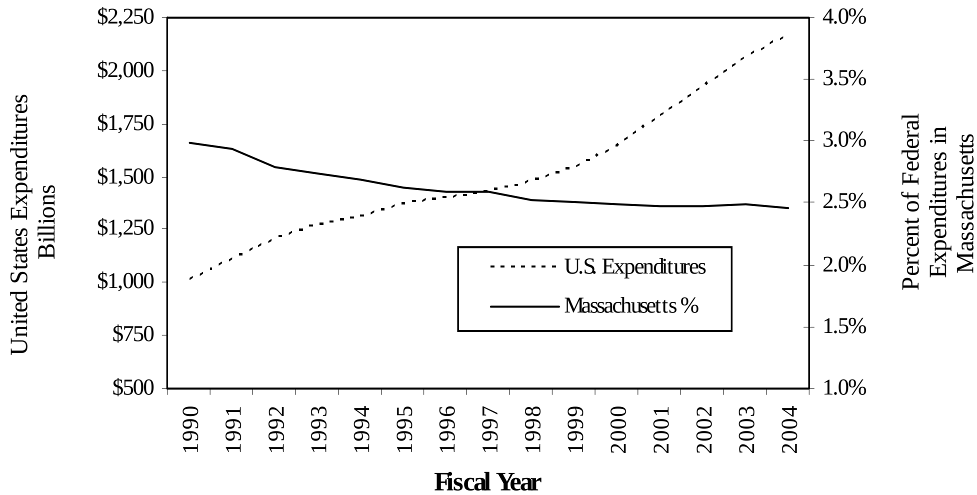
Massachusetts spent more state funds per capita on debt service ($386) and less on education ($1,055) in 2003 than any of its New England neighbors. Massachusetts spent 7.7 percent less on debt service and 3.4% more on education in 2003 than 2002. While all New England states used less than the national average of 28.1 percent for intergovernmental expenditures, the variation within the region is significant, with intergovernmental expenditures representing 13.9 percent of Rhode Island expenditures, 19.7 percent of Massachusetts expenditures, and 24.3 percent of Vermont expenditures in 2003.



SOURCE: U.S. Census Bureau, Governments Division

Federal Government Spending in Massachusetts. Federal government spending contributes significantly to the Massachusetts economy. In fiscal 2004, Massachusetts ranked twelfth among states in per capita distribution of federal funds, with total spending of $8,279 per person, excluding loans and insurance. Massachusetts' share of total federal spending declined steadily between 1990 and 1999, and has stabilized in the range of 2.46 percent to 2.52 percent between 1998 and 2004. The following chart shows total federal expenditures and the percentage of federal expenditures in Massachusetts. 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 that can be associated with individual states and territories.

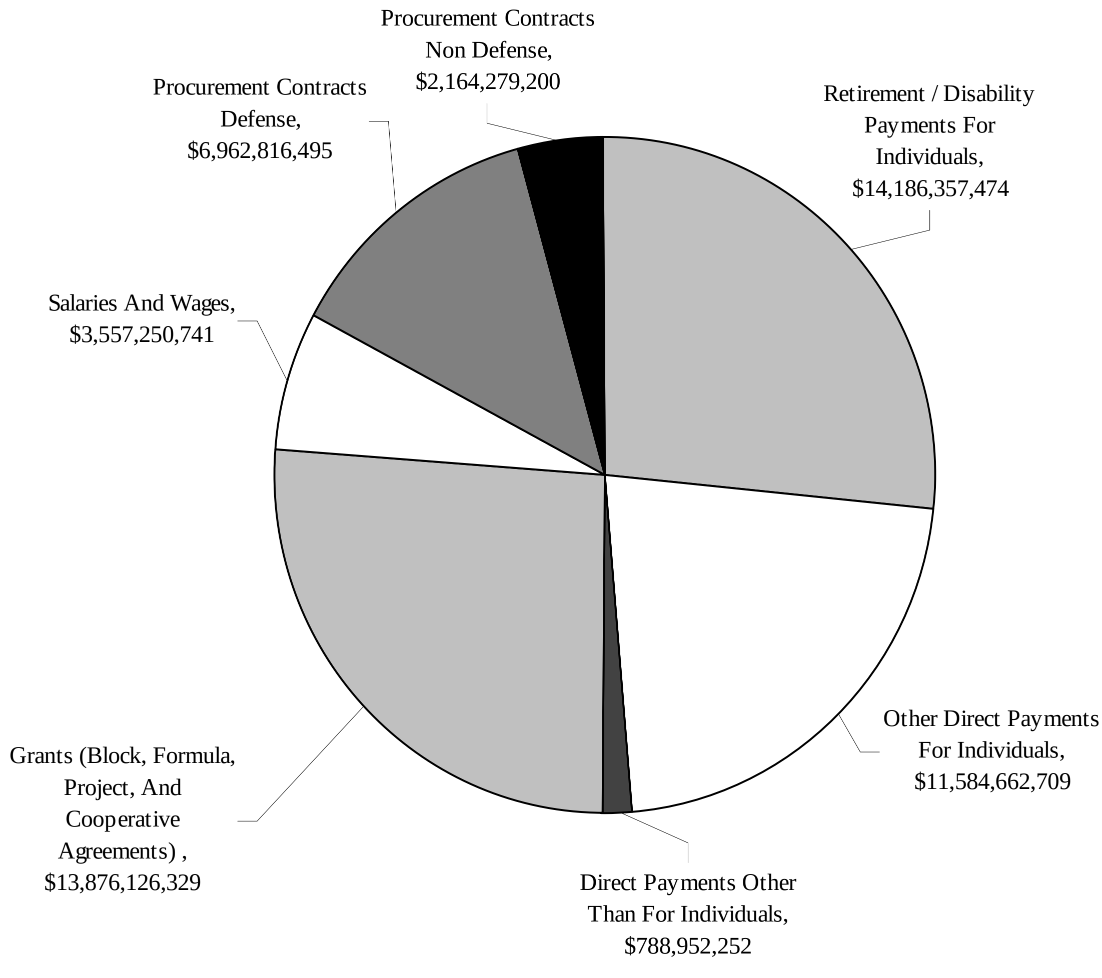
Total Federal Expenditures and Percentage of Federal Expenditures in Massachusetts, 1990 - 2004



SOURCE: U.S. Department of Commerce, Bureau of the Census, 2004 Consolidated Federal Funds Report.

