REFUNDING ISSUE – BOOK-ENTRY-ONLY

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

$499,520,000
THE COMMONWEALTH OF MASSACHUSETTS
General Obligation Refunding Bonds
(Variable Rate Demand Bonds)

$249,760,000	**$249,760,000**
1998 Series A	**1998 Series B**

Dated: Date of Delivery **Due: September 1, 2016**

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 are variable rate bonds that may be in a Daily Mode, Weekly Mode or Fixed Mode. The Bonds initially will be in the Weekly Mode and will bear interest at Weekly Rates determined by the Remarketing Agent as described herein. So long as the Bonds are in the Weekly Mode, the Interest Payment Dates will be on the first Business Day of each month. Bonds in the Weekly Mode or in the Daily Mode may be purchased in Authorized Denominations of $100,000 and any integral multiple of $5,000 in excess thereof. All Bonds within each series will bear interest in the same mode. The Bonds are subject to optional redemption, mandatory sinking fund redemption and optional and mandatory tender for purchase prior to maturity, as more fully described herein.

The Bonds will constitute general obligations of The Commonwealth of Massachusetts (the "Commonwealth"), and the full faith and credit of the Commonwealth will be pledged to the payment of the principal of and interest on the Bonds. However, for information regarding certain statutory limits on state tax revenue growth and on expenditures for debt service and regarding dedicated state income tax revenues, see "SECURITY FOR THE BONDS."

The Commonwealth will enter into separate Standby Bond Purchase Agreements with Commerzbank Aktiengesellschaft, acting through its New York Branch, with respect to the 1998 Series A Bonds, and The Toronto-Dominion Bank, acting through its Houston Agency, with respect to the 1998 Series B Bonds. See Appendix F hereto. Each of the Standby Bond Purchase Agreements is a liquidity facility that requires the applicable bank to purchase the Bonds tendered or deemed tendered to the extent not remarketed, subject to certain funding conditions described herein. The banks are not providing credit support for payment of regularly scheduled principal and interest. See Appendix E hereto under "Standby Bond Purchase Agreements."

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 Underwriter by its counsel, Palmer & Dodge LLP, Boston, Massachusetts. The Bonds are expected to be available for delivery at DTC in New York, New York, on or about September 17, 1998.

Price: 100%

PaineWebber Incorporated

September 2, 1998

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.

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THE COMMONWEALTH OF MASSACHUSETTS

CONSTITUTIONAL OFFICERS

Argeo Paul Cellucci	Lieutenant Governor and Acting Governor
William F. Galvin	Secretary of the Commonwealth
L. Scott Harshbarger	Attorney General
Joseph D. Malone	Treasurer and Receiver-General
A. Joseph DeNucci	Auditor

LEGISLATIVE OFFICERS

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

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OFFICIAL STATEMENT

$499,520,000
THE COMMONWEALTH OF MASSACHUSETTS
General Obligation Refunding Bonds
(Variable Rate Demand Bonds)

$249,760,000	**$249,760,000**
1998 Series A	**1998 Series B**

INTRODUCTION

This Official Statement (including the cover pages and Appendices A through F attached hereto) provides certain information in connection with the issuance by The Commonwealth of Massachusetts (the "Commonwealth") of its General Obligation Refunding Bonds (Variable Rate Demand Bonds), 1998 Series A in the aggregate principal amount of $249,760,000 (the "Series A Bonds") and 1998 Series B in the aggregate principal amount of $249,760,000 (the "Series B Bonds" and, together with the Series A Bonds, the "Bonds"). The Bonds will be general obligations of the Commonwealth, and the full faith and credit of the Commonwealth will be pledged to the payment of the principal of and interest on the Bonds. However, for information regarding certain statutory limits on state tax revenue growth and expenditures for debt service and regarding dedicated state income tax revenues, see "SECURITY FOR THE BONDS" and the Commonwealth Information Statement (described below) under the headings "COMMONWEALTH REVENUES – Limitations on Tax Revenues," "COMMONWEALTH PROGRAMS AND SERVICES – Debt Service" and "COMMONWEALTH BOND AND NOTE LIABILITIES."

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

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 F. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document.

Specific reference is made to the Commonwealth's Information Statement dated May 5, 1998 (the "May Information Statement"), as it appears in the Commonwealth's Official Statement dated April 30, 1998 with respect to its General Obligation Bonds, Consolidated Loan of 1998, Series B (the "1998 Series B Official Statement"). A copy of the 1998 Series B Official Statement has been filed with each Nationally Recognized Municipal Securities Information Repository currently recognized by the Securities and Exchange Commission and with the Municipal Securities Rulemaking Board. The information contained in the May Information Statement has been supplemented by the Commonwealth Information Statement Supplement dated August 21, 1998 (the "Supplement"), which, except for Exhibit A thereto, is attached hereto as Appendix A. The May Information Statement, as supplemented by the Supplement, contains certain fiscal, budgetary, financial and other general information concerning the Commonwealth. Exhibit A to the Supplement contains certain economic information concerning the Commonwealth. Exhibits B and C to the May Information Statement contain the financial statements of the Commonwealth for the fiscal year ended June 30, 1997, prepared on a statutory basis and a GAAP basis, respectively. Specific reference is made to said Exhibits A, B and C, copies of which, along with the entire Supplement, have been filed with each Nationally Recognized Municipal Securities Information Repository currently recognized by the Securities and Exchange Commission.

Attached hereto as Appendix B is a listing of bonds a portion of which are 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 form of the Bonds. Appendix E attached hereto contains definitions used in this Official Statement and a summary of certain provisions of the Bonds relating to their variable rate demand features, the Standby Bond Purchase Agreements and the Remarketing Agreement. Appendix F attached hereto contains information concerning Commerzbank Aktiengesellschaft and The Toronto-Dominion Bank, which are entering into the Standby Bond Purchase Agreements with the Commonwealth.

THE BONDS

General

The Bonds will be issued initially in the Weekly Mode, will be dated the date of delivery thereof and will bear interest initially at a rate to be determined by the Underwriter on or about September 10, 1998 and thereafter, beginning with the Thursday next succeeding the date of delivery, at Weekly Rates payable on each Interest Payment Date until maturity, earlier redemption or conversion to a different mode, all as described below under "Additional Information Related to Variable Rate Demand Bonds." Interest on Bonds in the Weekly Mode will be calculated on the basis of a 365- or 366-day year, as applicable, for the actual number of days elapsed and will be payable on each Interest Payment Date to the registered owner as of the Record Date. 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. State Street Bank and Trust Company, Boston, Massachusetts, will serve as Tender Agent for the Bonds.

Book-Entry-Only System. The Bonds will be issued by means of a book-entry-only system, with bond certificates 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, in the Daily Mode and Weekly Mode of $100,000 and integral multiples of $5,000 in excess thereof and, in the Fixed Mode, 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 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."

Additional Information Related to Variable Rate Demand Bonds

The Bonds will be in the Daily Mode, the Weekly Mode or the Fixed Mode. Bonds in the Daily Mode will bear interest at a Daily Rate. Bonds in the Weekly Mode will bear interest at a Weekly Rate. Bonds in the Fixed Mode will bear interest at a Fixed Rate. Depending on which mode is then in effect for a series of Bonds, the Interest Payment Dates, the dates interest rates are effective, the dates on which notices of tender are required to be given, the dates on which such Bonds are to be tendered, the dates for notices of conversion to another mode and provisions for mandatory tender for purchase applicable to such Bonds will vary. See the description below and Appendix E for further details.

The information regarding provisions for the tender and purchase of Bonds should be used in conjunction with the information set forth under "BOOK-ENTRY-ONLY SYSTEM" below. As initially issued, the Bonds will be issued in book-entry-only form through the facilities of DTC, and the procedures and practices of DTC will govern the tender and purchase procedures applicable to owners of beneficial interests in the Bonds.

Interest. The Bonds will bear interest initially at the rate determined by the Underwriter on or about September 10, 1998 to and including the first Wednesday which is or follows the date the Bonds are issued. Thereafter, Bonds shall bear interest at Daily Rates, Weekly Rates or a Fixed Rate. Initially all Bonds will be in the Weekly Mode. At the option of the Commonwealth, Bonds in the Weekly Mode or the Daily Mode may be changed to either of the other two modes, as described below and in Appendix E.

Interest on Bonds in the Weekly Mode is payable monthly on each Interest Payment Date. For Bonds in the Weekly Mode, the Interest Payment Date is the first Business Day of each calendar month. Interest on Bonds in the Weekly Mode is computed on the basis of a 365- or 366-day year, as applicable, for the actual number of days elapsed and is payable to the registered owners who are such registered owners on the Record Date, which is the Business Day immediately preceding an Interest Payment Date. As long as the Bonds are registered in the name of

Cede & Co., as nominee of DTC, such payments will be made directly to DTC. See "BOOK-ENTRY-ONLY SYSTEM." For a description of interest payments on Bonds in the Daily Mode and the Fixed Mode, see Appendix E.

Interest Rate Determination. For Bonds in the Weekly Mode, the Weekly Rate shall be determined each week by the Remarketing Agent, by 4:00 p.m., Boston time, on the Business Day prior to the commencement of the Weekly Rate Period (the "Rate Determination Date") to which it relates. Weekly Rate Periods will commence on a Thursday and end on Wednesday of the following week. The Weekly Rate for each Weekly Rate Period will be determined by the Remarketing Agent as that rate of interest which would cause the Bonds to have a market value equal to the principal amount thereof (exclusive of accrued interest), taking into account prevailing market conditions as of the Rate Determination Date. Written, telephonic or electronic notice of Weekly Rates will be given by the Remarketing Agent to the Commonwealth by the close of business on each Rate Determination Date. If the Remarketing Agent fails to determine a Weekly Rate, the Bonds will continue to bear interest at the prior Weekly Rate until a new Weekly Rate is determined. No Weekly Rate on the Bonds may exceed 12% per annum, the Maximum Rate. For a description of the procedures for determining Daily Rates and Fixed Rates, see Appendix E.

Optional Tender for Purchase. Bonds in the Weekly Mode may be tendered for purchase at a Purchase Price equal to 100% of the principal amount thereof, plus accrued interest, if any, payable in immediately available funds upon written or telephonic notice (promptly confirmed in writing) of tender to the Tender Agent not later than 5:00 p.m., Boston time, on a Business Day not fewer than seven days prior to the Purchase Date. The Purchase Date may be any Business Day prior to conversion of the Bonds to a Daily Mode or Fixed Mode. As noted below under "Book-Entry Bonds," for so long as the Bonds are registered in the name of Cede & Co., as nominee for DTC, the procedures for tender of Bonds will be governed by the operational procedures of DTC.

At any time that a Bondholder has a right to tender a Bond for purchase (other than by mandatory tender as described herein), the Bondholder shall, in addition to delivering the Bond on or before the appropriate Purchase Date, give to the Tender Agent notice of such tender. Each such notice of tender shall:

(i) be delivered in writing or by telephone (and promptly confirmed in writing) to the Tender Agent at its corporate trust office by 5:00 p.m., Boston time, on a Business Day not fewer than seven days prior to the Purchase Date, which may be any Business Day prior to conversion of the Bonds to a Daily Mode or Fixed Mode, and be in a form satisfactory to the Tender Agent;

(ii) state, whether delivered in writing or by telephone, (A) the principal amount and series of the Bond to which it relates, (B) that the Bondholder irrevocably demands purchase of such Bond or of a specified portion thereof in an amount which is an authorized denomination and which leaves the retained portion of the Bond in an amount which is an authorized denomination, (C) the date on which such Bond or portion thereof is to be purchased and (D) payment instructions with respect to the Purchase Price; and

(iii) automatically constitute, whether delivered in writing or by telephone, (A) an irrevocable offer to sell the Bond (or portion thereof) to which it relates on the purchase date at a Purchase Price equal to the principal amount of such Bond (or portion thereof) plus any interest thereon accrued and unpaid as of the Purchase Date, (B) an irrevocable authorization and instruction to the Tender Agent to effect transfer of such Bond (or portion thereof) upon payment of the Purchase Price to the Tender Agent on the Purchase Date, (C) an irrevocable authorization and instruction to the Tender Agent to effect the exchange of the Bond to be purchased in whole or in part for other Bonds in an equal aggregate principal amount so as to facilitate the sale of such Bond (or portion thereof), and (D) an acknowledgment that such Bondholder will have no further rights with respect to such Bond (or portion thereof) upon payment of the Purchase Price thereof to the Tender Agent on the Purchase Date, except for the right of such Bondholder to receive such Purchase Price upon surrender of such Bond to the Tender Agent.

The determination of the Tender Agent as to whether a notice of tender has been properly delivered shall be conclusive and binding upon the Bondholder.

Mandatory Tender Upon Conversion to the Fixed Mode. Bonds to be converted from the Weekly Mode or the Daily Mode to the Fixed Mode are subject to mandatory tender for purchase as described below on the Conversion Date at a Purchase Price equal to 100% of the principal amount of the Bonds, plus accrued interest.

If Bonds are to be converted to the Fixed Mode, the Commonwealth must give written notice of such conversion to the Tender Agent and the Remarketing Agent at least 30 days prior to the Conversion Date. The Tender Agent must give written notice of such Conversion to the holders of such Bonds by first class mail or, at the Commonwealth's option, certified mail, return receipt requested, at least 15 days prior to the Conversion Date setting forth, among other things: (a) the proposed Conversion Date; (b) that the Bonds shall be subject to mandatory tender on the Conversion Date; and (c) the conditions to Conversion, if any.

Mandatory Tender Upon Expiration, Substitution or Termination of a Standby Bond Purchase Agreement. The Bonds of each series are subject to mandatory tender for purchase on the Business Day which is at least five days before (i) the stated expiration date of the Standby Bond Purchase Agreement related to such series or any Alternate Liquidity Facility related to such series; or (ii) the date set forth in a termination notice as the date the applicable Standby Bond Purchase Agreement or any applicable Alternate Liquidity Facility is to be terminated as a result of the occurrence of certain events of default under such Standby Bond Purchase Agreement or Alternate Liquidity Facility. See Appendix E under the heading "Standby Bond Purchase Agreements" for a list of events of default for which a bank which is party to a Standby Bond Purchase Agreement may elect to give a termination notice. The Bonds of each series are also subject to mandatory tender for purchase on the date on which an Alternate Liquidity Facility is scheduled to become effective with respect to the Bonds of such series, whether or not the Alternate Liquidity Facility actually becomes effective on such date. The Purchase Price for such tenders shall equal 100% of the principal amount of such Bonds, plus accrued interest. The Tender Agent, at the request of the Commonwealth, shall give written notice to the applicable Bondholders at least 15 days prior to such mandatory tender date. As noted below under "Risk of Termination of Standby Bond Purchase Agreements," the Bonds are not subject to mandatory tender for purchase upon the occurrence of certain events of default under the Standby Bond Purchase Agreements for which immediate termination of such Standby Bond Purchase Agreements is permitted without the requirement of a termination notice.

Delivery and Payment for Tendered Bonds. The Tender Agent, on behalf of the Commonwealth, will purchase any Bonds properly tendered for purchase in accordance with the provisions of the Bonds. Delivery to the Tender Agent of Bonds to be tendered for purchase, upon both optional tender and mandatory tender, together with wire payment instructions satisfactory to the Tender Agent, is required to be made by 1:00 p.m., Boston time, on the Business Date which is the Purchase Date in order for tendering Bondholders to be paid in immediately available funds by 4:00 p.m., Boston time, on such day. If the Bonds are delivered after 1:00 p.m., Boston time, payment will be made on the next Business Day without any additional accrued interest. Bonds which are required to be tendered for purchase, upon both optional tender and mandatory tender, shall cease bearing interest from and after the date tender is required regardless of whether such Bonds are presented for payment and Bondholders shall have no further rights with respect to such Bonds other than the right to receive payment of the Purchase Price upon surrender of the Bonds.

Book-Entry Bonds. For so long as the Bonds are registered in the name of Cede & Co., as nominee for DTC, the tender option rights of Bondholders described above may be exercised only by a Direct Participant of DTC acting directly or indirectly on behalf of a Beneficial Owner of Bonds by giving notice of its election to tender Bonds or portions thereof at the times and in the manner described above. Beneficial Owners will not have any rights to tender Bonds directly to the Tender Agent. Procedures under which a Beneficial Owner may direct a Direct Participant of DTC or an Indirect Participant of DTC acting through a Direct Participant of DTC to exercise a tender option right in respect of any Bonds or portions thereof shall be governed by standing instructions and customary practices determined by such Direct Participant or Indirect Participant.

For so long as the Bonds are registered in the name of Cede & Co., as nominee for DTC, notices of mandatory tender for purchase of Bonds shall be given to DTC only, and neither the Commonwealth, the Tender Agent, the Underwriter nor the Remarketing Agent shall have any responsibility for the delivery of any of such notices by DTC to any Direct Participants of DTC, by any Direct Participants to any Indirect Participants of DTC or by any Direct Participants or Indirect Participants to Beneficial Owners of the Bonds.

For so long as the Bonds are registered in the name of Cede & Co., as nominee for DTC, delivery of Bonds required to be tendered for purchase shall be effected by the transfer by a Direct Participant on the applicable Purchase Date of a book entry credit to the account of the Tender Agent of a beneficial interest in such Bonds or portions thereof required to be tendered for purchase on that date.

