THE

COMMONWEALTH

OF

MASSACHUSETTS

INFORMATION STATEMENT

Dated May 8, 2012

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THE COMMONWEALTH OF MASSACHUSETTS

CONSTITUTIONAL OFFICERS

Deval L. Patrick	**Governor**
Timothy P. Murray	**Lieutenant Governor**
William F. Galvin	**Secretary of the Commonwealth**
Martha Coakley	**Attorney General**
Steven Grossman	**Treasurer and Receiver-General**
Suzanne M. Bump	**Auditor**

LEGISLATIVE OFFICERS

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

THE COMMONWEALTH OF MASSACHUSETTS

INFORMATION STATEMENT

May 8, 2012

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

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

Exhibit A to this Information Statement is the Statement of Economic Information as of April 2, 2012. Exhibit A sets forth certain economic, demographic and statistical information concerning the Commonwealth.

Exhibits B and C, respectively, are the Commonwealth's Statutory Basis Financial Report for the year ended June 30, 2011 and the Commonwealth's Comprehensive Annual Financial Report, reported in accordance with generally accepted accounting principles (GAAP), for the year ended June 30, 2011. The Commonwealth's independent auditor has not been engaged to perform, and has not performed, since the respective dates of its reports included herein, any procedures on the financial statements addressed in such reports, nor has said independent auditor performed any procedures relating to the official statement of which this Information Statement is a part.

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

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THE GOVERNMENT

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

Executive Branch

Governor. The Governor is the chief executive officer of the Commonwealth. Other elected members of the executive branch are the Lieutenant Governor (elected with the Governor), the Treasurer and Receiver-General (State Treasurer), the Secretary of the Commonwealth (State Secretary), the Attorney General and the State Auditor. All are elected to four-year terms. The terms of the current office holders began in January, 2011.

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

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

Governor's Cabinet. The Governor's Cabinet, which assists the Governor in administration and policy making, is comprised of the secretaries who head the seven Executive Offices, which are the Executive Office for Administration and Finance, the Executive Office of Health and Human Services, the Executive Office of Public Safety and Security, the Executive Office of Housing and Economic Development, the Executive Office of Labor and Workforce Development, the Executive Office of Energy and Environmental Affairs and the Executive Office of Education. In addition, the Secretary of Transportation, who is the chief executive of the Massachusetts Department of Transportation (MassDOT), is a member of the Governor's Cabinet. (MassDOT has a legal existence separate from the Commonwealth but houses several former departments of state government, including the Executive Office of Transportation, the Highway Department and the Department of Conservation and Recreation.) Cabinet secretaries and executive department chiefs, as well as the Secretary of Transportation, serve at the pleasure of the Governor. Most other agencies are grouped under one of the seven Executive Offices for administrative purposes.

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

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

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

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

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

State Comptroller. Accounting policies and practices, publication of official financial reports and oversight of fiscal management functions are the responsibility of the Comptroller. The Comptroller also administers the Commonwealth's annual state single audit and manages the state accounting system. The Comptroller is appointed by the Governor for a term coterminous with the Governor's and may be removed by the Governor only for cause. The annual financial reports of the Commonwealth, single audit reports and any rules and regulations promulgated by the Comptroller must be reviewed by an advisory board. This board is chaired by the Secretary of Administration and Finance and includes the State Treasurer, the Attorney General, the State Auditor, the Chief Administrative Justice of the Trial Court and two persons with relevant experience appointed by the Governor for three-year terms. The Commonwealth's annual reports include financial statements on the statutory basis of accounting (the Statutory Basis Financial Report, or SBFR) and audited financial statements on the GAAP basis (the Comprehensive Annual Financial Report, or CAFR). The Statutory Basis Financial Report for the year ended June 30, 2011, included herein by reference as Exhibit B was reviewed, and the Comprehensive Annual Financial Report for the year ended June 30, 2011, included herein by reference as Exhibit C was audited, by KPMG LLP, as stated in its reports appearing therein. KPMG LLP has not been engaged to perform, and has not performed, since the respective dates of its reports included herein, any procedures on the financial statements addressed in such reports, nor has it performed any procedures relating to the official statement of which this Information Statement is a part. See "COMMONWEALTH BUDGET AND FINANCIAL MANAGEMENT CONTROLS."