Over half of FY 2004 federal spending in Massachusetts was composed of health care and social programs like Medicare, Medicaid, Social Security, unemployment benefits and Section 8 Housing Vouchers. Massachusetts was above the national average in per capita federal grants to state and local governments, receiving $2,163 per capita compared to a national average of $1,545. Per capita federal spending on salaries and wages in 2004 was lower in Massachusetts than in the rest of the nation, $554 compared to a national average of $750, but Massachusetts was above the national average in per capita direct federal payments to individuals ($4,139 compared to a national average of $3,839). Massachusetts ranked 9th among states in per capita procurement contract awards, $1,422 compared to a national average of $1,089 in 2004. The following chart shows the composition of direct federal spending within Massachusetts in fiscal 2004, excluding loans and insurance.

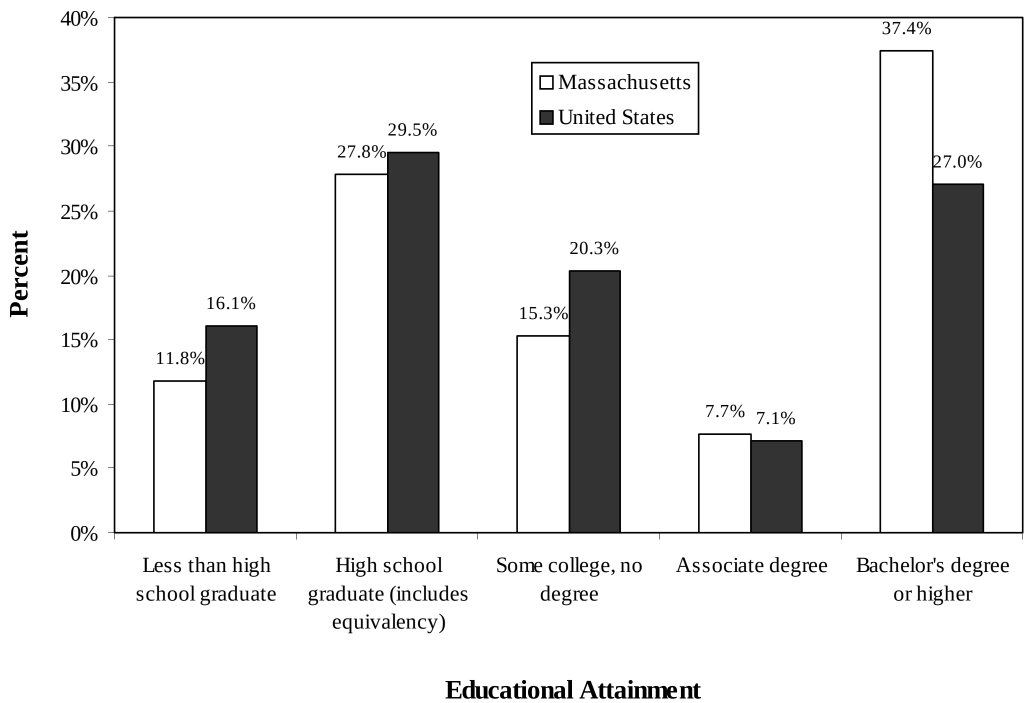
Composition of Direct Federal Spending in Massachusetts by Program
Fiscal 2004



SOURCE: U.S. Department of Commerce, Bureau of the Census, 2004 Consolidated Federal Funds Report.

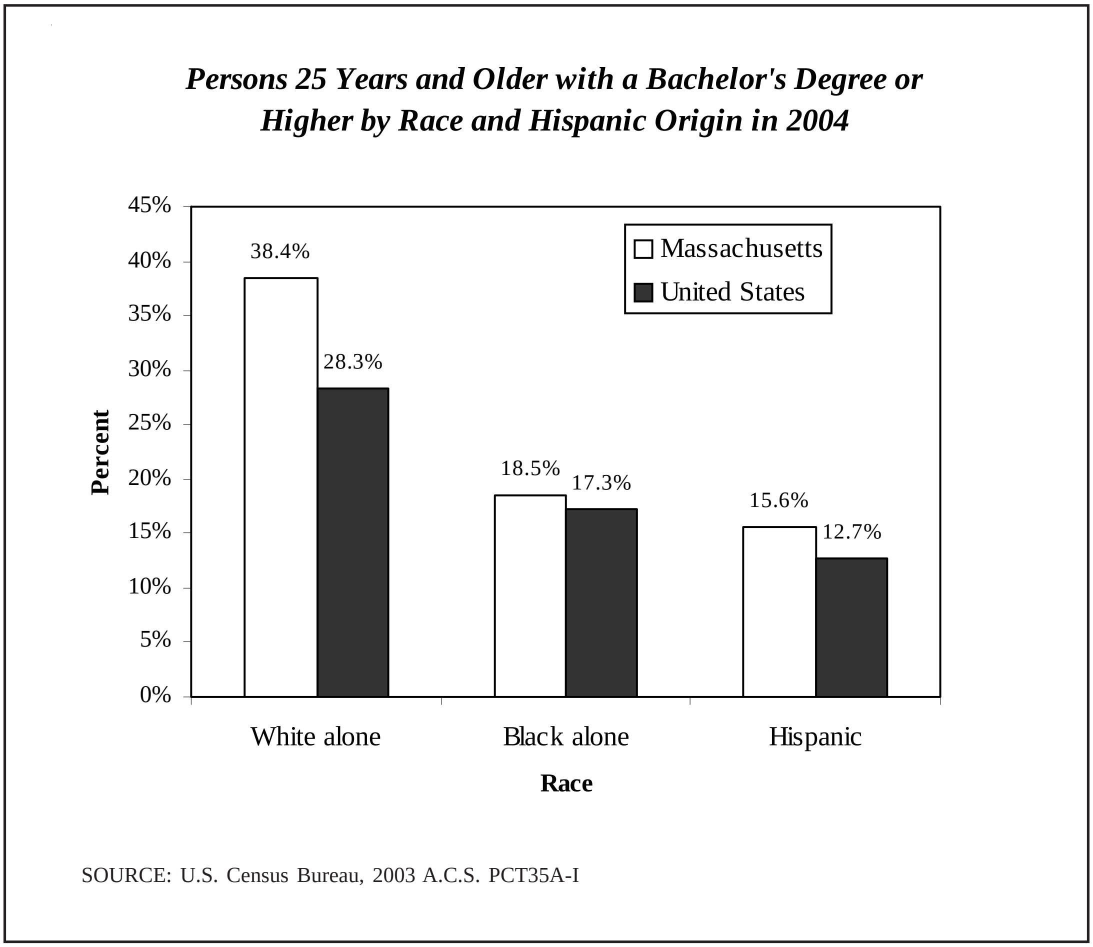
Human Resources. The availability of a skilled and well-educated population is an important resource for the Commonwealth. The level of education reached by the population of Massachusetts compares favorably with the level in the United States as a whole. In 2004, the Census's American Community Survey (ACS) reported that Massachusetts had a smaller proportion of persons who had not completed high school (11.8 percent) than the national average (16.1 percent) and a much higher proportion of persons with a bachelor's degree or more (37.4 percent) than the nation (27.0 percent).