For so long as the Bonds are registered in the name of Cede & Co., as nominee for DTC, payment of the Purchase Price shall be paid directly to DTC. Disbursement of such payments to the DTC Participants is the responsibility of DTC and disbursement of such payments to the Beneficial Owners is the responsibility of the DTC Participants and the Indirect Participants. See "BOOK-ENTRY-ONLY SYSTEM" herein.

Remarketing Agreement. The Remarketing Agent is required to use its best efforts to remarket Bonds properly tendered for purchase. PaineWebber Incorporated will serve as the initial Remarketing Agent for the Bonds. See Appendix E for a summary of certain provisions of the Remarketing Agreement.

Standby Bond Purchase Agreements. The Standby Bond Purchase Agreements provide that Commerzbank Aktiengesellschaft, acting through its New York Branch, and The Toronto-Dominion Bank, acting through its Houston Agency (each, a "Bank" and, collectively, the "Banks"), agree to purchase any unremarketed tendered Series A Bonds and Series B Bonds, respectively, in the Daily Mode or Weekly Mode from time to time in an amount not to exceed the principal amount thereof plus accrued interest thereon in an amount up to 45 days at an interest rate not exceeding 12% per annum, subject to the terms and provisions set forth in the applicable Standby Bond Purchase Agreement. See Appendix E for a summary of certain provisions of the Standby Bond Purchase Agreements and Appendix F for certain information concerning the Banks. All information concerning the Banks has been provided by the respective Bank, and the Commonwealth is not responsible for its accuracy or completeness.

Risk of Termination of Standby Bond Purchase Agreements. The Standby Bond Purchase Agreements may be terminated prior to their Stated Expiration Dates immediately upon the occurrence of certain Events of Default specified therein for which no termination notice is required. In the event of such termination, the Bonds are **NOT** subject to mandatory tender for purchase solely as a result of such termination. The Tender Agent must give notice to the holders of Bonds of a particular series promptly after becoming aware of the early termination of the Standby Bond Purchase Agreement relating to such series. See Appendix E under the heading "Standby Bond Purchase Agreements."

Redemption

Optional Redemption. Bonds in the Weekly Mode or the Daily Mode are subject to optional redemption prior to maturity at the election of the Commonwealth, in whole or in part at any time, and in such amounts as the Commonwealth may determine, at a redemption price equal to 100% of the principal amount of Bonds being redeemed, together with accrued and unpaid interest to the date fixed for redemption but without premium. The Commonwealth also has the right to redeem Bonds which are subject to optional or mandatory tender for purchase without notice on any optional or mandatory tender date. The Commonwealth also has the right to redeem any Bonds held by or for the benefit of a Bank without notice and prior to other Bonds of such series. Bonds in the Fixed Mode will be subject to optional redemption features determined at the time of conversion to the Fixed Mode.

Mandatory Sinking Fund Redemption. The Bonds are subject to mandatory sinking fund redemption in part by lot at a redemption price equal to 100% of the principal amount of the Bonds to be redeemed, plus accrued interest thereon to the date specified for redemption on September 1 in each of the years set forth in the following table, in the principal amount specified in each such year:

Year	1998 Series A Bonds	1998 Series B Bonds
2007	$ 1,170,000	$ 1,170,000
2008	1,935,000	1,935,000
2009	15,255,000	15,250,000
2010	9,045,000	9,050,000
2011	31,160,000	31,155,000
2012	40,205,000	40,205,000
2013	31,125,000	31,130,000
2014	52,615,000	52,615,000
2015	47,165,000	47,160,000
2016	20,085,000*	20,090,000*

*Stated Maturity.

The Commonwealth is entitled to reduce its mandatory sinking fund redemption obligation in any year with respect to the Bonds within a series by the principal amount of any Bonds within such series previously purchased or optionally redeemed by the Commonwealth. To the extent there are Bank Bonds within such series, such Bank Bonds shall be redeemed from mandatory sinking fund payments prior to any other Bonds within such series.

Notice of Redemption. The Commonwealth shall give notice of redemption to the owners of the Bonds not less than 15 days, for Bonds in the Daily Mode or Weekly Mode, and not less than 30 days, for Bonds in the Fixed Mode, prior to the date fixed for redemption. So long as the book-entry-only system remains in effect for the Bonds, notices of redemption will be mailed by the Commonwealth only to DTC or its nominee. Any failure on the part of DTC, any DTC participant or any nominee of a beneficial owner of any Bond (having received notice from a DTC participant or otherwise) to notify the beneficial owner so affected, shall not affect the validity of the redemption.

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

Selection for Redemption. In the event that less than all of the Bonds within a series are to be redeemed, and so long as the book-entry-only system remains in effect for such Bonds, the particular Bonds or portion of any such Bonds within such series to be redeemed will be selected by DTC by lot. If the book-entry-only system no longer remains in effect for the Bonds, selection for redemption of less than all of the Bonds of a series will be made by the Commonwealth by lot in such manner as in its discretion it shall deem appropriate and fair. In no event will any Bond be outstanding in a principal amount that is not an Authorized Denomination.

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 advance refunding the bonds set forth in Appendix B (the "Refunded Bonds").

The Commonwealth, upon delivery of the Bonds, will enter into a refunding escrow agreement (the "Escrow Agreement") with State Street Bank and Trust Company, as escrow agent (the "Escrow Agent"). The Escrow Agreement will provide for the deposit of the net proceeds of the Bonds with the Escrow Agent in a separate account to be applied immediately upon receipt to purchase non-callable direct obligations of the United States of America – State and Local Government Series (the "Government Obligations") and to funding, if needed, a cash deposit in such account. The Escrow Agreement will require that maturing principal of and interest on the Government Obligations, plus any initial cash deposit, be held in trust in such account and paid to the Commonwealth solely for the payment of the principal of and redemption premium, if any, and interest on the Refunded Bonds. According to the report described in "VERIFICATION OF MATHEMATICAL COMPUTATIONS," the Government Obligations 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 to and including their respective maturity or redemption dates, each as set forth in Appendix B.

The Commonwealth will enter into separate master interest exchange agreements with Lehman Brothers Derivative Products, Inc. and Salomon Swapco Inc. (each, a "Counterparty"), with notional amounts of $299,712,000 and $199,808,000, respectively, in order to achieve a synthetic fixed rate in respect of the Bonds while they are in the Weekly Mode or Daily Mode. The Commonwealth will enter into transactions with each Counterparty under the respective master interest exchange agreements providing, in essence, that such Counterparty, as the floating rate payor, is obligated to pay to the Commonwealth the amount of the actual variable interest rates on the Bonds, and the Commonwealth, as the fixed rate payor, is obligated to pay to such Counterparty a specified fixed rate. Under certain circumstances, the Counterparties' payment obligation could become tied to a general floating rate index rather than to the actual interest rates on the Bonds.

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 May Information Statement under the headings "COMMONWEALTH REVENUES – Limitations on Tax Revenues" and "COMMONWEALTH BOND AND NOTE LIABILITIES – Limit on Debt Service Appropriations."

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

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 May Information Statement under the heading "LITIGATION" and the Supplement under the heading "UPDATE OF EXISTING LITIGATION."

BOOK-ENTRY-ONLY SYSTEM

The Depository Trust Company, New York, New York ("DTC"), will act as securities depository for the Bonds. The Bonds will initially be issued exclusively in book-entry form, and one or more fully registered Bonds for each series 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 settlement among DTC

Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in accounts of the DTC Participants, thereby eliminating the need for physical movement of securities certificates. DTC Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is owned by a number of the DTC Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc. and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as banks, securities brokers and dealers, and trust companies 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.

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, but Beneficial Owners are expected to receive written confirmations of their purchase providing details of the Bonds acquired, 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 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. The deposit of the Bonds with DTC and their registration in the name of Cede & Co. effect no 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 Cede & Co. 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. 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 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.

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, unless a substitute depository is retained by the Commonwealth, 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 determine that continuation of the system of book-entry transfers through DTC (or a successor depository) is not in the best interest of the Beneficial Owners. In such event, Bonds will be delivered and registered as designated by the Beneficial Owners.

The principal of and interest on the Bonds will be paid to DTC or its nominee, Cede & Co., as registered owner of the Bonds. Upon receipt of moneys, DTC's practice is to credit the accounts of the DTC Participants on the payable date in accordance with their respective holdings shown on the records of DTC unless DTC has reason to believe it will not receive payment on the payable date. 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 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.

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

RATINGS

The Commonwealth has applied to Fitch IBCA, Inc., Moody's Investors Service, Inc. and Standard & Poor's Ratings Service for ratings on the Bonds. Ratings are expected to be assigned at or about the time that the initial interest rate is determined and may be ascertained by contacting the Underwriter or the Commonwealth. Ratings may also be published on Bloomberg.

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

UNDERWRITING

The Underwriter has agreed, subject to certain conditions, to purchase all of the Bonds from the Commonwealth at a discount from the initial offering price of the Bonds equal to .142% 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 cover page hereof.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

Ernst & Young LLP, a firm of independent public accountants will deliver to the Commonwealth, on or before the settlement date of the Bonds, its attestation report indicating that it is has examined, in accordance with standards established by the American Institute of Certified Public Accountants, the information and assertions provided by the Commonwealth and its representatives. Included in the scope of its examination, will be a verification of the mathematical accuracy of (a) the mathematical computations of the adequacy of the cash and the maturing principal of and interest on, the Government Obligations to pay, when due, the maturing principal of, interest on and related call premium requirements of the Refunded Bonds being refunded from proceeds of the Bonds and (b) the mathematical computations supporting the conclusion of Bond Counsel that the Bonds are not "arbitrage bonds" under the Internal Revenue Code of 1986, as amended, and the regulations promulgated thereunder.

The examination performed by Ernst & Young LLP will be solely based upon data, information and documents provided to Ernst & Young LLP by the Commonwealth and its representatives. The Ernst & Young LLP report of its examination will state that Ernst & Young LLP has no obligation to update the report because of events occurring, or data or information coming to their attention, subsequent to the date of the report.

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 the interest on the Bonds is and continues to be excluded from the gross income of the 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, those requirements include restrictions on the use, expenditure and investment of proceeds of the Bonds 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 its 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 other federal tax consequences arising with respect 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 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% 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 S corporations that have Subchapter S 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 disqualify the recipient thereof from obtaining the earned income credit under Section 32(i) of the Code.

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

On the date of delivery of the Bonds, the original purchasers will be furnished with an opinion of Bond Counsel substantially in the form attached hereto as Appendix C - "Form of Opinion of Bond Counsel."

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 to the State Treasurer. The proposed form of the opinion of Bond Counsel relating to the Bonds is attached as Appendix C. Certain legal matters will be passed upon for the State Treasurer by Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C. of Boston, Massachusetts, as Disclosure Counsel to the State Treasurer. Certain legal matters will be passed upon for the Underwriter by its counsel, Palmer & Dodge LLP of Boston, Massachusetts.

CONTINUING DISCLOSURE

Even though Bonds in the Weekly Mode and in the Daily Mode are exempt from the provisions of Rule 15c2-12 of the Securities and Exchange Commission, the Commonwealth will undertake in the Bonds to provide annual reports and notices of certain events as if said Rule 15c2-12 applied. A description of this undertaking is set forth in Appendix D attached hereto. The Commonwealth has complied in all material respects with its existing undertakings to provide annual reports and notices of material events in accordance with Rule 15c2-12.

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

MISCELLANEOUS

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

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

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

AVAILABILITY OF OTHER INFORMATION

Questions regarding this Official Statement or requests for additional financial information concerning the Commonwealth should be directed to Jeffrey S. Stearns, Deputy Treasurer, Office of the Treasurer and Receiver-General, One Ashburton Place, 12th floor, Boston, Massachusetts 02108, telephone 617/367-3900, or Catherine R. Frazer, Director of Debt 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 or Navjeet Bal, Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., One Financial Center, Boston, Massachusetts 02111, telephone 617/542-6000.

THE COMMONWEALTH OF MASSACHUSETTS

By /s/ Joseph D. Malone
Joseph D. Malone
Treasurer and Receiver-General

By /s/ Frederick A. Laskey
Frederick A. Laskey
Secretary of Administration and Finance

September 2, 1998

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APPENDIX A

THE

COMMONWEALTH

OF

MASSACHUSETTS

INFORMATION STATEMENT SUPPLEMENT

Dated August 21, 1998

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Information Statement Supplement dated August 21, 1998

THE COMMONWEALTH OF MASSACHUSETTS

INFORMATION STATEMENT SUPPLEMENT

August 21, 1998

Specific reference is made to the Information Statement dated May 5, 1998 (the "May Information Statement") of The Commonwealth of Massachusetts (the "Commonwealth"), as it appears in the Official Statement dated April 30, 1998 of the Commonwealth with respect to its $250,000,000 General Obligation Bonds, Consolidated Loan of 1998, Series B (the "Official Statement"). A copy of the Official Statement has been filed with each Nationally Recognized Municipal Securities Information Repository currently recognized by the Securities and Exchange Commission and with the Municipal Securities Rulemaking Board. This supplement ("Supplement") to the May Information Statement is dated August 21, 1998 and contains information which updates the information contained in the May Information Statement. Exhibit A to this Supplement sets forth certain economic, demographic and statistical information concerning the Commonwealth. This Supplement and the May Information Statement must be read collectively and in their entirety in order to obtain the appropriate fiscal, financial and economic information concerning the Commonwealth through August 21, 1998. All capitalized terms not otherwise defined in this Supplement shall have the meanings ascribed to them in the May Information Statement.

RECENT DEVELOPMENTS

End of Formal Legislative Sessions

Pursuant to the joint rules of the House of Representatives and the Senate, the final formal session of the 1997-1998 legislative session occurred on July 31, 1998. See the May Information Statement under the heading "THE GOVERNMENT—Legislative Branch." It is expected that the Legislature will continue to meet in twice weekly informal sessions until the conclusion of the legislative session on January 5, 1999. Legislation that does not require a formal roll-call vote may be enacted in informal sessions with the unanimous consent of the members present. Bond authorizations and veto overrides are among the matters that require formal roll-call votes. The Legislature is also empowered to suspend its rules and convene in a formal session if each house votes to do so.

Fiscal 1999

The House of Representatives approved its version of the fiscal 1999 budget on May 7, 1998, and the Senate approved its version on June 3, 1998. After passage of two interim, partial budgets to provide for expenditures during the first 30 days of the fiscal year, the legislative conference committee appointed to reconcile the two versions of the fiscal 1999 budget released its report on July 20, 1998, and the budget was enacted by the Legislature on the same day. Acting Governor Cellucci approved it on July 30, 1998. The Governor vetoed or reduced appropriations totalling approximately $100.9 million. On July 31, 1998 the Legislature overrode several of those vetoes, restoring approximately $63.1 million of appropriations. After accounting for the value of vetoes and subsequent overrides, the budget provides for total appropriations of approximately $19.5 billion.

The fiscal 1999 appropriation for pension funding is approximately $965.3 million. This amount is consistent with the amount requested by the Acting Governor, but is approximately $93.9 million less than the amount required by the most recently approved pension funding schedule. The smaller appropriation is based on the assumption that a revised funding schedule will require reduced funding because of the 1997 change in law eliminating Commonwealth responsibility for funding cost-of-living adjustments incurred by local pension systems. A revised funding schedule has not yet been submitted to the Legislature. See the May Information Statement under the headings "1999 FISCAL YEAR" and "OTHER COMMONWEALTH LIABILITIES—Retirement Systems and Pension Benefits; *Pension Funding Plan.*"

The fiscal 1999 budget is based on a consensus tax revenue forecast of $14.4 billion, as agreed by both houses of the Legislature in May. The tax cuts incorporated into the budget, valued by the Department of Revenue at $990 million in fiscal 1999, had the effect of reducing the consensus forecast to $13.41 billion. See "State Taxes." Tax collections in July, 1998 totalled $895.5 million, an increase of $96.4 million, or 12.1%, over July, 1997. On August 19, 1998 the Executive Office for Administration and Finance raised the fiscal 1999 tax estimate by $200 million to $13.61 billion. This estimate does not reflect the Acting Governor's recommendation of an additional $287.5 million tax reduction pursuant to legislation he filed on August 10, 1998. See "Fiscal 1998 Year-end Surplus."

Fiscal 1998

Preliminary results indicate that tax collections for fiscal 1998 totalled approximately $14.026 billion, an increase of $1.161 billion, or 9.0%, over fiscal 1997, and approximately $326 million higher than the final estimate for the year made by the Executive Office for Administration and Finance. On May 5, 1998 the estimate for the year was raised from $13.154 billion to $13.3 billion, and on June 10, 1998 it was raised to $13.7 billion. Projected total fiscal 1998 expenditures are $18.887 billion, including approximately $123 million in anticipated additional fiscal 1998 supplemental appropriations. Among the anticipated appropriations are $46.1 million for Medicaid (see "Medicaid") and $8 million for environmental remediation of certain underground storage tanks in the Commonwealth. If such remediation efforts are not underway by December 23, 1998, the Commonwealth may be liable for substantial penalties imposed by the federal Environmental Protection Agency.