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

Legislative Branch

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

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

Judicial Branch

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

Independent Authorities and Agencies

The Legislature has established a number of independent authorities and agencies within the Commonwealth, the budgets of which are not included in the Commonwealth's annual budget. The Governmental Accounting Standards Board (GASB) Statements 14 and 39 articulate standards for determining significant financial or operational relationships between the primary government and its independent entities. In fiscal 2011, the Commonwealth had significant operational or financial relationships, or both, as defined by GASB Statements 14 and 39 (as amended), with 16 of these authorities. A discussion of these entities and the relationship to the Commonwealth is included in footnote 1 to the fiscal 2011 Basic Financial Statements in the CAFR, included herein by reference as Exhibit C.

Local Government

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

Municipal revenues consist of taxes on real and personal property, distributions from the Commonwealth under a variety of programs and formulas, local receipts (including motor vehicle excise taxes, local option taxes, fines, licenses and permits, charges for utility and other services and investment income) and appropriations from other available funds (including general and dedicated reserve funds). See "COMMONWEALTH REVENUES AND EXPENDITURES – Local Aid."

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

Initiative Petitions

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

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

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COMMONWEALTH BUDGET AND FINANCIAL MANAGEMENT CONTROLS

Operating Fund Structure

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

Two of the budgeted operating funds account for most of the Commonwealth's appropriated spending: the General Fund and the Commonwealth Transportation Fund (the "Transportation Fund") (formerly the Highway Fund), from which approximately 95.2% of the statutory basis budgeted operating fund outflows in fiscal 2011 were made. The remaining approximately 4.8% of statutory operating fund outflows occurred in other operating funds: the Commonwealth Stabilization Fund, the Administrative Control funds, the Temporary Holding Fund, the Intragovernmental Service Fund, the Inland Fisheries and Game Fund, the Marine Recreational Fisheries Development Fund, the Workforce Training Fund, the Substance Abuse Prevention and Treatment Fund, and the Massachusetts Tourism Fund. There were also six funds which were authorized by law but had no activity: the Collective Bargaining Reserve Fund, the Tax Reduction Fund, the Dam Safety Trust Fund, the International Educational and Foreign Language Grant Program Fund, the Bay State Competitiveness Investment Fund, and the Highway Fund. In fiscal 2011, the Commonwealth Stabilization Fund had both inflows and outflows. At the end of a fiscal year, undesignated balances in the budgeted operating funds, unless excluded by law, are used to calculate the consolidated net surplus. Under state finance law, balances in the Stabilization Fund and the Tax Reduction Fund, both of which may receive consolidated net surplus funds, and the Inland Fisheries and Game Fund are excluded from the consolidated net surplus calculation.

Overview of Operating Budget Process

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

The House Ways and Means Committee considers the Governor's budget recommendations and, with revisions, proposes a budget to the full House of Representatives. Once approved by the House, the budget is considered by the Senate Ways and Means Committee, which in turn proposes a budget to be considered by the full Senate. In recent years, the legislative budget review process has included joint hearings by the Ways and Means Committees of the Senate and the House. After Senate action, a legislative conference committee develops a joint budget recommendation for consideration by both houses of the Legislature, which upon adoption is sent to the Governor. Under the Massachusetts constitution, the Governor may veto the budget in whole or disapprove or reduce specific line items (line item veto). The Legislature may override the Governor's veto or specific line-item vetoes by a two-thirds vote of both the House and Senate. The annual budget legislation, as finally enacted, is known as the general appropriations act.