Educational Attainment of Persons 25 Years and Older in 2004



SOURCE: U.S. Census Bureau, 2004 A.C.S. PCT34

While Massachusetts' black and Hispanic population achieved college degrees at roughly half the rate of the white population, they fared much better than the national average.



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

Higher Education Enrollment by Race and Hispanic Origin in 2003

	Black	Asian	Native American	White	Hispanic	Race Unknown
Massachusetts	6.3	5.9	0.4	61.5	5.0	14.6
New England	5.8	4.5	0.5	67.4	4.7	12.4
United States (2002)	11.1	5.8	0.9	62.2	10.7	NA

Note: Black, Asian, Native American and White totals reflect non-Hispanic population. Does not include the category non-resident alien.Table does not include enrollment at military academies. U.S. data from the U.S. Dept of Education.
SOURCE: New England Board of Higher Education analysis of U.S. Department of Ed. Data.

Massachusetts is an internationally recognized center for higher education, with 437,595 students in undergraduate, professional and graduate programs in 2003, according to data supplied by the New England Board of Higher Education. According to the Institute of International Education, 28,634 foreign students were enrolled in Massachusetts colleges and universities in the 2003/2004 school year. This was a 4.7 percent decrease from the previous year but Massachusetts was ranked 4th among states for foreign student enrollment. The Massachusetts public higher education system is composed of universities, state colleges, and community colleges with a combined enrollment of 189,463 students in 2003, 44 percent of whom attended part-time. In addition, Massachusetts has a system of private higher education that accounted for 56.7 percent of total enrollment in Massachusetts in 2003. Almost a quarter of the students attending private institutions did so on a part-time basis. 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 1,461 science and engineering doctorates awarded in 2002, 4th in the nation. Massachusetts conferred a total of 2,320 doctorates in 2003. Massachusetts was also ranked 2nd in the U.S. in science and engineering postdoctorates in doctorate-granting institutions in 2002, with 5,873.

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 received 4.7 percent ($1.71 billion) of total national academic expenditures on R&D in fiscal 2002, with almost half spent in the life sciences. Massachusetts ranked sixth in the nation behind California, New York, Texas, Pennsylvania and Maryland.

The diversity of federal funding sources reflects the variety of research and development work performed at Massachusetts educational institutions. Of the $1.17 billion in total fiscal 2002 federal outlays for science and engineering research to universities and colleges in Massachusetts (and their affiliated federally funded research and development centers), 57.5 percent was from the Department of Health and Human Services, 16.9 percent was from the National Science Foundation, 13.6 percent from the Department of Defense, 6.6 percent was from the Department of Energy, and 3.9 percent was from the National Aeronautics and Space Administration. Massachusetts ranked 4th in the nation in 2002 in total federal outlays for research and development, with total federal spending of $4.66 billion in the state.

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 computer and internet access. According to Census's October 2003 Current Population Survey, 64.2 percent of Massachusetts households had access to a computer, compared to 61.8 percent nationally and 58.1 percent of its households were connected to the internet while the national average was 54.7 percent.

Primary and Secondary Education Data. Although spending on education is not necessarily an indicator of results, Massachusetts has spent from 12 to 36 percent more per pupil on primary and secondary education than the national average since at least 1981. During the 2001-2002 school year, Massachusetts increased per student expenditures to $10,232; 32 percent higher than the national average. The table on the following page shows expenditures per pupil for Massachusetts and the United States since fiscal 1981.

Expenditure Per Pupil in Public Elementary and Secondary Schools, 1981-2002

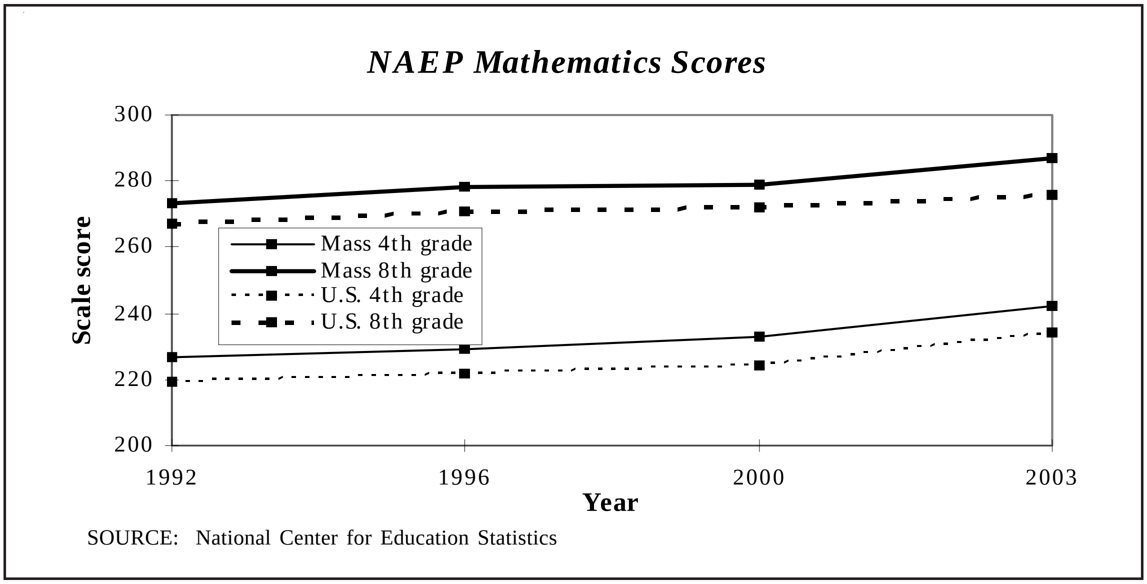
(in current, unadjusted dollars)