The Legislature has enacted several bills providing for disposition of the fiscal 1998 surplus, but it has not completed action on final fiscal 1998 appropriations. The final fiscal 1998 supplemental appropriation bill or bills are expected to authorize certain additional post-fiscal 1998 spending to be charged to fiscal 1998. Acting Governor Cellucci has also filed a bill calling for a one-time tax cut of $287.5 million to be charged to fiscal 1998. See "Fiscal 1998 Year-end Surplus."

Medicaid

Although the Commonwealth has undertaken a number of successful savings and cost control initiatives in the last five years, the Medicaid program has also expanded the income eligibility ceiling from 100% to 133% of the federal poverty level. In fiscal 1998, due to changes in state law and in the state's federal waiver, the Medicaid program enrolled over 150,000 new members. The original appropriations for this health care expansion, based on census data that was several years old, were estimated to fund 83,000 new members. As a result of this higher than expected enrollment, Acting Governor Cellucci has filed a request for supplemental appropriations of $46.1 million for the health care expansion portion of the Medicaid program. (The Medicaid funding level in the fiscal 1999 budget is sufficient to meet this higher than expected enrollment.) The requested appropriations are expected to bring fiscal 1998 spending to approximately $3.652 billion, an increase of 5.7% over fiscal 1997. Traditional Medicaid spending has remained within the appropriated spending amounts and expected population growth projections.

Fiscal 1998 Year-end Surplus

Legislation approved by Acting Governor Cellucci on July 21, 1998 increased the ceiling, effective June 30, 1998, on the amount that can be maintained in the Stabilization Fund from 5% to 7.5% of budgeted revenues. See the May Information Statement under the heading "COMMONWEALTH BUDGET, FINANCIAL MANAGEMENT AND CONTROLS—Operating Fund Structure; *Year-end Surpluses*." Based on current estimates of fiscal 1998 results, this change increased the statutory ceiling from approximately $984.8 million to approximately $1.477 billion. The current projected fiscal 1998 ending balance in the Stabilization Fund is $972.2 million, assuming enactment of additional tax cuts aggregating $287.5 million as proposed by the Acting Governor (see below).

In July, 1998 the Legislature also enacted several bills specifically providing for disposition of the fiscal 1998 surplus:

The fiscal 1999 budget approved by the Acting Governor on July 30, 1998 contains a provision calling for the Comptroller to transfer $162.5 million, as of June 30, 1998, from the General Fund to a newly established Tax Exemption Escrow Trust Fund. By June 30, 1999 the Comptroller is to transfer $162.5 million plus interest from the new fund back to the General Fund. The effect of this provision is to charge to fiscal 1998 the approximate cost allocable to fiscal 1998 of the retroactive income tax reductions approved by the Acting Governor on July 21, 1998. See "State Taxes."

On August 5, 1998, Acting Governor Cellucci approved legislation establishing a new Brownfields Revitalization Fund as of June 30, 1998 and providing for the transfer of $45 million to that fund, to be used through the 2001 fiscal year to fund a $15 million access to capital program to be administered by the Massachusetts Office of Business Development and a $30 million Brownfields Redevelopment Fund to be administered by the Massachusetts Development Finance Agency. The legislation also contains an additional $12 million in fiscal 1998 appropriations, which are made available through fiscal 2001, to fund brownfields-related costs of the Attorney General and the Department of Environmental Protection.

On August 10, 1998 Acting Governor Cellucci approved legislation establishing a Teacher Quality Endowment Fund and transferring $60 million from the General Fund into the new fund as of June 30, 1998. Earnings from the investment of moneys credited to the new fund are to be used by the state Commissioner of Education to pay signing bonuses to incoming teachers and salary bonuses to existing teachers under a new master teacher corps program. The corpus of the fund is to be left intact. The legislation also provided for the transfer from the General Fund, as of June 30, 1998, of $200 million to the Tax Reduction Fund (to be applied to a temporary increase in the personal exemptions applicable to 1998 income taxes) and $150 million to the Stabilization Fund (in addition to any other transfer required by state finance law). In addition, the legislation authorized approximately $62.9 million in additional revenues from the state lottery to be distributed to cities and towns on account of fiscal 1998.

Also on August 10, 1998 Acting Governor Cellucci gave his partial approval to legislation providing for a variety of capital appropriations to be charged to fiscal 1998. The bill enacted by the Legislature called for the transfer, as of June 30, 1998, of approximately $272.4 million from the General Fund and approximately $106.9 million from the Highway Fund to a Capital Improvement and Investment Trust Fund to finance various specified capital expenditures through fiscal 2000. Acting Governor Cellucci vetoed many of the proposed capital expenditures, reducing the amount of the General Fund transfer to approximately $96.2 million and the amount of the Highway Fund transfer to $93 million. The Governor filed legislation on the same day calling for an additional $287.5 million to be transferred to the Tax Reduction Fund. That bill has been referred to the House Committee on Ways and Means. Under existing law, the effect of the vetoes is to increase the amount of the fiscal 1998 surplus that will be credited to the Stabilization Fund and the Capital Projects Fund. See the May Information Statement under the heading "COMMONWEALTH BUDGET, FINANCIAL MANAGEMENT AND CONTROLS—Operating Fund Structure; *Year-end Surpluses*."

On August 12, 1998, Acting Governor Cellucci approved a fiscal 1998 supplemental appropriations bill providing for approximately $70.9 million in fiscal 1998 appropriations to be made available in fiscal 1999 to fund various collective bargaining agreements.

Cash Flow Statements

The cash flow statement for fiscal years 1998 and 1999 which was due on May 25, 1998 has not been released. The next cash flow statement is due on August 25, 1998. See the May Information Statement under the heading "COMMONWEALTH BUDGET, FINANCIAL MANAGEMENT AND CONTROLS—Cash Management Practices of State Treasurer."

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 1993 through 1997 and estimates for fiscal 1998 prepared by the Executive Office for Administration and Finance. The spending estimate for fiscal 1998 assumes approval by the Legislature of approximately $123 million of supplemental appropriations that have not yet been enacted. The financial information presented includes all budgeted operating funds of the Commonwealth. When the status of a fund has changed during this period, prior years have been restated to conform to the fiscal 1998 budget. See the May Information Statement under the heading "FINANCIAL RESULTS."

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

	Fiscal 1993	Fiscal 1994	Fiscal 1995	Fiscal 1996	Fiscal 1997	Estimated Fiscal 1998
Beginning Fund Balances						
Reserved or Designated	$236.2	$110.4	$79.3	$128.1	$263.4	$225.1
Tax Reduction Fund	-	-	-	-	231.7 (2)	91.8
Stabilization Fund	230.4	309.5	382.9	425.4	543.3	799.3
Undesignated	82.8	142.6	127.1	172.5	134.0	277.8
Fund Balance Restatement	-	-	-	-	0.7(3)	(128.0)(4)
Total	549.4	562.5	589.3	726.0	1,173.0	1,266.0
Revenues and Other Sources						
Taxes	9,929.9	10,606.7	11,163.4	12,049.2	12,864.5	14,026.1
Federal Reimbursements	2,674.1	2,901.2	2,969.7	3,039.1	3,019.6	3,370.3
Departmental and Other Revenues	1,327.1	1,187.9	1,273.1	1,208.1	1,267.9	1,288.4
Interfund Transfers from Non-budgeted Funds and Other Sources	778.5	853.9	981.0	1,031.1	1,018.0	1,011.8
Budgeted Revenues and Other Sources	14,709.6	15,549.7	16,387.2	17,327.5	18,170.0	19,696.6
Mass Transit Assessments from Municipalities	137.4	140.4	143.9	147.6	151.5	152.1
Interfund Transfers among Budgeted Funds and Other Sources	358.7	289.1	399.7	896.2	901.8	1,135.2
Total Revenues and Other Sources	15,205.7	15,979.2	16,930.8	18,371.3	19,223.3	20,983.9
Expenditures and Uses						
Programs and Services	12,683.6	13,416.2	14,010.3	14,650.7	15,218.8	16,157.3
Debt Service	1,139.5	1,149.4	1,230.9	1,183.6	1,275.5	1,238.8
Pensions	868.2	908.9	968.8	1,004.6	1,069.2	1,069.9
Interfund Transfers to Non-budgeted Funds and Other Uses (1)	5.1	48.4	40.4	42.2	385.5	421.1
Budgeted Expenditures and Other Uses	14,696.4	15,522.9	16,250.5	16,881.1	17,949.0	18,887.1
Payment of Municipal Mass Transit Assessments to the MBTA and RTA's	137.4	140.4	143.9	147.6	151.5	152.1
Interfund Transfers among Budgeted Funds and Other Uses	358.7	289.1	399.7	896.2	901.8	1,135.2
Total Expenditures and Other Uses	15,192.6	15,952.4	16,794.1	17,924.9	19,002.3	20,174.4
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	13.1	26.8	136.7	446.4	221.0	809.5
Transfer of Excess to Capital Projects Fund	--	--	--	--	--	(0.3) (5)
Net Balance	--	--	--	--	--	809.2
Ending Fund Balances						
Reserved or Designated	110.4	79.3	128.1	263.4	225.1	203.7
Tax Reduction Fund	--	--	--	231.7 (2)	91.8	491.0 (6)
Tax Exemption Escrow Trust Fund	--	--	--	--	--	162.5 (7)
Stabilization Fund	309.5	382.9	425.4	543.3	799.3	972.2
Undesignated	142.6	127.1	172.5	134.0	277.8	245.9
Total	$562.5	$589.3	$726.0	$1,172.4	$1,394.0	$2,075.3

SOURCE: Fiscal 1993-1997, Office of the Comptroller; fiscal 1998, Executive Office for Administration and Finance.

1. Includes transfers to the Capital Investment Trust Fund (see the May Information Statement under the heading "1997 FISCAL YEAR END SURPLUS") and the Capital Improvement and Investment Trust Fund (see "Fiscal 1998 Year-end Surplus") for fiscal 1997 and fiscal 1998, respectively.
2. Represents excess amount of $81.7 million transferred from the Stabilization Fund to the Tax Reduction Fund and a $150 million appropriation made to the Tax Reduction Fund.
3. The fund balance restatement for fiscal 1997 is the result of the reclassification of the Drug Analysis Fund from a non-budgeted fund to a budgeted fund.
4. The fund balance restatement for fiscal 1998 relates to the Caseload Increase Mitigation Fund. See the May Information Statement under the heading "1997 FISCAL YEAR END SURPLUS."
5. The amount of any Capital Project Fund transfer will be determined by the Comptroller when the books are closed for fiscal 1998 on

October 31, 1998. After the books are closed, such amount will be treated as an interfund transfer to non-budgeted funds and other uses.
6. Assumes enactment of legislation filed by the Acting Governor on August 10, 1998 providing for an additional transfer of $287.5 million to the Tax Reduction Fund. See "Fiscal 1998 Year-end Surplus." If such legislation is not enacted, state finance law provides that an additional $172.5 million will be transferred to the Stabilization Fund and $115 million will be transferred to the Capital Projects Fund. See the May Information Statement under the heading "COMMONWEALTH BUDGET, FINANCIAL MANAGEMENT AND CONTROLS—Operating Fund Structure; *Year-end Surpluses.*"
7. See "Fiscal 1998 Year-end Surplus."

State Taxes

On July 21, 1998, Acting Governor Cellucci approved legislation reducing the rate of tax on "Part A" income (interest and dividends) from 12% to 5.95%, effective January 1, 1999. The fiscal 1999 cost is estimated to be $117 million; the fully annualized cost is estimated to be $239 million. The legislation also phased in a doubling of the personal exemptions applicable to the "Part B" ("earned") income tax, effective January 1, 1998, with an estimated fiscal 1999 cost of $600 million (which includes costs for January 1, 1998 to June 30, 1998) and an estimated fully annualized cost of $492 million. In addition, the legislation conformed state tax law to federal law with respect to Roth and educational IRA's, deferred compensation, capital gains on the sale of a personal residence, travel and entertainment deductions and the definition of short-term capital gains. The estimated aggregate fiscal 1999 cost of these additional changes is less than $5 million, and the estimated aggregate annualized cost, excluding the Roth IRA, is also less than $5 million. The full impact of the Roth IRA change will only be felt as those now contributing to Roth IRA's withdraw their investments, over a period starting more than 20 years from now. The amount of the tax cut due to the Roth IRA change depends on many factors, including the amounts invested, rates of return earned on those investments and the period over which the earnings are withdrawn. No definite estimate is currently available for events so far into the future. See the May Information Statement under the heading "COMMONWEALTH REVENUES—State Taxes; *Income Tax.*"

On July 1, 1998, the proponents of the initiative petition to change the rate on Part B income to the same rate applicable to Part A income filed sufficient additional signatures to place the proposal on the November, 1998 ballot. In light of the subsequent enactment of the legislation described above, the petition would have no effect on the Part B income tax rate unless the Part A rate were to be changed from its current level of 5.95%. See the May Information Statement under the heading "COMMONWEALTH REVENUES—State Taxes; *Income Tax.*"

On August 10, 1998, Acting Governor Cellucci approved legislation that will reduce insurance company taxes over five years in essentially the manner provided in the legislation approved by the House of Representatives on April 30, 1998, though the enacted legislation, unlike the House bill, does not eliminate the 14% surcharge on the gross premium income of property and casualty insurers. The estimated fiscal 1999 cost of these changes is $5 million, and the estimated fully phased-in aggregate annual value of these tax reductions is $48 million. See the May Information Statement under the heading "COMMONWEALTH REVENUES—State Taxes; *Insurance Taxes.*"

As noted above under "Fiscal 1998 Year-end Surplus," on August 10, 1998 Acting Governor Cellucci also approved legislation that transfers $200 million to the Tax Reduction Fund as of June 30, 1998. The legislation directs the Commissioner of Revenue to increase 1998 tax year personal exemptions so as to reduce aggregate taxes by the balance in the Tax Reduction Fund as of December 31, 1998, including any interest earned on the fund's balances. The Executive Office for Administration and Finance estimates that by December 31, 1998 the Tax Reduction Fund will have a balance of approximately $210 million. The personal exemption increases authorized under this legislation are for the 1998 tax year only. In subsequent years, personal exemptions will revert to their statutorily authorized levels. As also noted above, on August 10, 1998 Acting Governor Cellucci filed legislation calling for the transfer of an additional $287.5 million to the Tax Reduction Fund as of June 30, 1998.

The Government

On August 13, 1998, Acting Governor Cellucci approved legislation abolishing county government in Hampshire, Essex and Berkshire Counties on January 1, 1999, July 1, 1999 and July 1, 2000, respectively, generally as provided in the 1997 legislation that abolished county government in Middlesex, Hampden and Worcester counties. See the May Information Statement under the heading "THE GOVERNMENT—Local Government." The Secretary of

Administration and Finance is to conduct an audit of all remaining county assets and liabilities and report to the Legislature by February 1, 1999. The Secretary is also to analyze, in consultation with the Public Employee Retirement Administration Commission, the potential cost to the Commonwealth of transferring current and retired county employees to the state retirement system and report to the Legislature by December 31, 1998. Acting Governor Cellucci vetoed provisions in the legislation that would have placed responsibility for county retirees on the remaining municipalities making up the county retirement system.

Five-Year Capital Spending

The following table sets forth the Commonwealth's current five-year capital plan. See the May Information Statement under the heading "COMMONWEALTH CAPITAL SPENDING—Five-Year Capital Spending Plan." Except with respect to fiscal 1998, which includes $50 million for fiscal 1997 expenditures, the table assumes that all Commonwealth bonds related to a particular year's expenditures will be issued in the same year. In practice, Commonwealth capital expenditures usually occur prior to the issuance of the related bonds. Accordingly, it is customary for some Commonwealth bonds to be issued in a subsequent fiscal year to finance capital expenditures made in the prior fiscal year.

The five-year capital plan does not include expenditures from the Capital Investment Trust Fund (see the May Information Statement under the heading "1997 FISCAL YEAR END SURPLUS"), the Capital Improvement and Investment Trust Fund (see "Fiscal 1998 Year-end Surplus") or capital expenditures from any potential year-end surplus (see the May Information Statement under the heading "COMMONWEALTH BUDGET, FINANCIAL MANAGEMENT AND CONTROLS—Operating Fund Structure; *Year-end Surpluses*").

Summary of Five-Year Capital Spending Plan and Plan of Finance
(in millions)

	1998	1999	2000	2001	2002	Total
Uses of Funds						
Information Technology	$ 56	$ 48	$ 29	$ 29	$ 29	$ 191
Infrastructure	237	214	202	202	202	1,057
Environment	93	119	105	105	105	527
Wastewater Treatment	8	4	35	35	35	117
Housing	67	67	71	71	71	347
Transportation						
Central Artery/Tunnel Project	1,435	1,671	1,575	1,079	568	6,328
All Other	492	535	417	430	482	2,355
Transportation Subtotal	1,927	2,206	1,992	1,508	1,050	8,683
Public Safety	15	9	9	9	9	51
Economic Development	66	51	36	36	36	225
Total Uses	$ 2.469	$ 2.718	$ 2.479	$ 1.995	$ 1.537	$ 11.198
Sources of Funds						
Commonwealth Long Term Debt	$ 1,050	$ 1,000	$ 1,000	$ 1,000	$ 1,000	$ 5,050
Commonwealth Notes	0	0	0	80	55	135
Third Party-Supported Expenditures	245	670	412	131	31	1,489
Grant Anticipation Notes	294	450	521	235	0	1,500
Federal Aid	930	598	547	550	450	3.074
Total Sources	$ 2.519	$ 2.718	$ 2.479	$ 1.995	$ 1.537	$ 11.248

SOURCE: Executive Office for Administration and Finance.