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

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

Cash and Budgetary Controls

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

Capital Investment Process and Controls

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

Based on outstanding authorizations, the Executive Office for Administration and Finance, at the direction of the Governor and in conjunction with the cabinet and other officials, establishes a capital investment plan. The plan is an administrative guideline and subject to amendment at any time. The plan assigns authority for secretariats and agencies to spend on capital projects and is reviewed each fiscal year. The primary policy objectives of the plan are to determine and prioritize the Commonwealth's investment needs, to determine the affordable level of debt that may be issued and the other funding sources available to address these investment needs, and to allocate these limited capital investment resources among the highest priority projects. See "COMMONWEALTH CAPITAL INVESTMENT PLAN."

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

Cash Management Practices of State Treasurer

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

The Cash Management Division of the State Treasurer's office utilizes approximately 900 operating accounts to track cash collections and disbursements for the Commonwealth. The Division relies primarily upon electronic receipt and disbursement systems.

The State Treasurer, in conjunction with the Executive Office for Administration and Finance, is required to submit quarterly cash flow projections for the then current fiscal year to the House and Senate Committees on Ways and Means on or before the last day of August, November, February and May. The projections must include estimated sources and uses of cash, together with the assumptions from which such estimates were derived and identification of any cash flow gaps. See "FISCAL 2012 AND FISCAL 2013 – Cash Flow." The State Treasurer's office, in conjunction with the Executive Office for Administration and Finance, is also required to develop quarterly and annual cash management plans to address any gap identified by the cash flow projections and variance reports. The State Treasurer's office oversees the issuance of short-term debt to meet cash flow needs, including the issuance of commercial paper and revenue anticipation notes. See "LONG-TERM LIABILITIES – General Obligation Debt."

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

Fiscal Control, Accounting and Reporting Practices of Comptroller

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

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

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

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

Internal Controls. The Comptroller establishes internal control policies and procedures in accordance with state finance law. Agencies are required to adhere to such policies and procedures. All unaccounted-for variances, losses, shortages or thefts of funds or property must be reported to the State Auditor, who is authorized to investigate and recommend corrective action.

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

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

GAAP Basis of Accounting. The Comptroller also prepares Commonwealth financial statements on a GAAP basis. In addition to the primary government, certain independent authorities and agencies of the Commonwealth are included as component units within the Commonwealth's reporting entity, primarily as non-budgeted enterprise funds.

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

Under the current financial resources management focus of GAAP (also called the "fund perspective"), the primary emphasis is to demonstrate inter-period equity. Revenues are reported in the period in which they become both measurable and available. Revenues are considered available when they are expected to be collected within the current period or soon enough thereafter to be used to pay liabilities of the current period.

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

Major expenditure accruals are recorded for the cost of Medicaid claims that have been incurred but not paid, claims and judgments and workers' compensation claims incurred but not reported and contract assistance to state authorities. See Exhibit C - Comprehensive Annual Financial Report for the year ended June 30, 2011; Notes to the Basic Financial Statements.

Audit Practices of State Auditor

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

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

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

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COMMONWEALTH REVENUES AND EXPENDITURES

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

In order to fund its programs and services, the Commonwealth collects a variety of taxes and receives revenues from other non-tax sources, including the federal government and various fees, fines, court revenues, assessments, reimbursements, interest earnings and transfers from its non-budgeted funds, which are deposited in the General Fund, the Transportation Fund (formerly the Highway Fund) and other operating budgeted funds. For purposes of this Information Statement, these funds will be referred to as budgeted operating funds, and revenues deposited in such funds will be referred to as budgeted operating revenues. In fiscal 2011, on a statutory basis, approximately 56.7% of the Commonwealth's budgeted operating revenues and other financing sources were derived from state taxes. In addition, the federal government provided approximately 28.2% of such revenues, with the remaining 15.1% provided from departmental revenues and transfers from non-budgeted funds. The measurement of revenues for the budgeted operating funds on a statutory basis differs from governmental revenues on a GAAP basis. See "Selected Financial Data – GAAP Basis; Revenues – GAAP Basis." The Commonwealth's executive and legislative branches establish the Commonwealth's budget using the statutory basis of accounting.