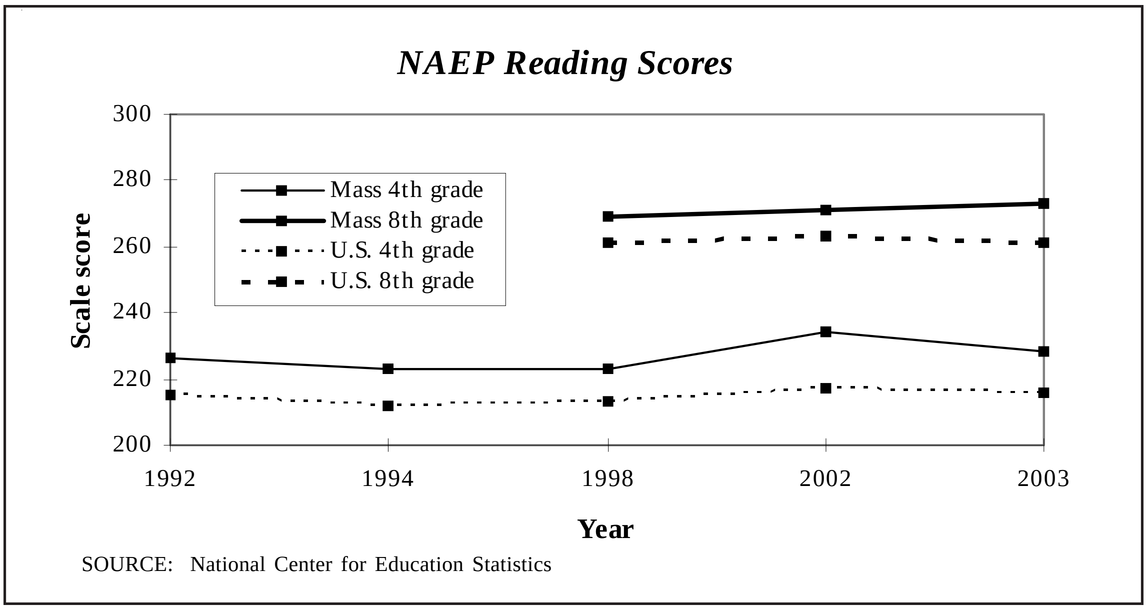
Fiscal Year	*Massachusetts*	*United States*	*Ratio (MA/U.S.)*
1981	$2,735	$2,307	1.19
1982	2,823	2,525	1.12
1983	3,072	2,736	1.12
1984	3,298	2,940	1.12
1985	3,653	3,222	1.13
1986	4,031	3,479	1.16
1987	4,491	3,682	1.22
1988	4,965	3,927	1.26
1989	5,485	4,307	1.27
1990	5,766	4,643	1.24
1991	5,881	4,902	1.20
1992	5,952	5,023	1.18
1993	6,141	5,160	1.19
1994	6,423	5,327	1.21
1995	6,783	5,529	1.23
1996	7,033	5,689	1.24
1997	7,331	5,923	1.24
1998	7,778	6,189	1.26
1999	8,260	6,508	1.27
2000	8,816	6,912	1.28
2001	9,509	7,380	1.29
2002	10,232	7,727	1.32
2003*	10,460	8,044	1.30

*NCES, Common Core of Data, http://nces.ed.gov/quicktables/Detail.asp?Key=1311
SOURCE: United States Department of Education, National Center for Education Statistics, Table 167. April 2005

The National Assessment of Educational Progress (NAEP), also known as "the Nation's Report Card," is the only nationally representative and continuing assessment of what America's students know and can do in various subject areas. Since 1969, assessments have been conducted periodically in reading, mathematics, science, writing, U.S. history, civics, geography, and the arts. Under the current structure, the Commissioner of Education Statistics, who heads the National Center for Education Statistics in the U.S. Department of Education, is responsible by law for carrying out the NAEP project.

Since 1990, NAEP assessments have also been conducted to give results for participating states. Those that choose to participate receive assessment results that report on the performance of students in that state. In its content, the state assessment is identical to the assessment conducted nationally. However, because the national NAEP samples were not, and are not currently designed to support the reporting of accurate and representative state-level results, separate representative samples of students are selected for each participating jurisdiction/state. The graphs on the following page compare the data available for Massachusetts to the nation.





Major Infrastructure Projects. Several major public sector-sponsored construction projects are underway in the Boston region, providing significant economic and employment benefits to the state.

The "Big Dig," the world's largest highway project, includes the depression of the central artery which traverses the City of Boston, and the construction of a third harbor tunnel linking downtown Boston to Logan Airport. The new Central Artery is designed to meet Boston's future traffic demand and is anticipated to carry 245,000 vehicles per day by 2010 with minimal congestion. The Project will also strengthen connections among Boston's air, rail, and seaport terminals. By offering travelers and shippers increased choice and flexibility among these different modes of transportation, the Project is contributing to the creation of an integrated, intermodal transportation system for the entire region. The Ted Williams Tunnel, which stretches under Boston Harbor from South Boston to Logan Airport, opened to commercial traffic in late 1995 and to all traffic in December 2001, and will carry an estimated 98,000 vehicles daily in 2010. The Central Artery Project is due to be completed by 2005 at an estimated total cost of $14.63 billion, with nearly half funded by the federal government. More than $1.5 billion of the state's share of future federal funding is slated to go toward the Big Dig until 2012. As of April 4, 2004, construction is 93.5 percent complete.

The $385 million Route 3 North project improves safety and travel along the Route 3 highway mainline and the adjacent roadways. Route 3 North is 21 miles in length from the Route 128 interchange in Burlington to the New Hampshire border. Initial survey and sub-surface work commenced along the Route 3 corridor in the fall of 2000 and the total project is estimated to take 42 months to complete. This design-build project includes adding a travel lane and two 10' shoulders in each direction, the replacement of 47 bridges, a park and ride facility as well as various environmental improvements.

The MBTA Silver Line project creates the first new MBTA rapid transit line in 90 years. The Silver Line is a state-of-the-art Bus Rapid Transit (BRT) system. This transit line is being completed in three phases. The first and second segments are being introduced as two, separate BRT lines: Silver Line Phase I, which has been open since 2002, travels along Washington Street between Dudley Square and Downtown; and Silver Line Phase II, now under construction and set to open in 2004, will run underground from South Station to the South Boston Waterfront and continue aboveground to the Boston Convention and Exhibition Center, Marine Industrial Park, and Logan Airport. The third phase, Silver Line Phase III, which is currently in design, will link Phases I and II. When the final phase has been completed, all three segments will connect to become the MBTA's fifth rapid transit line. It will offer a seamless link between the communities of Roxbury, the South End, Chinatown, Downtown, and South Boston. More than $450 million has been invested in the Washington Street corridor in both commercial and residential development projects.