Due to the size and complexity of the Commonwealth's capital program, and other factors, the timing and amount of actual capital expenditures and debt issuances over the period will likely vary somewhat from the annual spending amounts contained in the five-year capital spending plan.

On July 1, 1998, the responsibility for monitoring the five-year capital plan was transferred from the Executive Office for Administration and Finance to the Fiscal Affairs Division (formerly Budget Bureau) within the

Executive Office. The Fiscal Affairs Division is reviewing agency spending plans and expects in September, 1998 to complete its review and publish a revised five-year capital spending plan incorporating spending projections through fiscal 2003, consistent with the current $1 billion administrative limit on the amount of bond-financed state capital spending.

Federal Highway Funding

On June 9, 1998, the President approved the Transportation Equity Act for the 21st Century ("TEA-21"), successor legislation to the Intermodal Surface Transportation Efficiency Act of 1991. See the May Information Statement under the heading "COMMONWEALTH CAPITAL SPENDING—Five-Year Capital Spending Plan." Technical corrections to TEA-21 were approved by the President on July 22, 1998. TEA-21, as amended, clarifies the amount of federal highway aid the Commonwealth can expect to receive through federal fiscal year 2003. (Federal fiscal years end on September 30.) According to the Federal Highway Administration, Commonwealth apportionments for those years are as follows: $642.9 million in federal fiscal year 1998, $486.9 million in federal fiscal year 1999, $496.8 million in federal fiscal year 2000, $506.0 million in federal fiscal year 2001, $515.5 million in federal fiscal year 2002 and $525.0 million in federal fiscal year 2003. As a result of the annual Congressional appropriations process, it is likely that the Commonwealth will receive an annual obligation authority ceiling at the outset of each year that is less than 100% of the estimated apportionments during the six-year life of the legislation. ("Obligation authority" is the amount of federal funds that a state can obligate in a given federal fiscal year.) Additional funding may be available at the end of each federal fiscal year through Federal Highway Administration redistributions of unused obligation authority from states unable to use their full amount to those states with the greatest need.

For federal fiscal year 1998, the Commonwealth's total obligation authority, not including any redistribution benefit, is $567.6 million, or 88% of its TEA-21 apportionment. For federal fiscal year 1999, both houses of Congress have passed appropriations bills that set the nationwide obligation authority at 90% of the TEA-21 apportionment level for that year. These bills are now subject to conference committee negotiations. If the 90% funding level survives conference committee and is included in the appropriations bill both houses pass into law, the Federal Highway Administration will use the appropriations bill to apply distribution formulas set in TEA-21 to establish state-by-state obligation authority ceilings. Under such a scenario, the 10% initial reduction in funding is expected to be spread evenly among the states.

For financial planning purposes in the project finance plans for the Central Artery/Ted Williams Tunnel project, the Federal Highway Administration allows the Commonwealth to assume obligation authority equal to 100% of the annual apportionment, but no redistribution. Accordingly, the Commonwealth's five-year capital plan assumes federal highway aid equal to 100% of the TEA-21 apportionments for the 1999 fiscal year and beyond. For fiscal 1998, the plan assumes the $567.6 million in obligation authority already made available to Massachusetts with no consideration given for redistribution. See "Five-Year Capital Spending Plan."

Metropolitan Highway System

On June 23, 1998 the Supreme Judicial Court ruled that the Attorney General had improperly certified the initiative petition that would have prohibited the collection of tolls relating to the Metropolitan Highway System, the Massachusetts Turnpike and the Tobin Bridge because the petition involved matters excluded from the initiative petition process by the state constitution. Accordingly, the petition will not be placed before the voters. See the May Information Statement under the heading "COMMONWEALTH CAPITAL SPENDING—Metropolitan Highway System."

On May 18, 1998 Acting Governor Cellucci approved legislation authorizing a $1.5 billion federal highway grant anticipation note program. See the May Information Statement under the heading "COMMONWEALTH CAPITAL SPENDING—Proposed Capital Spending Authorizations." This legislation amended the original grant anticipation note authorization enacted in 1997 by providing authorization for the issuance of up to $1.5 billion in grant anticipation notes to provide partial funding for the Central Artery/Ted Williams Tunnel project and establishing a Federal Highway Grant Anticipation Note Trust Fund as the primary credit support for grant anticipation note financings. The legislation 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 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 legislation authorizes the issuance of notes yielding aggregate net proceeds of up to $1.5 billion, to mature no later than June 30, 2015, although the amount of notes that can be issued is currently capped at $900 million, the amount of the capital appropriation that was enacted in connection with the initial grant anticipation note authorization in 1997, until additional spending is authorized. An increase in the related appropriation item is expected to be requested by the Governor in early 1999. On June 30, 1998 the Commonwealth issued grant anticipation notes with a face amount of $600 million, yielding net proceeds of approximately $580.6 million and maturing between fiscal 2006 and fiscal 2015, inclusive. Under the trust agreement securing the notes, which will secure the entire $1.5 billion program, aggregate annual debt service on grant anticipation notes may not exceed $216 million.

On August 7, 1998, Acting Governor Cellucci approved legislation authorizing advances from the state treasury, effective as of June 30, 1998, and the issuance of up to $600 million of general obligation notes in anticipation of contributions to the Central Artery/Ted Williams Tunnel project expected to be made by the Massachusetts Port Authority and the Massachusetts Turnpike Authority. Such notes must mature by June 30, 2007. This legislation will enable the Commonwealth to reimburse certain expenses incurred by the project in fiscal 1998 by the issuance of such notes, as envisioned by the project finance plan. As contemplated by the September 12, 1997 memorandum of understanding between the Turnpike Authority and the Executive Office for Administration and Finance, this legislation also provides for the Commonwealth to enter into a contract with the Turnpike Authority providing for payments by the Commonwealth of up to $25 million per year for forty years for the operation and maintenance of the Central Artery following the transfer of operating responsibility for the Central Artery from the Massachusetts Highway Department to the Turnpike Authority. The legislation provides that the contract will be a general obligation of the Commonwealth for which the the faith and credit of the Commonwealth will be pledged for the benefit of the Turnpike Authority and of the holders of any bonds or notes of the Turnpike Authority which may be secured by a pledge of the contract or of amounts to be received by the Turnpike Authority under the contract. See the May Information Statement under the heading "COMMONWEALTH CAPITAL SPENDING—Metropolitan Highway System" and "–Proposed Capital Spending Authorizations."

On July 23, 1998 a joint asset assessment study was submitted to the Legislature by the Executive Office for Administration and Finance, the Department of the State Auditor, the Division of Capital Planning and Operations, the Turnpike Authority and the Port Authority, as required by legislation approved in March, 1997. See the May Information Statement under the heading "COMMONWEALTH CAPITAL SPENDING—Metropolitan Highway System." The 1997 legislation required that the study identify any additional segments of the Metropolitan Highway System and the value of such segments that might be acquired by the Port Authority in connection with an additional payment of up to $100 million to the Commonwealth. The study concludes that the Port Authority has the capacity to finance the acquisition of roadways valued at up to $300 million and recommends that certain roadways identified in the study be transferred to the Port Authority in exchange for payments totalling up to $300 million, based on the value to the Port Authority of the acquired roadways as determined in accordance with a methodology described in the study. On August 13, 1998 the Port Authority and the Executive Office for Administration and Finance entered into a new memorandum of understanding, superseding the July 25, 1997 memorandum of understanding, which acknowledges the $12,115,000 payment made by the Port Authority in September, 1997 and provides that the Port Authority will, subject to a definitive agreement among the Port Authority, the Massachusetts Highway Department and the Turnpike Authority with respect to the Port Authority's paying $300 million in the aggregate for the assets identified in the joint study, make payments to the Commonwealth according to the following schedule: $30,735,000 in fiscal 1999, $52,236,000 in fiscal 2000, $104,914,000 in fiscal 2003, $50 million in fiscal 2004 and $50 million in fiscal 2005. The Port Authority has also agreed to use diligent efforts to enter into an agreement with the Turnpike Authority and the Massachusetts Highway Department by September 30, 1998.

On July 28, 1998, the State Auditor, who had participated in the joint asset assessment study, issued a report which, among other items, questions whether the transfer of cash from the Port Authority to the Commonwealth and the transfer of roadway assets from the Commonwealth to the Port Authority can lawfully be consummated as planned. The report acknowledges that officials at the Federal Highway Administration and the Central Artery/Ted Williams Tunnel project have determined that the transaction can be consummated as planned. Other Commonwealth officials and the Port Authority have made a similar determination.

The table below presents the projected sources and uses of funds for the Central Artery/Ted Williams Tunnel project from fiscal 1998 to fiscal 2005, inclusive. The table is based on the project's construction cost review as of March 31, 1998 and reflects federal highway reimbursement projections that are consistent with expected funding levels under TEA-21. (As noted above, the table assumes receipt of the full state apportionment under TEA-21. See "Federal Highway Funding.") Federal reimbursements are projected to be slightly lower than the average apportionment of $550 million per year that the Commonwealth had assumed prior to the passage of TEA-21. Federal reimbursements through fiscal 2005 are approximately $141 million lower than previous estimates. The Commonwealth has increased its general obligation funding for the project by approximately $36 million, consistent with the $1 billion annual capital spending plan limitation. An additional $100 million will be provided from the Massachusetts Turnpike Authority to be received in fiscal 2000, bringing the Turnpike Authority's contribution to $1.3 billion financed from the combination of future toll increases, operating efficiencies and additional non-toll revenues.

Central Artery Construction Cash Flow
(in thousands)

	1998	1999	2000	2001	2002	2003	2004	2005	Total
Central Artery Construction Uses	$1,434,711	$1,670,516	$1,575,204	$1,078,905	$568,322	$322,958	$241,579	$28,197	$6,920,392
Central Artery Construction Sources									
Federal highway reimbursements	$787,699	$419,608	$417,264	$433,477	$331,734	$257,759	$190,214	$16,849	$2,854,604
Commonwealth general obligation bonds and bond anticipation notes	107,900	131,000	225,000	280,000	205,302	61,998	44,092	10,496	1,065,788
Third-party payments and notes issued in anticipation thereof	245,051	669,828	411,759	130,750	31,286	3,201	7,273	852	1,500,000
Federal grant anticipation notes	294,061	450,080	521,181	234,678	0	0	0	0	1,500,000
Total Sources	$1,434,711	$1,670,516	$1,575,204	$1,078,905	$568,322	$322,958	$241,579	$28,197	$6,920,392

Interim Debt Schedule
(in thousands)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	Total
Issuance													
Federal grant anticipation notes	$294,061	$450,080	$521,181	$234,678	0	0	0	0	0	0	0	0	$1,500,000
Notes in anticipation of third-party payments	232,936	73,154	190,433	65,750	22,993	0	0	0	0	0	0	0	585,266
Bond anticipation notes	0	0	0	80,000	55,302	0	0	0	0	0	0	0	135,302
Total Issuance	$526,997	$523,234	$711,614	$380,428	$78,295	0	0	0	0	0	0	0	$2,220,568
Interim Debt Retirement													
Federal reimbursements	0	0	0	0	0	$88,414	$205,630	$267,414	$275,000	$275,000	$275,000	$113,542	$1,500,000
Third-party payments	0	0	0	0	0	493,391	42,727	49,148	0	0	0	0	585,266
General obligation bonds	0	0	0	0	0	38,002	35,908	61,392	0	0	0	0	135,302
Total Retirement	0	0	0	0	0	$619,807	$284,265	$377,954	$275,000	$275,000	$275,000	$113,542	$2,220,568

SOURCE: Executive Office for Administration and Finance

Update of Proposed Capital Spending Authorizations

On July 28, 1998 Acting Governor Cellucci approved a revised version of the bond authorization bill that former Governor Weld had vetoed on May 16, 1997. The 1998 legislation authorizes $730.3 million of capital spending, to be funded by Commonwealth general obligation bonds, for courthouses owned and to be owned by the Commonwealth.

On August 7, 1998 Acting Governor Cellucci approved legislation authorizing $296 million in Commonwealth general obligation bonds to finance the renovation of existing public housing units and other low-income housing creation and improvement projects.

On July 28, 1998 the House of Representatives rejected the Senate version of the Foxboro Stadium legislation and approved a slightly modified version of its earlier bill. No further action was taken by the Senate prior to the conclusion of the last scheduled formal legislative session on July 31, 1998.

On June 30, 1998 the House of Representatives approved MBTA bond legislation that would have authorized the Massachusetts Bay Transportation Authority to issue an additional $315.7 million of bonds to be backed by 90% Commonwealth contract assistance and would also have authorized the issuance of $675 million of Commonwealth general obligation bonds to "forward fund" the operations of the MBTA as contemplated by the legislation earlier approved by the House Committee on Ways and Means. On July 31, 1998 the Senate approved a modified version of the bill providing for $143.2 million of MBTA bonds and eliminating the forward-funding provisions. A conference committee was appointed to reconcile the differences between the two bills, but the committee did not release its report prior to the conclusion of the last scheduled formal legislative session on July 31, 1998.

The legislation approved by Acting Governor Cellucci on August 10, 1998 establishing the Capital Improvement and Investment Trust Fund also authorized the issuance of $10 million of Commonwealth general obl.igation bonds for a program of loan guaranties and interest subsidies to disabled homeowners who need to modify their homes.

On April 28, 1998 Acting Governor Cellucci filed legislation to provide for the widening and improvement of state Route 3 North by means of a design/build procurement and private financing. Under the bill, the Secretary of Transportation and Construction would solicit proposals from private developers to enter into a lease/lease-back arrangement with the Massachusetts Highway Department for a term of up to 40 years. The credit of the Commonwealth would not be pledged to the payment of any debt instruments issued for the project. On May 15, 1998 the Executive Office of Transportation and Construction and the Highway Department issued a request for qualifications/proposals consistent with the proposed legislation, estimating the cost of the project to be $200 million and contemplating the issuance of tax exempt bonds by a special purpose "63-20" corporation. On July 20, 1998 the Legislature's Committee on Transportation approved a revised version of the legislation, limiting the cost of the project to $200 million, requiring any debt to be tax exempt and limiting the annual lease payments to be made by the Highway Department to $18 million. Otherwise, the Secretary of Transportation and Construction would have to receive specific approval of the agreement with the developer from the Transportation Committee. On July 30, 1998 the House of Representatives approved the bill. On July 31, 1998 the Senate approved an amended version of the bill, limiting the term of the arrangement to the lesser of 25 years or the useful life of the project, limiting the aggregate cost, including interest expense, to $265 million and requiring a project labor agreement. Later that day, the House rejected the Senate amendments. The bill awaits further action by the Senate.

On July 1, 1998 the House of Representatives approved legislation that would authorize the issuance of $134 million in Commonwealth general obligation bonds for the purpose of preserving and maintaining certain real property assets of the Commonwealth. On July 31, 1998 the Senate approved a revised version of the bill providing for $293 million in new bond authorizations. The House rejected certain provisions in the Senate bill, and no final legislative action was taken prior to the conclusion of the final scheduled formal legislative session.

Update of Existing Litigation

In *Hodge v. Gallant* (Suffolk Superior Court No. 93-0290G), the parties have stipulated to the dismissal of the case.

In *Massachusetts Wholesalers of Malt Beverages s. Commonwealth* (Suffolk Superior Court No. 90-1523), litigation with the remaining group of plaintiffs, the Massachusetts Wholesalers of Malt Beverages has been settled. The Legislature has appropriated approximately $8 million to implement the terms of the resulting judgment.

In *Perini Corporation v. Commissioner of Revenue* (Supreme Judicial Court No. 6657) the Department of Revenue has paid approximately $17 million to date in abatements in accordance with the judgment rendered in the case. To date, the total amount for abatements requested, including those that have been paid, and that are in the process of being evaluated, is $35 million.

In *Spaulding Rehabilitation Hospital Corporation v. Massachusetts Highway Department* (Suffolk Superior Court No. 95-4360C), the plaintiff has appealed the Superior Court's judgment for the Commonwealth dismissing the complaint.

Commonwealth of Massachusetts v. Ruggles Center Joint Venture (Suffolk Superior Court No. 47-1764-A) and *Ruggles Center, LLC v. Beacon Construction Corporation* (Suffolk Superior Court No. 96-0637-E) have been consolidated for discovery. Total potential liability to the Commonwealth in these cases is approximately $35 million.

In *DiBiase v. Commissioner of Insurance* (Supreme Judicial Court No. 7754), the Supreme Judicial Court has ordered direct appellate review of the case.

In *Boston Wharf Co. v. Commonwealth of Massachusetts* (Suffolk Superior Court No. 96-0028), judgment was entered on April 22, 1998 which requires the Commonwealth to pay $16 million.

Thomas Rich v. Commonwealth of Massachusetts (Norfolk Superior Court No. 94-2319) and *Shea v. Commonwealth* (Norfolk Superior Court No. 97-1070-B) are eminent domain cases concerning property in the City of Quincy. The Commonwealth faces a potential liability of $30 million. The cost of remediation of contaminated soil will also be an issue.