Statutory Basis Distribution of Budgetary Revenues and Expenditures

The revenues and expenditures of the budgeted operating funds presented in the following table are derived from the Commonwealth's statutory basis financial statements for fiscal 2007 through 2011. Projections for fiscal 2012 have been prepared by the Executive Office for Administration and Finance. Except where otherwise indicated, they are based on the office's most recent estimate of tax revenue (as officially issued) and non-tax revenue, on enacted appropriations adjusted for projected reversions and on supplemental appropriations filed by the Governor that remain before the Legislature. The financial information presented includes all budgeted operating funds of the Commonwealth. See "COMMONWEALTH BUDGET AND FINANCIAL MANAGEMENT CONTROLS — Operating Fund Structure" for additional detail.

The following table sets forth the Commonwealth's revenues and expenditures for fiscal 2007 through fiscal 2011 and projected revenues and expenditures for fiscal 2012.

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

	Fiscal 2007	Fiscal 2008	Fiscal 2009	Fiscal 2010	Fiscal 2011	Projected Fiscal 2012(8)(9)
Beginning Fund Balances						
Reserved or Designated	$947.20	$351.30	$171.50	$68.90	$122.0	$400.1
Bay State Competitiveness Investment Fund	-	100	-	-	-	-
Stabilization Fund	2,154.70	2,335.00	2,119.20	841.3	669.8	1,379.1
Undesignated	106.2	114.7	115.1	106.4	111.3	121.7
Total	**$3,208.10**	**$2,901.00**	**$2,405.80**	**$1,016.60**	**$903.1**	**$1,900.8**
Revenues and Other Sources						
Alcoholic Beverages	71	71.2	71.9	71	72.7	75.3
Banks	340.9	547.8	242.6	234.9	(11.0)	11
Cigarettes	438.1	436.9	456.8	456.2	453.6	447.6
Corporations	1,587.60	1,512.20	1,548.60	1,600.30	1,951.4	1,838.9
Deeds	194.1	153.9	105.5	137.9	140.2	126.2
Income	11,399.60	12,483.80	10,583.70	10,110.30	11,576.0	12,102.6
Inheritance and Estate	249.6	254	259.7	221.4	309.6	256.9
Insurance	418.6	417.7	356.7	330	340.3	360.2
Motor Fuel	676.1	672.2	654	654.6	660.8	656.4
Public Utilities	178.3	120.2	(1.7)	(0.3)	(8.8)	7.1
Room Occupancy	111.1	119.2	109.5	101.6	110.4	115.1
Sales:						
Regular	2,927.70	2,952.20	2,799.70	3,282.80	3,476.3	3,513.3
Meals	608.7	632.9	629.6	759.6	813.3	844.3
Motor Vehicles	531.1	501.6	439.3	569.3	615.2	638.3
Sub-Total–Sales	4,067.50	4,086.70	3,868.60	4,611.70	4,904.8	4,995.9
Miscellaneous	3.8	3.1	3.3	14.1	16.6	16.7
Total Tax Revenues	**$19,736.30**	**$20,879.20**	**$18,259.50**	**$18,543.70**	**$20,516.6**	**$21,010.0**
MBTA Transfer	(734)	(756)	(767.1)	(767.1)	(767.1)	(779.1)
MSBA Transfer	(557.4)	(634.7)	(702.3)	(605.2)	(654.6)	(664.3)
WTF Transfer(2)	-	-	-	-	-	(19.2)
Total Budgeted Operating Tax Revenues	**$18,444.90**	**$19,488.50**	**$16,790.00**	**$17,171.40**	**$19,094.9**	**$19,547.4**
Federal Reimbursements	6,167.60	6,429.50	8,250.90	8,548.80	9,299.5	7,863.1
Departmental and Other Revenues	2,218.40	2,355.90	2,326.20	2,800.90	2,912.3	3,123.5
Inter-fund Transfers from Non-budgeted Funds and other sources (3)	1,785.00	2,039.30	1,850.30	1,788.80	1,768.6	1,740.1
Budgeted Revenues and Other Sources	**$28,615.90**	**$30,313.20**	**$29,217.40**	**$30,310.00**	**$33,075.3**	**$32,274.1**
Inter-fund Transfers	552.9	2,226.30	1,963.80	770.8	3,460.9	859.8
Total Budgeted Revenues and Other Sources	**$29,168.80**	**$32,539.50**	**$31,181.20**	**$31,080.80**	**$36,536.3**	**$33,133.9**
Expenditures and Uses						
Direct Local Aid	4,805.20	5,040.50	4,723.60	4,837.40	4,784.7	4,929.9
Medicaid (4)	7,550.40	8,246.30	8,679.20	9,287.60	10,237.3	10,434.7
Other Health and Human Services	4,625.30	4,796.50	4,828.30	4,616.60	4,614.8	4,777.8
Group Insurance	1,022.30	852.5	973.1	1,063.80	1,130.3	1,201.1
Department of Elementary and Secondary Education	459	485.8	495.9	358.1	349.4	507.7
Higher Education	1,115.70	1,084.40	1,035.50	845.6	943.0	926.3
Department of Early Education and Care	507.1	549.9	560.3	513.5	515.1	504.8
Public Safety	1,399.20	1,544.40	1,514.30	1,423.20	905.0	1,445.2
Energy and Environmental Affairs	238.5	227.1	215.9	202.2	185.6	188.1
Debt Service	2,234.40	1,990.10	2,011.70	1,979.90	1,663.9	2,208.4