The MBTA Greenbush project will restore commuter rail service on the existing right-of-way known as the Greenbush corridor through the towns of Braintree, Weymouth, Hingham, Cohasset and Scituate, Massachusetts. The project begins at the connection with the existing MBTA Old Colony Main Line at the Braintree Wye in East Braintree, and extends 18 miles easterly along the former New Haven Railroad Greenbush Branch to the terminus in the Greenbush section of Scituate. Notice to proceed for design was issued in April of 2002 and the project is targeted for completion in June of 2006.

The Massachusetts Executive Office of Transportation and Construction's Lawrence Gateway Project, generally regarded as an integral step in the renaissance of this historic mill city, will offer 1.2 million square feet of cost-effective, quality office space in the mills along the Merrimack River and the canal district, as well as dramatically improved access to Routes 495, 93 and 95.

On February 10, 2004, the governor filed a $1.15 billion bill for capital transportation spending that guarantees the state will invest at least $400 million every year in upgrading the Commonwealth's roads and bridges until the year 2012. The 2004 Transportation Bond Bill will provide three years worth of new capital authorization for critical transportation priorities. Funding provisions in the Bond Bill include $425 million for federally assisted transportation projects to support the road and bridge program, $300 million for Chapter 90 local aid, $210 million for non-federally assisted roadway projects, $102 million to protect rail freight properties and to provide capital assistance to Regional Transit Authorities (RTAs) and $23 million for various local grant programs.

The Massachusetts Port Authority (Massport) owns and operates Logan International Airport, Hanscom Field, Worcester Regional Airport, the Port of Boston, and several smaller assets. Logan Airport is undergoing a more than $4 billion modernization program that will result in improved access, modern facilities, and the latest customer amenities. In addition, Massport, which owns and operates Logan Airport, has been nationally-recognized for being the first U.S. airport authority to design and build an inline 100% bag screening system, deploy an anti-terrorism unit armed with submachine guns and hand held wireless computers, and implement behavior profiling to spot potential terrorists.

The Port of Boston has instituted port optimization, which consolidated all container operations at Conley Terminal in South Boston, where Massport invested $50 million in four post-Panamax cranes, deeper berths and a modern, timesaving 10-lane gate facility. At the same time, Moran Terminal was transformed into Boston Autoport, a state-of-the-art facility that can offload 400 cars an hour and process over 100,000 cars a year. It increased warehousing by replacing two unused cargo buildings with a 200,000-square-foot warehouse and cargo transfer facility in South Boston, International Cargo Port Inc. Harbor dredging is now underway and, when complete, will improve navigation and safety, reduce cargo handling costs and further control product costs to New England businesses and consumers. It introduced value-added services for customers, such as the Harbor Maintenance Tax, which provides a dollar-for-dollar tax credit for shippers using the Port of Boston. It anticipates the expansion of 120,000 square feet of rehabilitated space to respond to increased demands by cruise lines and their passengers at the Black Falcon Cruise Terminal.

Sources List

Listed below are the the web sites of the original data sources used to compile this section (Exhibit A) of the Economic Due Diligence report. The sites are listed in section title order.

Population Characteristics

United States Department of Commerce, Bureau of the Census
http://www.census.gov

Personal Income, Consumer Prices, and Poverty

U.S. Department of Commerce, Bureau of Economic Analysis
http://www.bea.doc.gov/bea/regional
United States Department of Labor, Bureau of Labor Statistics
http://www.bls.gov
Federal Reserve Bank of Boston
http://www.bos.frb.org/economic/neei/neeidata.htm
The Conference Board, Inc. (for U.S. and N.E. measures), Mass Insight Corporation (for MA measure)
http://www.conference-board.org
http://www.massinsight.com/index.asp
U.S. Department of Commerce, Bureau of the Census
http://www.census.gov

Employment

MA Division of Unemployment Assistance
http://www.detma.org
United States Department of Labor, Bureau of Labor Statistics
http://www.bls.gov
The Conference Board, Inc.
http://www.conference-board.org

Economic Base and Performance

U.S. Department of Commerce, Bureau of Economic Analysis
http://www.bea.doc.gov/bea/regional/gsp/
Fortune Magazine
http://www.fortune.com/fortune/

Economic Base and Performance - Sector Detail (NAICS Basis)

U.S. Department of Commerce, Bureau of Economic Analysis
http://www.bea.doc.gov/bea/regional/gsp/
U.S. Census Bureau, Foreign Trade Division. Prepared by the World Institute for Strategic Economic Research (WISER)
http://www.wisertrade.org
Massport
http://www.massport.com
Airports Council International
http://www.aci.aero
Army Corps of Engineers
http://www.iwr.usace.army.mil/ndc/wcsc/statenm03.htm
Federal Reserve Bank of Boston; United States Department of Commerce
http://www.bos.frb.org
http://www/census.gov
National Association of Realtors; Federal Reserve Bank of Boston
http://www.bos.frb.org/economic/neei/neeidata.htm
U.S. Department of Defense
http://web1.whs.osd.mil/peidhome/geostats/geostat.htm
U.S. Census Bureau, Governments Division
http://www.census.gov/govs/www/statetax.html
http://www.census.gov/govs/www state.html
U.S. Department of Commerce, Bureau of the Census, 2003 Consolidated Federal Funds Report
http://www.census.gov/govs/www/cffr.html

Human Resources and Infrastructure

U.S. Census Bureau, 2003 A.C.S. PCT35A-I
http://www.census.gov/acs/www/
New England Board of Higher Education
http://www.nebhe.org.connection.html
National Science Foundation
http://www.nsf.gov/statistics
United States Department of Education, National Center for Education Statistics
http://nces.ed.gov/pubsearch/Subindx.asp
http://nces.ed.gov.nationsreportcard/states
National Center for Education Statistics
http://nces.ed.gov

APPENDIX B

TABLE OF REFUNDED BONDS

The bonds of the Commonwealth to be refunded with the proceeds of the 2006 Series A Refunding Bonds are described below.