Pursuant to a verdict on the Trilling Way parcel in *P&P Realty Co., Inc. v. Department of Public Works* (Suffolk Superior Court No. 92-2081), the Commonwealth will pay $6 million. The Commonwealth's total potential liability remains $22 million.

YEAR 2000 COMPLIANCE

The "year 2000 problem" is the result of shortcomings in many electronic data processing systems and other equipment that make operations beyond the year 1999 troublesome. For many years, computer programmers eliminated the first two digits from a year when writing programs. Accordingly, many programs, if not corrected, will not be able to distinguish between the year 2000 and the year 1900. This may cause the programs to process data inaccurately or to stop processing data altogether. Another factor that may cause problems in programs is that some programs are unable to detect the year 2000 as a leap year. Problems affecting a wide range of governmental activities are likely to result if computers and other electronic equipment that are dependent upon date-sensitive coding are not corrected. These problems have the potential for causing a disruption of government services.

In June, 1997, the Executive Office for Administration and Finance established a Year 2000 Program Management Office within its Information Technology Division. The purpose of the office is to ensure accurate monitoring of the Commonwealth's progress in achieving "year 2000 compliance," *i.e.*, remediating or replacing and redeploying affected systems, as well as to identify risk areas and risk mitigation activities and serve as a resource for all state agencies and departments. The program management office has asked agencies to identify "mission critical" and "essential" systems. Mission critical systems are those which directly affect the health, safety or livelihood of citizens, which directly affect state revenues or whose loss would severely jeopardize agency delivery of services. Essential systems are those whose loss would cause a disruption of some agency services but would not prevent the agency from delivering primary services. The most recent report issued by the program management office on July 22, 1998 for the April-June, 1998 quarter indicates that the office is currently monitoring year 2000 compliance efforts for 169 state agencies, including independent agencies and constitutional offices. The office assigns a quarterly status code – green (low risk), yellow (medium risk) or red (significantly high risk) – to agencies based on information collected from telephone and personal interviews. The criteria for the status codes becomes increasingly more stringent each quarter; the status codes for the most recent quarter are based on the likelihood for achieving year 2000 compliance with respect to mission critical systems by January 31, 1999 and with respect to essential systems by May 31, 1999. Of the 169 state agencies rated for the April-June, 1998 quarter, 110 were rated green, 27 were rated yellow and 32 were rated red. Those agencies have identified 261 mission critical systems and 192 essential systems; 173, or 66%, of the mission critical systems and 115, or 60%, of the essential systems are not yet compliant. The report notes that approximately 20% of the agencies had regressed on their compliance efforts, adding to the number of high-risk systems. There are still agencies that do not have effective compliance projects in place. Few agencies have begun to address the need for contingency planning. The report also notes that year 2000 exposure for "embedded systems," particularly devices used for control systems is high. This exposure affects only a few agencies, but the impact of failures would be significant, *e.g.*, switches and signals for the MBTA, a variety of systems at Logan Airport for the Port Authority, toll collection and ticket systems for the Turnpike Authority, water and sewer management and treatment systems for the Massachusetts Water Resources Authority and traffic signals for the Massachusetts Highway Department.

Legislation approved by the Acting Governor on August 10, 1998 appropriates $20.4 million for expenditure by the Information Technology Division to achieve year 2000 compliance for the six Executive Offices and other departments which report directly to the Governor. This amount, together with previously appropriated amounts and expenditures at the departmental level from existing funds, is anticipated to be sufficient to meet most of the remediation efforts for such Executive Offices and departments. The Secretary of Administration and Finance is to report quarterly to the Legislature on the progress being made to address the year 2000 compliance efforts, and to assess the sufficiency of funding levels.

COMMONWEALTH BOND AND NOTE LIABILITIES

The following table sets forth the Commonwealth bond and note liabilities outstanding as of July 1, 1998.

Commonwealth Bond and Note Liabilities
July 1, 1998
(in thousands)

	Long-Term	(1)	Short-Term	
COMMONWEALTH DEBT				
General Obligation Debt	$ 9,803,288	(2)	0	
Special Obligation Debt	606,005		0	
Federal Grant Anticipation Notes	600.000	(3)	0	
Subtotal Commonwealth Debt	11.009.293		0	
COMMONWEALTH-SUPPORTED DEBT				
Massachusetts Bay Transportation Authority	3,210,730	(4)	$325,000	(5)
Massachusetts Convention Center Authority	116,259		0	
Massachusetts Government Land Bank	85,645		0	
Boston Metropolitan District	38,992		0	
Steamship Authority	34,123		5,000	
Regional Transit Authorities	0		71.730	
Subtotal Supported Debt	3.485.749		401.730	
COMMONWEALTH-GUARANTEED DEBT				
Massachusetts Turnpike Authority	0		55,905	
Higher Education Building Authorities	234.069		0	
Subtotal Guaranteed Debt	234.069		55.905	
TOTAL COMMONWEALTH BOND AND NOTE LIABILITIES	$14.729.111		$457.635	

(1) Long-term debt includes discount and costs of issuance. Does not include long-term capital lease obligations. See the May Information Statement under the headings "COMMONWEALTH BOND AND NOTE LIABILITIES—Indirect Obligations; *Plymouth County Certificates of Participation*" and "OTHER COMMONWEALTH LIABILITIES—Long-Term Capital Leases."

(2) Includes interest on Commonwealth general obligation capital appreciation bonds to be accrued from July 1, 1998 through their maturity in the amount of $304.5 million. On August 1, 1998 the Commonwealth issued $17.7 million of general obligation bonds under the U. Plan. See the May Information Statement under the heading "COMMONWEALTH BOND AND NOTE LIABILITIES—General Obligation Debt; *U. Plan.*"

(3) See "Metropolitan Highway System."

(4) Includes bonds and refunding bonds, excluding such bonds that have been refunded. Does not include certificates of participation and other long-term lease obligations.

(5) Includes $160 million of notes due September 4, 1998 and $165 million of notes due February 26, 1999. The MBTA has solicited bids for the sale on September 1, 1998 of $160 million of notes to be issued on September 3, 1998 and to mature on September 3, 1999. In addition, as of August 21, 1998, the MBTA has outstanding $146.2 million of commercial paper issued as bond anticipation notes. See the May Information Statement under the heading "COMMONWEALTH BOND AND NOTE LIABILITIES - Commonwealth Supported Debt; *Massachusetts Bay Transportation Authority.*"

OTHER COMMONWEALTH LIABILITIES

Unemployment Compensation Trust Fund

The assets and liabilities of the Commonwealth Unemployment Compensation Trust Fund are not assets and liabilities of the Commonwealth. As of June 30, 1998 the private contributory sector of the Massachusetts Unemployment Trust Fund had a surplus of $1.604 billion. The Division of Employment and Training's April, 1998, quarterly report indicated that the contributions provided by current law should result in a private contributory account balance of $1.7 billion in the Unemployment Compensation Trust Fund by December, 1998 and rebuild reserves in the system to $2.305 billion by the end of 2002. See Exhibit A, "Economic Information," under the heading "Employment—Unemployment."

AVAILABILITY OF OTHER INFORMATION

Questions regarding this Supplement or the May Information Statement or requests for additional financial information concerning the Commonwealth should be directed to Jeffrey S. Stearns, Deputy Treasurer, Office of the Treasurer-Receiver General, One Ashburton Place, 12th floor, Boston, Massachusetts 02108, telephone 617/367-3900, or Catherine Frazer, Director of Debt 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 Supplement or the May Information Statement should be directed to John R. Regier or Navjeet K. Bal, Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., One Financial Center, Boston, Massachusetts 02111, telephone 617/542-6000.

THE COMMONWEALTH OF MASSACHUSETTS

By /s/ Joseph D. Malone
Joseph D. Malone
Treasurer and Receiver-General

By /s/ Charles D. Baker
Charles D. Baker
Secretary of Administration and Finance

August 21, 1998

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APPENDIX B

TABLE OF REFUNDED BONDS

The bonds of the Commonwealth to be refunded by the proceeds of the Bonds are described below.

	Maturity Date	Coupon	Amount	Call Date	Call Price
$175,000,000 Consolidated Loan of 1993, Series A:					
	11/01/2010	5.50%	$14,160,000	11/01/2003	102.0%
	11/01/2011	5.50%	$14,970,000	11/01/2003	102.0%
	11/01/2012	5.50%	$15,835,000	11/01/2003	102.0%
			$44,965,000		
$250,000,000 Consolidated Loan of 1994, Series B:					
	08/01/2009	5.80%	$15,060,000	08/01/2004	102.0%
$225,000,000 Consolidated Loan of 1995, Series B:					
	07/01/2011	5.50%	$14,340,000	07/01/2005	101.0%
	07/01/2012	5.50%	$15,150,000	07/01/2005	101.0%
	07/01/2013	5.50%	$16,010,000	07/01/2005	101.0%
	07/01/2014	5.50%	$16,915,000	07/01/2005	101.0%
	07/01/2015	5.50%	$17,870,000	07/01/2005	101.0%
			$80,285,000		
$200,000,000 Consolidated Loan of 1995, Series C:					
	08/01/2009	5.50%	$11,290,000	08/01/2005	101.0%
	08/01/2011	5.625%	$12,560,000	08/01/2005	101.0%
	08/01/2012	5.625%	$13,265,000	08/01/2005	101.0%
	08/01/2013	5.625%	$14,025,000	08/01/2005	101.0%
	08/01/2014	5.625%	$14,830,000	08/01/2005	101.0%
			$65,970,000		
$250,000,000 Consolidated Loan of 1995, Series D:					
	11/01/2014	5.125%	$18,405,000	11/01/2005	101.0%
	11/01/2015	5.125%	$19,445,000	11/01/2005	101.0%
			$37,850,000		

Maturity Date	Coupon	Amount	Call Date	Call Price
$225,000,000 Consolidated Loan of 1996, Series A:				
01/01/2013	5.25%	$14,790,000	01/01/2006	101.0%
01/01/2014	5.25%	$15,580,000	01/01/2006	101.0%
01/01/2015	5.25%	$16,415,000	01/01/2006	101.0%
01/01/2016	5.25%	$17,300,000	01/01/2006	101.0%
		$64,085,000		
$250,000,000 Consolidated Loan of 1996, Series B:				
06/01/2012	5.50%	$15,835,000	06/01/2006	101.0%
06/01/2013	5.75%	$16,735,000	06/01/2006	101.0%
		$32,570,000		
$200,000,000 Consolidated Loan of 1996, Series C:				
09/01/2013	5.375%	$13,270,000	09/01/2006	101.0%
09/01/2014	5.375%	$14,005,000	09/01/2006	101.0%
09/01/2015	5.50%	$14,790,000	09/01/2006	101.0%
09/01/2016	5.70%	$15,625,000	09/01/2006	101.0%
		$57,690,000		
$300,000,000 Consolidated Loan of 1997, Series B:				
06/01/2015	5.25%	$20,940,000	06/01/2007	101.0%
06/01/2016	5.25%	$22,090,000	06/01/2007	101.0%
06/01/2017	5.25%	$23,315,000	06/01/2007	101.0%
		$66,345,000		
TOTAL		$464,820,000		

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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, Cohn, Ferris, Glovsky and Popeo, P.C.
One Financial Center
Boston, Massachusetts 02111

701 Pennsylvania Avenue, N.W.
Washington, D.C. 20004
Telephone: 202/434-7300
Fax: 202/434-7400

Telephone: 617/542-6000
Fax: 617/542-2241
www.mintz.com

[To the Underwriter]

We have acted as bond counsel to The Commonwealth of Massachusetts (the "Commonwealth") in connection with the issuance by the Commonwealth of its $499,520,000 General Obligation Refunding Bonds (Variable Rate Demand Bonds), 1998 Series A and 1998 Series B, each series in the aggregate principal amount of $249,760,000 (collectively, 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.

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APPENDIX D

Commonwealth of Massachusetts

General Obligation Refunding Bonds
1998 Series A

General Obligation Refunding Bonds
1998 Series B

Continuing Disclosure Undertaking

[to be included in bond form]

On behalf of the Commonwealth, the Treasurer and Receiver-General of the Commonwealth hereby undertakes for the benefit of the owners of the Bonds to provide to each nationally recognized municipal securities information repository (each, a "NRMSIR") within the meaning of Rule 15c2-12 of the Securities and Exchange Commission (the "Rule") and to the state information depository for the Commonwealth, if any (the "SID"), within the meaning of the Rule, no later than 270 days after the end of each fiscal year of the Commonwealth, (i) the annual financial information described below relating to such fiscal year, together with audited financial statements of the Commonwealth for such fiscal year if audited financial statements are then available, provided, however, that if audited financial statements of the Commonwealth are not then available, such audited financial statements shall be delivered to each NRMSIR and the SID when they become available (but in no event later than 350 days after the end of such fiscal year) or (ii) notice of the Commonwealth's failure, if any, to provide any such information. The annual financial information to be provided as aforesaid shall include financial information and operating data, in each case updated through the last day of such fiscal year unless otherwise noted, relating to the following information contained in the Commonwealth's Information Statement dated May 5, 1998 (the "Information Statement"), as it appears in the Official Statement dated April 30, 1998 (except for Appendix A) relating to the Commonwealth's General Obligation Bonds, Consolidated Loan of 1998, Series B, and substantially in the same level of detail as is found in the referenced section of the Information Statement:

	Financial Information and Operating Data Category	**Reference to Information Statement for Level of Detail**
1.	Summary presentation on statutory accounting and five-year comparative basis of selected budgeted operating funds operations, concluding with prior fiscal year, plus estimates for current fiscal year	"FINANCIAL RESULTS - Selected Financial Data - Statutory Basis"
2.	Summary presentation on GAAP and five-year comparative basis of selected budgeted operating funds operations, concluding with prior fiscal year	"FINANCIAL RESULTS - Selected Financial Data - GAAP Basis"
3.	Summary presentation of actual revenues in budgeted operating funds on five-year comparative basis, concluding with prior fiscal year, plus estimates for current fiscal year	"COMMONWEALTH REVENUES - Distribution of Revenues"
4.	So long as Commonwealth statutes impose limits on tax revenues, information as to compliance therewith in the prior fiscal year	"COMMONWEALTH REVENUES - Limitations on Tax Revenues"

	Financial Information and Operating Data Category	Reference to Information Statement for Level of Detail
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.	If and to the extent otherwise updated in the prior fiscal year, summary presentation of the size of the state workforce	"COMMONWEALTH PROGRAMS AND SERVICES - State Workforce"
7.	Statement of Commonwealth bond and note liabilities as of the end of the prior fiscal year	"COMMONWEALTH BOND AND NOTE LIABILITIES - Overview - Outstanding Bond and Note Liabilities"
8.	Five-year comparative presentation of long term Commonwealth debt and selected Commonwealth-supported debt as of the end of the prior fiscal year	"COMMONWEALTH BOND AND NOTE LIABILITIES - Overview - Long Term Bond Liabilities"
9.	Annual fiscal year debt service requirements for Commonwealth general obligation and special obligation bonds, beginning with the current fiscal year	"COMMONWEALTH BOND AND NOTE LIABILITIES - Debt Service Requirements on Commonwealth Bonds"
10.	So long as Commonwealth statutes impose a limit on the amount of outstanding "direct" bonds, information as to compliance therewith as of the end of the prior fiscal year	"COMMONWEALTH BOND AND NOTE LIABILITIES - Statutory Debt Limit on Direct Bonds"
11.	Five-year summary presentation of authorized but unissued general obligation debt and actual capital project expenditures	"COMMONWEALTH BOND AND NOTE LIABILITIES - Authorized But Unissued Debt"
12.	Annual fiscal year debt service contract assistance requirements for Commonwealth-supported debt, beginning with the current fiscal year	"COMMONWEALTH BOND AND NOTE LIABILITIES - Debt Service Contract Assistance Requirements on Commonwealth-Supported Debt"
13.	Summary presentation of the then-current, statutorily imposed funding schedule for future Commonwealth pension liabilities, if any	"OTHER COMMONWEALTH LIABILITIES - Retirement Systems and Pension Benefits"
14.	Summary presentation of operating lease commitments for future fiscal years as of the end of the prior fiscal year	"OTHER COMMONWEALTH LIABILITIES - Long Term Operating Leases"
15.	Summary presentation of long-term capital leases for future fiscal years as of the end of the prior fiscal year	"OTHER COMMONWEALTH LIABILITIES - Long Term Capital Leases"
16.	Summary presentation of school building assistance program commitments for future fiscal years as of the end of the prior fiscal year	"OTHER COMMONWEALTH LIABILITIES - School Building Assistance"

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

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

(i) principal and interest payment delinquencies;

(ii) non-payment related defaults;

(iii) unscheduled draws on debt service reserves reflecting financial difficulties 1/;

(iv) unscheduled draws on credit enhancements reflecting financial difficulties;

(v) substitution of credit or liquidity providers, or their failure to perform;

(vi) adverse tax opinions or events affecting the tax-exempt status of the security;

(vii) modifications to the rights of security holders;

(viii) bond calls;

(ix) defeasances;

(x) release, substitution or sale of property securing repayment of the securities 2/ and

(xi) rating changes.

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

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

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.

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

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DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE BONDS RELATING TO VARIABLE RATE DEMAND BONDS, THE STANDBY BOND PURCHASE AGREEMENTS AND THE REMARKETING AGREEMENT

The following is a summary of certain provisions of the Bonds relating to variable rate demand bonds and the Standby Bond Purchase Agreements. The summary is not to be regarded as a full statement of the terms of the Bonds or the Standby Bond Purchase Agreements and, accordingly, is qualified by reference to the Bonds and the Standby Bond Purchase Agreements and is subject to the full text thereof.

See also "THE BONDS – Additional Information Related to Variable Rate Demand Bonds" in the Official Statement for a description of certain other provisions relating to variable rate demand bonds.

Pursuant to the Bonds, the Tender Agent and the Commonwealth are entitled to treat the Owner of each Bond (including Cede & Co. or any other nominee of DTC as to any such Bond registered in the name thereof) as the owner of such Bond, for all purposes. Neither the Tender Agent nor the Commonwealth shall have any duty or responsibility to recognize the beneficial ownership interest of a Beneficial Owner who has acquired such an interest in Bonds registered in the name of Cede & Co. or any other nominee of DTC. The procedures established by DTC, the Tender Agent and the Remarketing Agent for trading, exchanging and registering beneficial ownership interests in Bonds shall be implemented by such persons consistent with the terms of the relevant agreements.

DEFINITIONS

"*Agreement Expiration Date*" means the stated expiration date set forth in a Standby Bond Purchase Agreement, initially 5:00 p.m., New York time, on September 17, 2003 or the next preceding Business Day.

"*Agreement Termination Event*" means an event of default set forth in a Standby Bond Purchase Agreement which would result in the immediate termination of such Standby Bond Purchase Agreement prior to the Agreement Expiration Date without at least thirty days' prior notice from the Bank to the Tender Agent, other than a termination upon the substitution of an Alternate Liquidity Facility.

"*Alternate Liquidity Facility*" means any liquidity facility, insurance policy, line of credit, standby bond purchase agreement or other liquidity support or mechanism obtained, delivered, made, entered into or otherwise obtained for the purpose of securing the purchase of tendered Bonds and as a replacement for or in substitution of a Standby Bond Purchase Agreement.

"*Authorized Denominations*" means, for Bonds in the Daily Mode or in the Weekly Mode, $100,000 or any integral multiple of $5,000 in excess thereof and, for Bonds in the Fixed Mode, $5,000 or any integral multiple thereof.

"*Bank*" means the issuer of a Standby Bond Purchase Agreement or Alternate Liquidity Facility pursuant to which the issuer thereof agrees to purchase Bonds tendered for purchase in accordance with the optional or mandatory tender provisions thereof, but not remarketed, initially Commerzbank Aktiengesellshaft, acting through its New York Branch, with respect to the Series A Bonds, and The Toronto-Dominion Bank, acting through its Houston Agency, with respect to the Series B Bonds, and their successors or assigns.

"*Bank Bonds*" means Bonds which are purchased and held by or for the benefit of a Bank pursuant to a Standby Bond Purchase Agreement.

"*Bank Default Rate*" means the default rate of interest on Bank Bonds pursuant to a Standby Bond Purchase Agreement, initially the Bank Rate plus 2% per annum.

"*Bank Rate*" means the per annum rate of interest on Bank Bonds pursuant to a Standby Bond Purchase Agreement, initially the higher of (i) the rate of interest announced by the Bank from time to time as its "prime rate" or (ii) the sum of the Federal Funds Rate plus 0.5%. Under the initial Standby Bond Purchase Agreements, the Bank Rate increases by 1% per annum from and after the 181st day that any amounts remain outstanding.

"*Bond Purchase Agreement*" means the Bond Purchase Agreement relating to the Bonds between the Commonwealth and PaineWebber Incorporated, as Underwriter.

"*Bondholder*" or "*Bondowner*" means a registered owner of any of the Bonds.

"*Bonds*" means any of the Series A Bonds and the Series B Bonds.

"*Business Day*" means a day except a Saturday, Sunday, any holiday or other day on which the business offices of the Commonwealth are closed, any other day on which banks in New York, New York, or Boston, Massachusetts, are required or authorized to remain closed or on which the New York Stock Exchange is closed.

"*Commonwealth*" means The Commonwealth of Massachusetts.

"*Conversion*" means the conversion of the interest rate on the Bonds from the Daily Mode to the Weekly Mode, from the Daily Mode to the Fixed Mode, from the Weekly Mode to the Daily Mode or from the Weekly Mode to the Fixed Mode, as provided in the Bonds.

"*Conversion Date*" means for any Bond the date upon which Conversion of the interest rate on such Bond takes effect.

"*Daily Mode*" means the Mode in which the Bonds bear interest at a Daily Rate.

"*Daily Rate*" means, for or on any Bond in a Daily Mode, the rate of interest thereon determined in accordance with the provisions of the Bonds.

"*Delivery Date*" means the date of initial delivery of the Bonds.

"*DTC*" means The Depository Trust Company, New York, New York, or any substitute securities depository appointed by the Commonwealth.

"*Federal Funds Rate*" means, for any day, the rate of interest per annum as determined by a Bank at which overnight federal funds are offered to such Bank for such day by major banks in the interbank market, with any change in such rate to become effective as to the Commonwealth on the date of any change in such rate. Each determination of the Federal Funds Rate by such Bank shall be conclusive and binding on the Commonwealth absent manifest error.

"*Fitch*" means Fitch IBCA, Inc., a corporation organized and existing under the laws of the State of Delaware, its successors and their assigns, and, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, "Fitch" shall be deemed to refer to any other nationally recognized securities rating agency (other than S&P or Moody's) designated by the Commonwealth.

"*Fixed Mode*" means the Mode in which the Bonds bear interest at a Fixed Rate to maturity.

"*Fixed Rate*" means, for or on any Bond in a Fixed Mode, the rate of interest thereon to maturity determined in accordance with the provisions of the Bonds.

"*Initial Period*" means the period beginning on the Delivery Date and ending on the first Wednesday which is or follows the Delivery Date.

"*Interest Payment Date*" means (i) with respect to Bonds in the Daily Mode or the Weekly Mode, the first Business Day of each month and (ii) with respect to Bonds in the Fixed Mode, each March 1 and September 1.

"*Maximum Rate*" means 12% per annum.

"*Mode*" means the Daily Mode, the Weekly Mode or the Fixed Mode, as the context may require.

"*Mode Change Date*" means the date one Mode terminates and another Mode begins.

"*Moody's*" means Moody's Investors Service, a company of the Dun & Bradstreet Corporation, its successors and their assigns, and, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, "Moody's" shall be deemed to refer to any other nationally recognized securities rating agency (other than S&P or Fitch) designated by the Commonwealth.

"*Purchase Date*" means, for any Bond required to be purchased pursuant to the terms thereof, the date on which the Purchase Price is required to be paid pursuant to the Bonds.

"*Purchase Price*" means, for any Bond required to be purchased pursuant to the terms thereof, an amount equal to 100% of the principal amount thereof, plus accrued interest, if any, thereon, to the Purchase Date.

"*Rate Determination Date*" means the date on which the interest rate on a Bond shall be determined, which, (i) in the case of the Daily Mode, shall be each Business Day, (ii) in the case of the Weekly Mode, shall be each Wednesday, or the preceding Business Day if Wednesday is not a Business Day, and (iii) in the case of the Fixed Mode, shall be a Business Day determined by the Remarketing Agent which shall be at least one Business Day prior to the Mode Change Date.

"*Rating Agency*" means Moody's, S&P or Fitch.

"*Record Date*" means 5:00 p.m., Boston time, on the Business Day preceding each Interest Payment Date.

"*Related Documents*" mean the Remarketing Agreement, this Official Statement, the Tender Agent Agreement and the Bond Purchase Agreement and all other instruments executed and delivered in connection therewith and any other agreement or instrument relating thereto.

"*Remarketing Agent*" means any firm or firms designated by the Commonwealth to remarket tendered Bonds pursuant to a Remarketing Agreement, initially PaineWebber Incorporated, its successors and assigns.

"*Remarketing Agreement*" means an agreement entered into by the Commonwealth and a Remarketing

Agent setting forth the provisions pursuant to which tendered Bonds are to be remarketed, as the same may be amended from time to time.

"S&P" means Standard & Poor's Ratings Service, a division of McGraw-Hill Corporation, its successors and their assigns, and, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, "S&P" shall be deemed to refer to any other nationally recognized securities rating agency (other than Moody's or Fitch) designated by the Commonwealth.

"*Series A Bonds*" means any of the Commonwealth's General Obligation Refunding Bonds (Variable Rate Demand Bonds), 1998 Series A, in the original aggregate principal amount of $249,760,000.

"*Series B Bonds*" means any of the Commonwealth's General Obligation Refunding Bonds (Variable Rate Demand Bonds), 1998 Series B, in the original aggregate principal amount of $249,760,000.

"Series A Standby Bond Purchase Agreement" means the Standby Bond Purchase Agreement dated as of September 17, 1998 between the Commonwealth and Commerzbank Aktiengesellshaft, acting through its New York Branch, which secures the purchase of tendered Series A Bonds, as amended from time to time.

"Series B Standby Bond Purchase Agreement" means the Standby Bond Purchase Agreement dated as of September 17, 1998 between the Commonwealth and The Toronto-Dominion Bank, acting through its Houston Agency, which secures the purchase of tendered Series B Bonds, as amended from time to time.

"*Standby Bond Purchase Agreements*" mean the Series A Standby Bond Purchase Agreement, the Series B Standby Bond Purchase Agreement and any Alternate Liquidity Facility.

"*Tender Agent*" means the bank or banks, if any, designated by the Commonwealth to perform the duties of tender agent pursuant to the Bonds, initially State Street Bank and Trust Company, its successors or assigns.

"Tender Agent Agreement" means the Tender Agent Agreement dated as of September 17, 1998 between the Commonwealth and State Street Bank and Trust Company, as amended from time to time, and any substitute Tender Agent Agreement hereafter provided.

"*Weekly Rate*" means, for or on any Bond in a Weekly Mode, the rate of interest thereon determined weekly in accordance with the provisions of the Bonds.

"*Weekly Mode*" means the period during which the Bonds bear interest at a Weekly Rate.

PROVISIONS OF THE BONDS

Interest Rates

Initial Period - Interest Rate Modes

The Bonds shall bear interest for the Initial Period at the rate set forth in the Bond Purchase Agreement. Thereafter, Bonds shall be in the Weekly Mode, unless and until converted to the Daily Mode or the Fixed Mode. Bonds in the Daily Mode shall bear interest until maturity or earlier redemption or Conversion to a Weekly Mode or Fixed Mode at a Daily Rate. Bonds in the Weekly Mode shall bear interest until maturity or earlier redemption or Conversion to a Daily Mode or Fixed Mode at a Weekly Rate. Bonds in the Fixed Mode shall bear interest until maturity or earlier redemption at a Fixed Rate.

Daily Mode

Determination of Rate. Bonds in the Daily Mode bear interest at the Daily Rate payable monthly on each Interest Payment Date. Interest is computed on the basis of a 365- or 366-day year, as applicable, for the actual number of days elapsed. Interest is payable to the registered owners who are such registered owners on the Record Date. The Daily Rate shall be determined each day by the Remarketing Agent by 10:00 a.m., Boston time, on each Rate Determination Date, shall take effect on such date and shall be in effect to, but not including, the next succeeding Business Day (the "Daily Rate Period"). The Daily Rate for each Daily Rate Period shall be that interest rate which, in the judgment of the Remarketing Agent, would cause the Bonds to have a market value equal to 100% of the principal amount thereof (exclusive of accrued interest), taking into account prevailing market conditions as of the Rate Determination Date. However, in no event shall the Daily Rate exceed the Maximum Rate.

In the event the Remarketing Agent fails to determine a Daily Rate for Bonds in the Daily Mode, the Bonds shall continue to bear interest at the immediately preceding Daily Rate until a new Daily Rate is determined.

Notice of Interest Rate. The Remarketing Agent shall give notice of each Daily Rate to the Commonwealth and the Tender Agent by the close of business on the last Business Day of each week and on the last Business Day of each month. Such notice shall be given in writing, electronically or by telephone, provided that any telephonic notice shall be promptly confirmed in writing. The Tender Agent shall promptly notify the Bank of each Daily Rate.

Weekly Mode

Determination of Rate. Bonds in the Weekly Mode bear interest at the Weekly Rate payable monthly on each Interest Payment Date. Interest is computed on the basis of a 365- or 366-day year, as applicable, for the actual number of days elapsed. Interest is payable to the registered owners who are such registered owners on the Record Date. The Weekly Rate shall be determined each week by the Remarketing Agent by 4:00 p.m., Boston time, on each Rate Determination Date and shall take effect on each Thursday following such Rate Determination Date, regardless of whether any such Thursday is a Business Day, and be in effect to and including the following Wednesday, regardless of whether such Wednesday is a Business Day (the "Weekly Rate Period"). The Weekly Rate for each Weekly Rate Period shall be that interest rate which, in the judgment of the Remarketing Agent, would cause the Bonds to have a market value equal to 100% of the principal amount thereof (exclusive of accrued interest), taking into account prevailing market conditions as of the Rate Determination Date. However, in no event shall the Weekly Rate exceed the Maximum Rate.

In the event the Remarketing Agent fails to determine a Weekly Rate for Bonds in the Weekly Mode, the Bonds shall continue to bear interest at the immediately preceding Weekly Rate until a new Weekly Rate is determined.

Notice of Interest Rate. The Remarketing Agent shall give notice of each Weekly Rate to the Commonwealth and the Tender Agent by the close of business on each Rate Determination Date. Such notice shall be given in writing, electronically or by telephone; provided that any telephonic notice shall be promptly confirmed in writing. The Tender Agent shall promptly notify the Bank of each Weekly Rate.

Optional Tender

Bonds in the Weekly Mode or in the Daily Mode may be tendered for purchase at a Purchase Price equal to 100% of the principal amount thereof, plus accrued interest, if any, payable in immediately available funds upon notice of tender to the Tender Agent as described below. The Purchase Date may be any Business Day prior to conversion of the Bonds to the Fixed Mode.

Notice of Tender. At any time that a Bondholder has a right to tender a Bond for purchase (other than by mandatory tender as described herein), the Bondholder shall, in addition to delivering the Bond on or before the appropriate Purchase Date, give to the Tender Agent notice of such tender. Each such notice of tender shall:

(i) be delivered in writing, in a form satisfactory to the Tender Agent, or by telephone (and promptly confirmed in writing in such form) to the Tender Agent at its corporate trust office by 11:00 a.m., Boston time, on any Business Day, in the case of a Bond in the Daily Mode, and by 5:00 p.m., Boston time, on a Business Day not fewer than seven days prior to the Purchase Date, in the case of a Bond in the Weekly Mode;

(ii) state, whether delivered in writing or by telephone, (A) the principal amount and series of the Bond to which it relates, (B) that the Bondholder irrevocably demands purchase of such Bond or of a specified portion thereof in an amount which is an Authorized Denomination and which leaves the retained portion of the Bond in an amount which is an Authorized Denomination, (C) in the case of Bonds in the Weekly Mode, the date on which such Bond or portion thereof is to be purchased, and (D) payment instructions with respect to the Purchase Price; and

(iii) automatically constitute, whether delivered in writing or by telephone, (A) an irrevocable offer to sell the Bond (or portion thereof) to which it relates on the Purchase Date at a Purchase Price equal to the principal amount of such Bond (or portion thereof) plus any interest thereon accrued and unpaid as of the Purchase Date, (B) an irrevocable authorization and instruction to the Tender Agent to effect transfer of such Bond (or portion thereof) upon payment of the Purchase Price to the Tender Agent on the Purchase Date, (C) an irrevocable authorization and instruction to the Tender Agent to effect the exchange of the Bond to be purchased in whole or in part for other Bonds in an equal aggregate principal amount so as to facilitate the sale of such Bond (or portion thereof), and (D) an acknowledgment that such Bondholder will have no further rights with respect to such Bond (or portion thereof) upon payment of the Purchase Price thereof to the Tender Agent on the Purchase Date, except for the right of such Bondholder to receive such Purchase Price upon surrender of such Bond to the Tender Agent.

The determination of the Tender Agent as to whether a notice of tender has been properly delivered shall be conclusive and binding upon the Bondholder. The Tender Agent shall promptly notify the Commonwealth and the Remarketing Agent upon receipt of a notice of tender.

Tender of Portions of Bonds. In the event a Bondholder files with the Tender Agent a tender notice with respect to a portion of a Bond in an Authorized Denomination, such Bondholder shall be required to deliver such Bond to the Tender Agent along with the tender notice. The Tender Agent shall pay the Purchase Price for such portion as provided herein and the Commonwealth shall issue in the name of such Bondholder a new Bond in the amount not so purchased, which Bond the Tender Agent shall forward to such Bondholder. Notwithstanding anything to the contrary contained herein, no Bondholder shall be entitled to tender a portion of such Bond for purchase unless the portion of such Bond not to be so purchased shall be in an Authorized Denomination.

Conversion

The Bonds may be converted from the Weekly Mode to the Daily Mode or the Fixed Mode and from the Daily Mode to the Weekly Mode or the Fixed Mode. Any Conversion Date shall be a Business Day. The Commonwealth shall give written notice of Conversion at least 30 days prior to the Conversion Date to the Tender Agent and the Remarketing Agent, which notice shall specify the proposed Conversion Date and the conditions to conversion, if any, and shall request the Tender Agent to give written notice of such Conversion to Bondholders.