	Maturity Date	Amount	Coupon
$722,620,000 General Obligation Refunding Bonds, 1996, Series A:			
	November 1, 2009*	$ 80,000,000	5.00%
	November 1, 2009*	33,130,000	5.00
	November 1, 2012*	27,415,000	5.45
	November 1, 2012*	25,000,000	5.20
	November 1, 2013*	16,230,000	5.00
		$181,775,000	

*To be redeemed on November 1, 2006 at a call price of 101%.

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PROPOSED FORM OF OPINION OF BOND COUNSEL

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

MINTZ LEVIN

One Financial Center
Boston, MA 02111
617-542-6000
617-542-2241 fax
www.mintz.com

Honorable Timothy P. Cahill
Treasurer and Receiver-General
State House, Room 227
Boston, MA 02133

We have acted as bond counsel to The Commonwealth of Massachusetts (the "Commonwealth") in connection with the issuance by the Commonwealth of $180,875,000 General Obligation Refunding Bonds, 2006 Series A (Delayed Delivery), dated the date of delivery (the "Bonds"). In such capacity, we have examined such law and such certified proceedings and other documents as we have deemed necessary to render this opinion.

As to questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications of public officials and others furnished to us without undertaking to verify the same by independent investigation.

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

(a) The Bonds are valid and binding 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.

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

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

This opinion is given as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

Very truly yours,

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

APPENDIX D

Continuing Disclosure Undertaking

The Commonwealth of Massachusetts

$180,875,000
General Obligation Refunding Bonds
2006 Series A
(Delayed Delivery)

Continuing Disclosure Undertaking
[to be included in bond form]

On behalf of the Commonwealth, the Treasurer and Receiver-General (the "Treasurer") 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 April 18, 2006 (the "Information Statement"), included as Appendix A to the Commonwealth's Official Statement dated April 18, 2006 relating to its $180,875,000 General Obligation Refunding Bonds, 2006 Series A (Delayed Delivery), which Official Statement has been filed with each NRMSIR and with the Municipal Securities Rulemaking Board (the "MSRB"), 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	"SELECTED FINANCIAL DATA - Statutory Basis"
2.	Summary presentation on GAAP and five-year comparative basis of governmental funds operations, concluding with prior fiscal year	"SELECTED FINANCIAL DATA - GAAP Basis"
3.	Summary presentation of actual revenues in budgeted operating funds on five-year comparative basis, concluding with prior fiscal year, plus estimates for current fiscal year	"COMMONWEALTH REVENUES - Statutory Basis Distribution of Budgetary Revenues"

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

Any or all of the items listed above may be included by reference to other documents, including official statements pertaining to debt issued by the Commonwealth, which have been submitted to each NRMSIR. If the document incorporated by reference is a Final Official Statement within the meaning of the Rule, it will also be available from the 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 hereby further undertakes for the benefit of the owners of the Bonds to provide in a timely manner to each NRMSIR or 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:

- principal and interest payment delinquencies;
- non-payment related defaults;
- unscheduled draws on debt service reserves reflecting financial difficulties 1/;
- unscheduled draws on credit enhancements reflecting financial difficulties;
- substitution of credit or liquidity providers, or their failure to perform;
- adverse tax opinions or events affecting the tax-exempt status of the security;
- modifications to the rights of security holders;
- bond calls;
- defeasances;
- release, substitution or sale of property securing repayment of the securities 2/; and
- 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). 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, without the consent of, or notice to, any owners of the Bonds, (a) to comply with or conform to the provisions of the Rule or any amendments thereto or authoritative interpretations thereof by the Securities and Exchange Commission or its staff (whether required or optional), (b) to add a dissemination agent for the information required to be provided by such undertakings and to make any necessary or desirable provisions with respect thereto, (c) to add to the covenants of the Commonwealth for the benefit of the owners of Bonds, (d) to modify the contents, presentation and format of the annual financial information from time to time as a result of a change in circumstances that arises from a change in legal requirements, or (e) to otherwise modify the undertakings in a manner consistent with the provisions of state

1/Not applicable to the Bonds, since there is no debt service reserve fund securing the Bonds.
2/Not applicable to the Bonds, since there is no property securing repayment of the Bonds that could be released, substituted or sold.

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.

APPENDIX E

Proposed Form of Delayed Delivery Contract

April __, 2006

Bear, Stearns & Co. Inc.
383 Madison Avenue
New York, New York 10179

Re: $180,875,000 The Commonwealth of Massachusetts, General Obligation Refunding Bonds, 2006 Series A (Delayed Delivery)

Ladies and Gentlemen:

This Delayed Delivery Contract (this "Agreement") evidences the agreement of the undersigned party (the "Purchaser") to purchase from Bear, Stearns & Co. Inc. (the "Underwriter") and the agreement of the Underwriter to sell to the Purchaser, when, as, and if issued and delivered to the Underwriter:

Par Amount	Maturity Date	Interest Rate	CUSIP Number	Yield	Price

of the above-referenced Bonds offered by The Commonwealth of Massachusetts (the "Commonwealth") under the Preliminary Official Statement dated April 14, 2006 (the "Preliminary Official Statement") and the Official Statement dated April 18, 2006 (the "Official Statement"), at the purchase price, and with the interest rates, principal amounts, and maturity dates shown above, and on the further terms and conditions set forth in this Agreement (the "Purchased Bonds"). Capitalized terms used but not defined herein shall have the meanings ascribed thereto in the Official Statement.

1. Purchase and Settlement. The Purchaser hereby purchases and agrees to accept delivery of the Purchased Bonds from the Underwriter on or about August 10, 2006 (the "Delivery Date"). Unless otherwise agreed to in writing by the Underwriter and the Purchaser, on the Delivery Date the Purchaser shall pay for and accept delivery of the Bonds if (a) the Bonds shall have been issued and delivered by the Commonwealth and have been purchased, accepted and paid for by the Underwriter as provided in and subject to satisfaction of the conditions to purchase contained in the Forward Delivery Bond Purchase Agreement (the "Purchase Contract"), between the Commonwealth and the Underwriter, including, inter alia, the delivery at the time of the Closing (which is expected to occur on May 2, 2006) on the Bonds of unenhanced ratings assigned to the Bonds by Moody's Investors Service, Inc. of not less than Aa2, by Standard & Poor's Ratings Services of not less than AA and by Fitch Ratings of not less than AA; provided, however that such rating shall not be confirmed at the time of delivery to the Purchaser of the Purchased Bonds; and (b) the Underwriter shall have received a legal opinion of Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., Bond Counsel, to the effect that interest on the Bonds is excluded from the gross income and from alternative minimum taxable income (except to the extent it is required to be included in calculating the adjusted current earnings adjustment applicable to corporations in computing the corporation's alternative minimum taxable income) of the holders thereof for federal and state income tax purposes (the "Approving Opinion"). The Purchaser's obligation to pay for and accept the Bonds in accordance herewith is not subject to any conditions other than that the Bonds be issued pursuant to the Purchase Contract and purchased by the Underwriter. The Purchaser understands that the market price of the Bonds on the Delivery Date may be greater than or less than the purchase price, and that the Purchaser's obligations hereunder are not subject to cancellation due to an adverse change in the market price or marketability of the Bonds or any reduction in the rating on the Bonds or any adverse change in the business, affairs or financial condition of the Commonwealth or any other obligor on the Bonds or any material, adverse change in the Official Statement, other than as set forth herein. Settlement of the Bonds shall occur on a delivery versus payment basis. Payment shall be made in immediately available funds to an account designated by the Underwriter, and the Bonds shall be transferred to an account designated by the Purchaser. The Bonds shall be