Conversion to the Fixed Mode is subject to certain conditions, as set forth in the Bonds, including, without limitation, an opinion of bond counsel to the effect that such conversion will have no adverse effect on the exclusion of interest on the Bonds from the gross income of Bondholders for federal income tax purposes.

Mandatory Tender

Agreement to Tender Bonds

Any Bondholder, by its acceptance of the Bonds, agrees to tender its Bonds to the Tender Agent for purchase on dates on which such Bonds are subject to mandatory tender, and upon such transfer, to surrender such Bonds, properly endorsed for transfer in blank.

Any notice mailed as provided in this section shall be conclusively presumed to have been duly given, whether or not the Bondholder receives the notice, and the failure of such Bondholder to receive any such notice shall not affect the validity of the action described in such notice.

Bonds in the Daily Mode and in the Weekly Mode are subject to mandatory tender for purchase as described below. Such Bonds are not subject to mandatory tender upon conversion from the Daily Mode to the Weekly Mode or from the Weekly Mode to the Daily Mode. Such Bonds are also not subject to mandatory tender solely as a result of the occurrence of an Agreement Termination Event resulting in the termination of a Standby Bond Purchase Agreement or Alternate Liquidity Facility prior to the Agreement Expiration Date. The Tender Agent shall give notice to the Bondholders promptly after becoming aware of the early termination of a Standby Bond Purchase Agreement. See "Standby Bond Purchase Agreements." Bonds in the Fixed Mode are not subject to mandatory tender.

Mandatory Tender Upon Conversion to Fixed Mode. If Bonds are to be converted from the Weekly Mode or the Daily Mode to a Fixed Mode, Bonds to be so converted are subject to mandatory tender for purchase on the Conversion Date at a Purchase Price equal to 100% of the principal amount of the Bonds, plus accrued interest. The Commonwealth shall give written notice of such Conversion to the Tender Agent, the applicable Bank and the Remarketing Agent at least 30 days prior to the Conversion Date. The Tender Agent shall give written notice of such Conversion to the affected Bondholders by first class mail or, at the Commonwealth's option, certified mail, return receipt requested, at least 15 days prior to the Conversion Date setting forth, among other things: (a) the proposed Conversion Date; (b) that the Bonds shall be subject to mandatory tender on the Conversion Date; and (c) the conditions to Conversion, if any.

Mandatory Tender Upon Expiration, Substitution or Termination of Standby Bond Purchase Agreement. Bonds in the Daily Mode and in the Weekly Mode are subject to mandatory tender for purchase on the Business Day which is at least five days before (i) the stated expiration date of the applicable Standby Bond Purchase Agreement or any applicable Alternate Liquidity Facility or (ii) the date set forth in a termination notice as the date the applicable Standby Bond Purchase Agreement or any applicable Alternate Liquidity Facility is to be terminated as a result of the occurrence of certain events of default under such Standby Bond Purchase Agreement or Alternate Liquidity Facility which do not constitute Agreement Termination Events. See "Standby Bond Purchase Agreements." Such Bonds are also subject to mandatory tender for purchase on the date on which an Alternate Liquidity Facility is scheduled to become effective with respect to such Bonds, whether or not the Alternate Liquidity Facility actually becomes effective on such date. The Purchase Price for such tenders shall equal 100% of the principal amount of the Bonds, plus accrued interest. The Tender Agent, at the request of the Commonwealth, shall give written notice to the affected Bondholders at least 15 days prior to such mandatory tender date.

Delivery and Payment for Tendered Bonds

The Tender Agent, on behalf of the Commonwealth (and solely from amounts provided to it by the Remarketing Agent from the remarketing of the Bonds, amounts derived from a draw under a Standby Bond Purchase Agreement and amounts provided to it by the Commonwealth), shall purchase any Bonds properly tendered for purchase in accordance with the provisions of the Bonds.

Delivery to the Tender Agent of Bonds to be tendered for purchase, upon both optional tender and mandatory tender, together with wire payment instructions satisfactory to the Tender Agent, is required to be made by 1:00 p.m., Boston time, on the Business Date which is the Purchase Date in order for tendering Bondholders to be paid in immediately available funds by 4:00 p.m., Boston time, on such day. If the Bonds are delivered after 1:00 p.m., Boston time, payment will be made on the next Business Day without any additional accrued interest. Bonds which are required to be tendered for purchase, upon both optional tender and mandatory tender, shall cease bearing interest from and after the date tender is required regardless of whether such Bonds are presented for payment and Bondholders shall have no further rights with respect to such Bonds other than the right to receive payment of the Purchase Price upon surrender of the Bonds.

On any date when Bank Bonds are released to the Tender Agent by a Bank, the Purchase Price of such Bonds released to the Tender Agent shall be paid by wire transfer to such Bank at the wire transfer address specified in the applicable Standby Bond Purchase Agreement.

Book-Entry Bonds

For so long as the Bonds are registered in the name of Cede & Co., as nominee for DTC, the tender option rights of Bondholders described above may be exercised only by a Direct Participant of DTC acting directly or indirectly on behalf of a Beneficial Owner of Bonds by giving notice of its election to tender Bonds or portions thereof at the times and in the manner described above. Beneficial Owners will not have any rights to tender Bonds directly to the Tender Agent. Procedures under which a Beneficial Owner may direct a Direct Participant of DTC or an Indirect Participant of DTC acting through a Direct Participant of DTC to exercise a tender option right in respect of any Bonds or portions thereof shall be governed by standing instructions and customary practices determined by such Direct Participant or Indirect Participant.

For so long as the Bonds are registered in the name of Cede & Co., as nominee for DTC, notices of mandatory tender for purchase of Bonds shall be given to DTC only, and neither the Commonwealth, the Tender Agent, the Underwriter nor the Remarketing Agent shall have any responsibility for the delivery of any of such notices by DTC to any Direct Participants of DTC, by any Direct Participants to any Indirect Participants of DTC or by any Direct Participants or Indirect Participants to Beneficial Owners of the Bonds.

For so long as the Bonds are registered in the name of Cede & Co., as nominee for DTC, delivery of Bonds required to be tendered for purchase shall be effected by the transfer by a Direct Participant on the applicable Purchase Date of a book entry credit to the account of the Tender Agent of a beneficial interest in such Bonds or portions thereof required to be tendered for purchase on that date.

For so long as the Bonds are registered in the name of Cede & Co., Inc. as nominee for DTC, payment of the Purchase Price shall be paid directly to DTC in accordance with any Letter of Representation with DTC.

Remarketing of Tendered Bonds; Bank Bonds

PaineWebber Incorporated, New York, New York, is the initial Remarketing Agent for the Bonds. The

Remarketing Agent shall accept the duties and obligations thereof by execution and delivery of an agreement with the Commonwealth under which the Remarketing Agent will agree, among other things, to perform the duties of Remarketing Agent as provided in the Bonds, to keep records regarding the remarketing of Bonds and determining the interest rates on the Bonds and to make such records available for inspection by the Commonwealth at all reasonable times.

The Remarketing Agent shall be authorized by law to perform all the duties imposed upon it by the Bonds. The Remarketing Agent may resign or may be removed at any time upon written notice as specified in the Remarketing Agreement. The Remarketing Agent may terminate its duties in certain circumstances upon notice to the Commonwealth as provided in the Remarketing Agreement.

If the Remarketing Agent resigns or is removed, the Commonwealth shall have the power to appoint another Remarketing Agent, and the former Remarketing Agent shall pay over, assign and deliver any moneys and Bonds held by it in such capacity, other than Bonds held for its own account, to its successor.

The Tender Agent, any Bank or the Remarketing Agent, each in its individual capacity, may in good faith and to the extent otherwise permitted by law, buy, sell, own, hold and deal in any of the Bonds, and may join in any action which any Bondholder of the Bonds may be entitled to take with like effect as if it did not act in any capacity under the Remarketing Agreement, the Tender Agent Agreement or a Standby Bond Purchase Agreement. Each Bank, the Tender Agent or the Remarketing Agent, each in its individual capacity, either as principal or agent, may also engage in or be interested in any financial or other transaction with the Commonwealth, and may act as depository, trustee, or agent for any committee or body of Bondholders of any Bonds secured hereby or other obligations of the Commonwealth as freely as if it did not act in any capacity under the Remarketing Agreement, the Tender Agent Agreement or a Standby Bond Purchase Agreement.

The Remarketing Agent is required to use its best efforts to remarket Bonds properly tendered for purchase. In the event the Remarketing Agent is unable to remarket tendered Bonds, the Standby Bond Purchase Agreements provide that the applicable Bank agrees to purchase any such Bonds from time to time in an amount not to exceed the principal amount thereof plus accrued interest up to 45 days at an interest rate not exceeding 12% per annum, subject to the terms and provisions set forth in the Standby Bond Purchase Agreements. Bank Bonds shall bear interest at the applicable Bank Rate and shall be payable at the times and in the amounts and may have such other terms as are set forth in a Standby Bond Purchase Agreement. To the extent there are Bank Bonds, such Bank Bonds shall be redeemed from mandatory sinking fund payments prior to any other Bonds of that series.

Alternate Liquidity Facility

A Standby Bond Purchase Agreement may be replaced or substituted with an Alternate Liquidity Facility at the option of the Commonwealth in accordance with the terms of such Standby Bond Purchase Agreement. Any Alternate Liquidity Facility may contain such terms as the Commonwealth and the applicable Bank may determine, and the Bonds may be amended without consent of the Bondholders to reflect the terms of an Alternate Liquidity Facility which are applicable to such Bank Bonds.

If, at any time, in accordance with a Standby Bond Purchase Agreement, the Commonwealth obtains an Alternate Liquidity Facility, it shall give notice thereof to the Tender Agent, and the Tender Agent shall then give prompt notice to the affected Bondholders and any Rating Agency that the Commonwealth has obtained an Alternate Liquidity Facility and that such Standby Bond Purchase Agreement will terminate pursuant to its terms. The notice shall state: (a) the principal terms of the Alternate Liquidity Facility and (b) that the Bonds shall be subject to mandatory tender on the substitution date and explaining the terms of such mandatory tender.

Any Alternate Liquidity Facility shall meet the following criteria:

(a) Any Alternate Liquidity Facility shall provide that funds may be advanced for the purposes, in the amounts and at the times provided in the Bonds and shall contain administrative provisions satisfactory to the Tender Agent.

(b) Any Alternate Liquidity Facility shall have a term of not less than the remaining term of the Standby Bond Purchase Agreement which such Alternate Liquidity Facility is replacing.

(c) At least five Business Days prior to the delivery to the Commonwealth of the Alternate Liquidity Facility, the Commonwealth shall have received an irrevocable commitment to issue or enter into such Alternate Liquidity Facility and on the substitution date the Commonwealth shall have received an opinion of counsel for the provider or providers of the Alternate Liquidity Facility that the Alternate Liquidity Facility and any documents related to it constitute legal, valid and binding obligation(s) of such provider of the Alternate Liquidity Facility enforceable in accordance with their respective terms, except as such enforceability may be limited by bankruptcy, moratorium or insolvency or by equitable principles.

(d) No Alternate Liquidity Facility shall be effective unless the provider of an Alternate Liquidity Facility shall purchase all Bonds held by or for the account of the applicable Bank on the substitution date, and all Bonds held by such Bank shall be paid in full on or prior to the Substitution Date.

If at any time 30 days remain until an Agreement Expiration Date and the applicable Standby Bond Purchase Agreement has not been renewed or replaced or the Commonwealth has not obtained a written commitment for such renewal or replacement, the Tender Agent shall promptly give notice to the affected Bondholders that (i) such Standby Bond Purchase Agreement is scheduled to expire and stating the date of such expiration, (ii) the Commonwealth has not obtained an Alternate Liquidity Facility, and (iii) the affected Bonds shall be subject to mandatory tender and explaining the terms of such mandatory tender.

Tender Agent

Tender Agent Custody. The Tender Agent shall hold all Bonds (or portions thereof in Authorized Denominations) delivered to it for purchase for the benefit of the respective Bondholder thereof until moneys representing the Purchase Price or redemption price of such Bonds (or portions thereof in Authorized Denominations), as the case may be, shall have been delivered to or for the account of or to the order of the Bondholders thereof.

Procedure for Purchase of Bonds. On the date any Bonds are to be purchased, the Tender Agent shall purchase, but only from the funds and in the order of priority listed below, such Bonds at the Purchase Price thereof:

(a) Moneys derived from the remarketing of Bonds;

(b) Any amounts derived from a draw against the applicable Standby Bond Purchase Agreement (or, if applicable, an Alternate Liquidity Facility); and

(c) Any amounts paid to it by the Commonwealth therefor.

Any amounts held pursuant to paragraph (a) or (b) above shall be held uninvested until applied as provided herein. The Tender Agent shall have no personal obligation to purchase, or to advance its own funds to fund the purchase of, any Bonds.

By the close of business (Boston time) on the Business Day following the date on which Bondholders of Bonds in the Weekly Mode have delivered a tender notice to the Tender Agent, the Tender Agent shall provide to the applicable Bank and the Remarketing Agent a notice from the Tender Agent specifying the applicable Purchase Date and the aggregate principal amount of Bonds to be purchased on such Purchase Date.

By 1:00 p.m., Boston time, on the Purchase Date, the Tender Agent shall provide to the applicable Bank a notice from the Tender Agent indicating the exact amounts that will be required to be paid by such Bank, in order to pay the Purchase Price of all tendered Bonds that have not been remarketed at or prior to such time.

On the Purchase Date, the Tender Agent shall make provision for the account of the applicable Bank at DTC to be credited such that such Bank becomes the beneficial owner of the tendered Bonds that have not been remarketed and have been purchased by such Bank, in accordance with the standing procedures of DTC.

Notice to Rating Agencies. The Tender Agent shall give notice to Fitch, Moody's and S&P of (i) any change to a Standby Bond Purchase Agreement or the Bonds, (ii) the termination, substitution, expiration or extension of a Standby Bond Purchase Agreement or (iii) any redemption of Bonds.

Non-Delivery of Bonds. In the event that any Bonds required to be tendered or with respect to which a tender notice has been sent are not delivered to the Tender Agent at the time, in the manner and at the place required, the undelivered Bonds will be deemed to have been tendered and purchased by the Tender Agent, and interest accruing on such Bonds on and after the applicable Purchase Date shall no longer be payable to the prior Bondholders thereof. Such prior Bondholders shall have recourse solely to the funds held by the Tender Agent for the purchase of the undelivered Bonds, and the Tender Agent and the Commonwealth shall not recognize any further transfer of such undelivered Bonds by such prior Bondholders. The Commonwealth or Tender Agent, as the case may be, shall register the transfer of such Bonds to the purchaser thereof and shall issue a new Bond or Bonds and deliver the same pursuant to the Bonds, notwithstanding such non-delivery.

The Tender Agent shall at the end of the fifth Business Day after each date upon which Bonds are deemed tendered, deposit with the Commonwealth all funds then held by the Tender Agent by virtue of the fact that Bonds deemed tendered on such date were not presented for purchase to the Tender Agent in accordance with the provisions thereof, and thereafter the prior Bondholders of such Bonds shall look only to the Commonwealth for the payment of the Purchase Price of such Bonds.

Other Duties. Any unremarketed Bonds purchased by the Bank by funds advanced to the Tender Agent under a Standby Bond Purchase Agreement shall be registered in the name of the applicable Bank or its designee (as specified in writing by such Bank) and shall be delivered to such Bank or its designee on the applicable Purchase Date. At any time the Bonds are registered in the name of a securities depository, the Bonds shall be deemed purchased under the applicable Standby Bond Purchase Agreement upon the making of appropriate entries on the books of the securities depository showing such Bonds entered in the account of the applicable Bank or its nominee maintained at such securities depository.

The Commonwealth has authorized the Tender Agent to agree to hold such unremarketed Bonds as custodian for the account of the applicable Bank as Bank Bonds, and to deliver such Bank Bonds to or at the direction of the Bank. With respect to such Bank Bonds, the Remarketing Agent shall be required, subject to the provisions of the Remarketing Agreement, to offer for sale, and use its best efforts to sell, such Bank Bonds, at the principal amount thereof. The Remarketing Agent may not, however, sell any such Bank Bonds at a discount or a premium. The Remarketing Agent shall remarket such Bank Bonds as if such Bank Bonds were in the same interest Mode, bearing interest at the same interest rate as Bonds not held by the Bank. No Bank Bonds purchased with proceeds from a Standby Bond Purchase Agreement shall be sold unless the commitment of the Bank to purchase Bonds as provided in the Standby Bond Purchase Agreement is immediately reinstated upon each sale. The proceeds received from the purchaser of any Bank Bonds so remarketed and resold pursuant to the foregoing sentence shall be paid to the Bank.

In the event of a redemption of any Bank Bonds, the Commonwealth shall remit to the applicable Bank the Redemption Price of such Bank Bonds.