delivered to The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Bonds and will be registered in the name of Cede & Co., as nominee of DTC. The Bonds will be available only under the book-entry system operated by DTC.

The obligation of the Purchaser to take delivery hereunder shall be unconditional except in the event that between the date of this Agreement and the Delivery Date:

(a) the Commonwealth has failed to comply with all of the settlement conditions referenced in Section 8 of the Purchase Contract by 10:00 am., Boston time, on the Delivery Date, except any settlement condition waived by the Underwriter in accordance with the Purchase Contract; or

(b) (i) an official published ruling, regulation, or temporary regulation, guidance, release or announcement shall have been made or shall have been proposed to be made by the Treasury Department of the United States (the "Treasury Department") or the Internal Revenue Service (the "IRS") after the date hereof with respect to the provisions of Treasury Department Circular 230 (31 C.F.R. Part 10), which is finalized and made applicable to the Bonds, and,

(ii) Bond Counsel determines that (x) compliance therewith will require a modification to the form of bond counsel opinion attached to the Official Statement or (y) one or more significant federal tax issues contained in the separately provided written advice prepared by Bond Counsel pursuant thereto should be disclosed in the Official Statement, and

(iii) the Underwriter determines in its sole judgment that, as a result of the foregoing, the market price of the Bonds has been materially adversely affected.

The Treasury Department and the Internal Revenue Service recently issued several sets of major new proposed and final regulations under Circular 230 (31 C.F.R. Part 10), governing the practice of attorneys and other tax advisors before the IRS. While Circular 230 historically focused mainly on tax shelter opinions, the new Circular 230 rules apply more broadly to regulate the form and substance of federal tax opinions and federal tax practice standards generally. One set of new final Circular 230 regulations went into effect June 20, 2005 for most general Federal tax matters, excluding federal tax matters relating to certain State or local bond opinions.

A second set of new proposed Circular 230 regulations, as modified by IRS Notice 2005-46 (the "Proposed Circular 230 Rules"), provide special rules for Federal tax matters relating to certain defined "State or local bond opinions," including traditional tax-exempt bond opinions given at original issuance regarding the excludability of the interest on State or local bonds from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code and opinions on certain other federal tax issues reasonably related and ancillary to these tax-exempt bond opinions. The Proposed Circular 230 Rules for State or local bond opinions have a prospective effective date and provide that any subsequent final regulations with respect to these rules will be effective no earlier than 120 days after final regulations are published in the Federal Register. The Proposed Circular 230 Rules, however, possibly could be finalized and become effective prior to the time the Bonds are issued and Bond Counsel's approving opinion regarding the Bonds is delivered.

The Proposed Circular 230 Rules, if finally adopted in their present form, could result in more extensive tax documentation, heightened tax due diligence and increased costs for providing federal tax advice. The Proposed Circular 230 Rules would permit the delivery of traditional short-form tax-exempt bond opinions given at original issuance regarding the excludability of the interest on State or local governmental bonds from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code, but would require expanded tax documentation to be given to issuers separately that addresses all relevant facts, provides legal analysis relating the applicable law to the relevant facts and evaluates all "significant federal tax issues." The Proposed Circular 230 Rules define the term "significant federal tax issues" to include any issues for which the Service has a "reasonable basis" for a successful challenge.

There can be no assurance that final regulations will be promulgated with provisions that are similar to those included in the proposed regulations.

2. Representations and Warranties: Acknowledgements. The Purchaser represents and warrants that: (a) it is duly authorized to execute and deliver this Agreement and to perform its obligations hereunder and has taken all necessary action to authorize such execution, delivery and performance; (b) it is acting hereunder as principal (or, if previously agreed in writing by the Underwriter, as agent for a disclosed principal); (c) the person executing this Agreement on the Purchaser's behalf is duly authorized to execute and deliver this Agreement on behalf of the Purchaser; (d) it had obtained all authorizations of any governmental body required in connection with this Agreement and such authorizations are in full force and effect; (e) this Agreement constitutes a legal, valid and binding obligation of the Purchaser enforceable against the Purchaser in accordance with the terms hereof, (f) the execution, delivery and performance of this Agreement do not and will not violate any law, regulation, ordinance, charter, by-law or rule applicable to the Purchaser or any agreement by which the Purchaser is bound or by which any of its assets are affected; (g) the Purchaser has not sought or relied upon the financial advice of the Underwriter; and (h) the Purchaser is knowledgeable of and experienced in the investment risks of entering into this Agreement, is capable of evaluating (and has so evaluated) the merits and risks of this Agreement and is able to bear the economic risks associated with this Agreement. The Purchaser agrees that it shall be deemed to repeat all of the foregoing representations and warranties on the Delivery Date.

The Purchaser acknowledges and agrees that the Bonds are being sold on a "forward" basis for delivery on the Delivery Date and that the Purchaser is obligated to take up and pay for the Bonds on the Delivery Date unless one of the events described above shall have occurred. The Purchaser acknowledges that it will not be able to withdraw its order as described herein, and will not otherwise be excused from performance of its obligations to take up and pay for the Bonds on the Delivery Date because of market or credit changes, including specifically, but not limited to changes in the financial condition, operations, performance, properties or prospects of the Commonwealth from the date hereof to the Delivery Date. The Purchaser acknowledges and agrees that it will remain obligated to purchase the Bonds in accordance with the terms hereof, even if the Purchaser decides to sell such Bonds following the date hereof, unless the Purchaser sells such Bonds to another financial institution with the prior written consent of the Underwriter and such financial institution provides a written acknowledgment of confirmation of purchase order in the same form as that executed by the Purchaser.