The Tender Agent agrees (subject to the terms of the Tender Agent Agreement) to:

(a) hold all Bonds properly tendered to it for purchase as agent and bailee of, and in escrow for the benefit of, the respective Bondholders which shall have so tendered such Bonds until moneys representing the Purchase Price of such Bonds shall have been delivered to or for the account of or to the order of such Bondholders;

(b) hold all moneys delivered to it for the purchase of Bonds as agent and bailee of, and in escrow for the benefit of, the purchaser which shall have so delivered such moneys, until the Bonds purchased with such moneys shall have been delivered to or for the account of such purchaser;

(c) keep such books and records as shall be consistent with prudent industry practice and make such books and records available for inspection by the other parties;

(d) hold all Bank Bonds delivered to it as agent and bailee of, and for the benefit of, the applicable Bank on behalf of such Bank in accordance with the applicable Standby Bond Purchase Agreement until such Bonds are released by the Bank upon payment therefor or until such Bonds are deemed tendered;

(e) provide to the Commonwealth as soon as practicable after the close of business on each Record Date, but in no case later than 1:00 p.m., Boston time, on the applicable Interest Payment Date, a list of the names and addresses of the Bondholders as of such Record Date; and

(f) give notices as required at the times and in the manner specified in the Bonds.

Upon receipt by the Tender Agent of any tender notice or upon receipt by the Tender Agent of any Bonds delivered pursuant to such tender notice for purchase, the Tender Agent shall, upon request, deliver to the party delivering the tender notice and the Bonds, written evidence of the Tender Agent's receipt of such tender notice or Bonds. The Tender Agent shall promptly return any tender notice (together with the Bonds submitted in connection therewith) that is incomplete or improperly completed or not delivered by the date and time required hereunder to the party submitting such notice upon surrender of the receipt, if any, issued therefor. The Tender Agent's determination of whether a tender notice is properly completed or delivered on a timely basis shall be binding on the Commonwealth and the Bondholder of the Bonds submitted therewith.

The Tender Agent shall initially be State Street Bank and Trust Company. Any successor Tender Agent shall be a commercial bank having trust powers or a trust company or a national banking association, having a capital and surplus aggregating at least $50,000,000 and authorized by law to perform all the duties imposed upon it hereby and shall be rated Baa3 or higher by Moody's. The Tender Agent may at any time resign and be discharged of the duties and obligations created hereby by giving at least 60 days' notice to the Commonwealth and each Bank. The Tender Agent may be removed at any time by the Commonwealth upon at least seven days' notice. No such resignation or removal shall take effect until the appointment of, and the acceptance of such appointment by, a successor Tender Agent. Successor Tender Agents may be appointed from time to time by the Commonwealth with the consent of the Banks. Upon the resignation or removal of the Tender Agent, the Tender Agent shall deliver any Bonds and moneys held by it in such capacity to its successor.

The Tender Agent upon receipt of any notice, resolution, request, consent, order, certificate, report, opinion, bond, or other paper or document furnished to it pursuant to any provision of the Bonds shall examine such instrument to determine whether it conforms to the requirements hereof and shall. in the absence of negligence or willful misconduct on the part of the Tender Agent, be protected in acting upon any such instrument believed by it to be genuine and to have been signed or presented by the proper party or parties. The Tender Agent may consult with counsel and the written opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it hereunder in good faith and in accordance therewith.

Whenever the Tender Agent shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action hereunder, such matter (unless other evidence in respect thereof be therein specifically prescribed) may be deemed to be conclusively proved and established by a certificate of the Commonwealth, and such certificate shall be full warrant for any action taken or suffered in good faith under the provisions hereof upon the faith thereof; but in its discretion the Tender Agent may in lieu thereof accept other evidence of such fact or matter or may require such further or additional evidence as it may deem reasonable.

In the event that the Tender Agent is required to act pursuant to the terms hereof upon the receipt of telephonic notice, such notice shall be promptly confirmed in writing. If such notice shall not be so confirmed, the Tender Agent shall be entitled to rely upon such telephonic notice for all purposes whatsoever.

In receiving Bonds hereunder, the Tender Agent shall be acting as a conduit and shall not be purchasing such Bonds for its own account. The performance of the Tender Agent's duties is also subject to certain terms and standards set forth in the Tender Agent Agreement.

STANDBY BOND PURCHASE AGREEMENTS

The following summarizes certain provisions of the initial Standby Bond Purchase Agreements, to which documents, in their entirety, reference is made for the complete provisions thereof. The provisions of any substitute Standby Bond Purchase Agreement may be different from those summarized below.

The initial Standby Bond Purchase Agreements will be issued in an amount equal to the original principal amount of the Bonds plus interest thereon for a period of 45 days at a rate of 12% per annum (as adjusted from time to time, the "Available Commitment"). The Tender Agent, upon compliance with the terms of the applicable Standby Bond Purchase Agreement, is authorized and directed to draw up to an amount sufficient to pay the portion of the purchase price of Bonds delivered for purchase pursuant to a demand for purchase by the owner thereof or a mandatory tender for purchase and not remarketed equal to the principal amount of such Bonds, plus an amount not to exceed 45 days of accrued interest on such Bonds at a rate of 12% per annum to pay interest on such Bonds when due.

Each Bank's commitment to fund under its Standby Bond Purchase Agreement will terminate on the earliest of the Bank's close of business on (a) the stated termination date (September 17, 2003, unless renewed or extended); (b) the date on which the Available Commitment is reduced to zero and the Bank shall no longer be obligated to purchase applicable Bonds; (c) the date on which an Alternate Liquidity Facility becomes effective in accordance with the terms of the applicable Bonds; (d) the date on which the Bank's obligation to purchase is terminated following an event of default as described in the immediately succeeding paragraph; (e) the fifth Business Day next succeeding the date on which all of the applicable Bonds convert to the Fixed Mode; or (f) the date on which no applicable Bonds are otherwise outstanding.

Upon the occurrence of any event of default described in clauses (a)(i), (e), (g) or (i) below, (i) the Bank's obligation to purchase Bonds under its Standby Bond Purchase Agreement shall immediately terminate without notice or other action on the part of the Bank, and (ii) all accrued fees and other amounts due and outstanding hereunder shall be forthwith due and payable without demand, presentment, protest or other notice whatsoever.

If any other event of default under a Standby Bond Purchase Agreement occurs and is continuing, the applicable Bank may, among other things, (i) give written notice of such event of default to the Tender Agent, the Commonwealth and the Remarketing Agent and request the Tender Agent to give notice of mandatory tender for purchase of the affected Bonds and prohibit the remarketing of such Bonds, thereby causing the Bank's obligations under such Standby Bond Purchase Agreement to terminate 30 days thereafter, and (ii) take any other action or remedy permitted by law to enforce the rights of the Bank under the Standby Bond Purchase Agreement, the affected Bonds and any Related Document.

"*Events of Default*" under each of the Series A Standby Bond Purchase Agreement and the Series B Standby Bond Purchase Agreement include the following:

(a) the Commonwealth shall fail to pay or cause to be paid when due (i) any amounts with respect to the principal of or interest or premium, if any, on the Bonds of either series (including Bank Bonds), (ii) any amounts payable with respect to reimbursing the applicable Bank for any payment made by such Bank under its Standby Bond Purchase Agreement or (iii) any other amount payable pursuant to such Standby Bond Purchase Agreement or the Bonds related to such agreement (including Bank Bonds); or

(b) the Commonwealth shall fail to observe or perform certain covenants set forth in such Standby Bond Purchase Agreement; or

(c) the Commonwealth shall fail to observe or perform any covenant or agreement contained (or incorporated by reference) in such Standby Bond Purchase Agreement (other than those covered by clauses (a) and (b) above), or in any Related Document to which it is a party or in the Bonds for 30 days after written notice thereof requesting that such default be remedied has been given to it by such Bank; or

(d) any representation, warranty, certification or statement made by the Commonwealth (or incorporated by reference) in such Standby Bond Purchase Agreement or in any Related Document to which it is a party or in any certificate, financial statement or other document delivered pursuant to such Standby Bond Purchase Agreement or any Related Document shall prove to have been incorrect in any material respect when made; or

(e) the Commonwealth shall fail to make payment when due in respect of any general obligation debt of the Commonwealth with an aggregate principal amount in excess of $5,000,000; or

(f) an event of default or default shall have occurred and shall be continuing under any of the Related Documents; or

(g) any material provision of such Standby Bond Purchase Agreement or any Related Document relating to the payment of any obligations under such Standby Bond Purchase Agreement or under the Bank Bonds related to such agreement or the security therefor shall at any time for any reason cease to be valid and binding on the Commonwealth or shall be declared to be null and void as the result of a final judgment or action by any court or governmental authority or agency having jurisdiction over the Commonwealth, or the Commonwealth repudiates or otherwise denies that it has any further liability or obligation under such Standby Bond Purchase Agreement or with respect to the Bonds related thereto; or

(h) the Commonwealth shall have (i) taken or permitted to be taken any action or duly enacted any statute which would materially adversely affect the enforceability of such Standby Bond Purchase Agreement or (ii) contested the validity or enforceability of any material provision of such Standby Bond Purchase Agreement or any Related Document relating to the payment of any obligations under such Standby Bond Purchase Agreement or under the Bank Bonds related thereto or the security therefor; or

(i) a moratorium shall have been declared or announced (whether or not in writing) with respect to any general obligation debt of the Commonwealth or the Commonwealth shall seek any form of debtor relief affecting its general obligation debt or a receiver shall be appointed with respect to any assets of the Commonwealth or the Commonwealth shall be declared by a court of competent jurisdiction or shall declare itself to be insolvent; or

(j) the Commonwealth's general obligation debt shall be rated below Baa2 by Moody's or BBB by S&P or Fitch or such rating shall be withdrawn or suspended for credit related reasons.

Bonds purchased with money advanced under a Standby Bond Purchase Agreement become Bank Bonds and may not be remarketed unless or until the applicable Bank has confirmed in writing to the Commonwealth that the available principal commitment has been reinstated and that such Bonds are no longer considered Bank Bonds. Bank Bonds will bear interest at the applicable Bank Rate or, upon the occurrence of an event of default under the applicable Standby Bond Purchase Agreement, at the Bank Default Rate. The principal amount of any advance made by the Bank for the purchase of such Bonds is payable in ten approximately equal semiannual installments, the first such installment being due on the earlier of (i) the 180th day following the date of such advance and (ii) the last day of the commitment period described above.

As consideration for each Bank's agreement to enter into its Standby Bond Purchase Agreement, the Commonwealth will pay fees to such Bank on a periodic basis and will reimburse the Bank for certain fees and expenses, including increased costs.

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APPENDIX F

INFORMATION CONCERNING COMMERZBANK AKTIENGESELLSCHAFT
AND THE TORONTO-DOMINION BANK

The following information has been provided by Commerzbank Aktiengesellschaft and The Toronto-Dominion Bank, and is not guaranteed as to accuracy or completeness by the Commonwealth or the Underwriter and is not to be construed as a representation by the Commonwealth or the Underwriter. Neither the Commonwealth nor the Underwriter has made any independent investigation regarding such information.

Commerzbank Aktiengesellschaft

Commerzbank Aktiengesellschaft is the third largest publicly held banking institution in terms of assets in Germany. Commerzbank and its consolidated subsidiaries are engaged in a broad range of commercial and investment banking services and related activities in Germany and around the world. Commerzbank functions as a full service commercial and investment bank. In certain specialized areas, such as mortgage lending, leasing, asset management, fund management, real estate activities and equity participations, Commerzbank provides services through its subsidiaries. As of December 31, 1997, Commerzbank had total assets of U.S. $287 billion (U.S. $1 = DM 1.7987 closing price as of December 31, 1997. Bloomberg.) Commerzbank's capital stock is publicly held by more than 190,000 shareholders and is quoted on all eight German stock exchanges as well as on the stock exchanges of Amsterdam, Antwerp, Barcelona, Basal, Bernc, Brussels, Geneva, Lausanne, London, Luxembourg, Madrid, Milan, Paris, Tokyo, Vienna and Zurich. There is also a sponsored-ADR program in the USA.

In Germany, Commerzbank operates 940 branches that provide banking services to three million private customers. Abroad, Commerzbank maintains nearly 80 offices in 35 countries. Commerzbank is directly represented in all major financial and industrial centers with its own subsidiaries, branches or representative offices and employs approximately 1,600 staff abroad. It also has numerous holdings in leading local and regional financial institutions.

Commerzbank conducts extensive banking business in the United States, concentrating primarily in corporate lending, letter of credit and bankers acceptance facilities, participations in syndicated loan transactions, and treasury operations including foreign exchange transactions. Commerzbank has branches in New York, Chicago and Los Angeles and has an agency office in Atlanta.

For further information on the Commerzbank Group, a copy of Commerzbank's annual report can be obtained by contacting Karin Repaglia at 2 World Financial Center, New York, New York 10281, (212) 266-7200.

Under the banking laws of the Federal Republic of Germany, all German banks are subject to supervision by the Federal Banking Supervisory Office (Bundesaufsichtsamt für das Kreditwesen), the Federal Securities Trading Supervisory Commission (Bundesaufsichtsamt für den Wertpapierhandel), and by the German Central Bank (Deutsche Bundesbank). The Federal Banking Supervisory Office has the power, inter alia, to issue and revoke licenses, to issue regulations on capital and liquidity requirements, to demand the removal of members of the bank's management, to inspect books and records, to designate the contents required in reports on financial matters by banks and to take action where deposits are considered to be at risk. Bank lending activities in the Federal Republic of Germany are regulated closely under the German Banking Law (Kreditwesengesetz) (the "Banking Law"), as amended most recently on October 24, 1994. The Banking Law and directives of the European Union, of which Germany is a member, contain provisions on solvency, long-term lending and investmennts. The Banking Law also contains limits on large loans to individual borrowers. Compliance with and enforcement of these regulations are supervised through extensive reporting requirements. In addition, Commerzbank is subject to extensive regulation by the countries in which it operates.

The New York branch of Commerzbank is licensed by the Superintendent of Banks of the State of New York (the "Superintendent"), is subject to the banking laws of the State of New York and is examined by the New York State Banking Department. Commerzbank's branches in Chicago and Los Angeles are subject to similar regulation by the states in which they operate. In addition to being subject to state laws and regulations, Commerzbank is also subject to federal regulation under the International Banking Act and, through the International Banking Act, the Bank Holding Company Act.

The Toronto-Dominion Bank

The Toronto-Dominion Bank, collectively with its subsidiaries referred to as TD Bank Financial Group, is a Canadian chartered bank subject to the provisions of the Bank Act (Canada). The Bank was formed through the amalgamation on February 1, 1955 of The Bank of Toronto (established 1855) and The Dominion Bank (established 1869). As at April 30, 1998, the Bank was the fifth largest chartered bank in Canada in terms of assets.

TD Bank Financial Group offers a wide range of financial products and services to individuals, corporate and commercial enterprises, financial institutions and governments throughout Canada. Personal banking services include personal and residential mortgage loans, mutual funds, credit card facilities, trust services and automated banking facilities. The Bank conducts the largest discount brokerage operation in Canada. The Bank services the financial needs of Canadian businesses through its domestic divisions and its corporate and investment banking group supported by a wide range of industry and banking specialists. The Bank is active in arranging mergers and acquisitions, securities underwriting, private placements, domestic and international capital markets transactions, mutual fund management, money markets and foreign exchange.

Internationally, the Bank offers a broad range of credit, non-credit and financial advisory services to businesses, multinational corporations, government and correspondent banks through offices in the United States and major international financial centers. The Bank offers discount brokerage services through Waterhouse Investor Services, Inc. ("Waterhouse") in the United States. As of April 30, 1998, the Bank provided its services through a network of approximately 900 branches and offices located throughout the Canadian provinces and abroad, and over 2,100 automated banking machines located in Canada.

Net income for the year ended October 31, 1997 was C$1,088 million, compared to C$914 million for the year ended October 31, 1996. Net income for the nine months ended July 31, 1998 was C$887 million, compared to C$799 million for the nine months ended July 31, 1997.

As at July 31, 1998, total assets of the Bank were C$208.7 billion and total shareholders' equity was C$8.4 billion.

Recent Developments

On November 7, 1997, Waterhouse acquired the business of Kennedy, Cabot & Co., a leading California-based discount brokerage for U.S. $155 million cash.

On February 1, 1998, A. Charles Ballie, President since 1995 and Chief Executive Office since February 1997, became chairman of the Board on the retirement of Richard M. Thompson.

On April 17, 1998 the Bank and Canadian Imperial Bank of Commerce ("CIBC") announced a definitive agreement to combine their operations as equal partners and create a new Bank under the name Canadian Imperial Bank of Commerce.

The merger is subject to approval by shareholders and the Canadian Minister of Finance, Competition Bureau and Superintendent of Financial institutions as well as other Canadian and foreign regulatory agencies. Final approval is not expected until sometime in 1999.

The new bank will have shareholders' equity of over C$18 billion and assets of approximately C$460 billion.

On May 28, 1998, Waterhouse acquired the business of Jack White & Company, another leading California-based discount brokerage firm, for approximately U.S. $100 million in cash.

Incorporation by Reference

Copies of the Bank's 1997 Annual Statement and 1998 First, Second and Third Quarter Reports to Shareholders are available, without charge, upon request by telephone or mail from The Toronto-Dominion Bank, U.S.A. Division, 31 West 52nd Street, New York, NY. 10019-6101, Attention: Comptroller, Telephone (212) 827-0300.

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