The Purchaser acknowledges that the Underwriter is entering into an agreement with the Commonwealth to purchase the Bonds in reliance in part on the performance by the Purchaser of its obligations hereunder.

The Underwriter represents and warrants that (i) it is duly authorized to execute and deliver this Agreement and to perform its obligations hereunder and has taken all necessary action to authorize such execution, delivery and performance; (ii) the person executing this Agreement on behalf of the Underwriter is duly authorized to execute and deliver this Agreement on behalf of the Underwriter; (iii) it has obtained all authorizations of any governmental body required in connection with this Agreement and such authorizations are in full force and effect; (iv) this Agreement constitutes a legal, valid, and binding obligation of the Underwriter enforceable against the Underwriter in accordance with the terms hereof, and (v) the execution, delivery and performance of this Agreement do not and will not violate any law, regulation, ordinance, charter, by-law or rule applicable to the Underwriter or any agreement by which the Underwriter is bound or by which any of its assets are affected. The Underwriter agrees that it shall be deemed to repeat all of the foregoing representations and warranties on the Delivery Date.

3. Receipt of Disclosure Material. The Purchaser acknowledges that, on or prior to the date hereof, the Purchaser received a Preliminary Official Statement and an Official Statement each relating to the Bonds.

4. Default. Each of the following events shall be deemed to be an event of default hereunder (an "Event of Default"): (i) the failure of a party to perform its obligations hereunder on the Delivery Date; (ii) any representation made by a party in paragraph 2 hereof is incorrect or untrue in any material respect when made or repeated or deemed to have been made or repeated; (iii) a party disaffirms, rejects or repudiates any of its obligations under this Agreement; (iv) the commencement by a party as debtor of any case or proceeding under any bankruptcy, insolvency, rehabilitation, delinquency, reorganization, liquidation, dissolution or similar law, or the seeking by a party of the appointment of a receiver, conservator, administrator, rehabilitator, custodian, liquidator, trustee, or similar official for such party or any part of such party's property; (v) the commencement of any case or proceeding against a party, or the seeking of an appointment by another, or the filing against a party, of an application for a protective decree under the provisions of the Securities Investor Protection Act of 1970; or (vi) an acknowledgment

by a party that such party has a negative net worth or is insolvent or is not paying or is unable to pay its debts as they become due.

5. Remedies; Damage. In the event the Purchaser fails (other than for a reason permitted under this Agreement) to accept and pay for the Bonds on the Delivery Date as provided herein, the Purchaser shall pay to the Underwriter as full liquidated damages, and not as a penalty, the amount of one percent (1%) of the principal amount of the Bonds to have been purchased by the Purchaser, and payment of that sum by the Purchaser shall constitute a full release and discharge of all claims and damages of the Underwriter for such failure and for any and all defaults hereunder on the part of the Purchaser. The Purchaser understands that in such event the actual damages of the Underwriter may be less than such amount. Accordingly, the Purchaser waives any right to claim that the actual damages of the Underwriter are less than such amount. The Underwriter and the Purchaser acknowledge and confirm that it would be extremely difficult, if not impossible, to determine the exact amount of damages that would be suffered as a result of a failure by the Purchaser (other than for reason permitted herein) to accept and pay for the Bonds on the Delivery Date as provided herein and that the liquidated damages provided herein are a reasonable good faith estimate of the actual damages and are not a penalty.

6. GOVERNING LAW. THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK WITHOUT GIVING EFFECT TO CONFLICTS OF LAW PRINCIPLES.

7. Submission to Jurisdiction. The Underwriter and the Purchaser irrevocably submit to the non-exclusive jurisdiction of any court of the State of New York or the United States District Court for the Southern District of the State of New York located in Manhattan for the purpose of any suit, action or other proceeding arising out of this Agreement, or any of the agreements or transactions contemplated hereby, which is brought by or against the Underwriter or the Purchaser, and the parties irrevocably agree that all claims in respect to any such suit, action or proceeding may be heard and determined by any such court. The parties waive any objection to laying of venue of any proceedings brought in any such court, waive any claim that such proceedings have been brought in an inconvenient forum and waive the right to object, with respect to such proceedings, that such court does not have jurisdiction over such party.

8. Severability. If one or more provisions of this Agreement or the applicability of any such provisions to any set of circumstances shall be determined to be invalid or ineffective for any reason, such determination shall not affect the validity and enforceability of the remaining provisions of this Agreement or the applicability of the same provisions or any of the remaining provisions to other circumstances.

9. Miscellaneous. Any and all notices, statements, demands or other communications hereunder may be sent by a party to the other by mail, facsimile, messenger or otherwise to the address specified on the face of this Agreement or indicated below, or so sent to such party at any other place specified in a notice of change of address hereafter received by the other. Purchaser agrees that, if applicable, it will at all times satisfy the minimum initial and maintenance margin requirements of Regulation T of the Board of Governors of the Federal Reserve System, Rule 431 of the New York Stock Exchange, Inc. and any other margin regulations applicable to the Underwriter. This Agreement will inure to the benefit of and be binding upon the parties hereto and their respective successors, but will not be assignable by either party without the prior written consent of the other and any purported assignment without such consent shall be null and void. This Agreement may be amended or any of its terms modified only by a written document authorized, executed and delivered by each of the parties hereto. This Agreement may be executed in one or more counterparts and when each party hereto has executed at least one counterpart, this Agreement shall become binding on all parties and such counterparts shall be deemed to be one and the same document.

It is understood that the acceptance by the Underwriter of any Agreement (including this one) is in the Underwriter's sole discretion and that, without limiting the foregoing, acceptances of such contracts need not be on a first-come, first-served basis. If this Agreement is acceptable to the Underwriter, it is requested that the Underwriter sign the form of acceptance below and mail or deliver one of the counterparts hereof to the Purchaser at its address set forth below. This will become a binding contract between the Underwriter and the Purchaser when such counterpart is so mailed or delivered by the Underwriter. This Agreement does not constitute a customer confirmation pursuant to Rule G-15 of the Municipal Securities Rulemaking Board.

____
Purchaser

____
Address

____
Telephone

By:______________________________________
Name:____________________________________
Title:_____________________________________

Accepted: Bear, Stearns & Co. Inc.

____
Name: John W. Young II
Title: Senior Managing Director

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