	Fiscal 2007	Fiscal 2008	Fiscal 2009	Fiscal 2010	Fiscal 2011	Projected Fiscal 2012(8)(9)
Post Employment Benefits (5)	1,335.20	1,398.60	1,314.40	1,748.60	1,838.9	1,892.3
Other Program Expenditures	2,364.90	2,414.10	2,350.90	2,509.00	2,850.4	2,075.3
Total - Programs and Services before transfers to Non-budgeted funds	**$27,657.20**	**$28,630.20**	**$28,703.10**	**$29,384.50**	**$30,018.6**	**$31,091.6**
Inter-fund Transfers to Non-budgeted Funds						
Commonwealth Care Trust Fund	722.1	1,045.90	987.6	631.7	739.0	614.9
State Retiree Benefit Trust Fund (5)	-	$354.70	$352.00	-	-	-
Medical Assistance Trust Fund	364	376.7	374	313.3	886.1	394.0
Massachusetts Transportation Trust Fund	-	-	-	(6)	195.1	180.1
Other	179.6	400.9	189.9	94.1	238.8	371.2
Total Inter-Fund Transfers to Non-Budgeted Funds	**$1,265.70**	**$2,178.20**	**$1,903.50**	**$1,039.10**	**$2,059.0**	**$1,560.2**
Budgeted Expenditures and Other Uses	**$28,922.90**	**$30,808.40**	**$30,606.60**	**$30,423.60**	**$32,077.6**	**$32,651.8**
Inter-fund Transfers	553	2,226.30	1,963.80	770.8	3,460.9	859.8
Total Budgeted Expenditures and Other Uses	**$29,475.90**	**$33,034.70**	**$32,570.40**	**$31,194.40**	**$35,538.5**	**$33,511.6**
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	**($307.10)**	**($495.20)**	**($1,389.20)**	**($113.60)**	**$997.8**	**($377.7)**
Ending Fund Balances						
Reserved or Designated (7)	351.3	171.5	68.9	122	400.1	19.2
Bay State Competitiveness Investment Fund	100.0	-	-	-	-	-
Stabilization Fund	2,335.00	2,119.20	841.3	669.8	1,379.1	1,377.7
Undesignated	114.7	115.1	106.4	111.3	121.7	126.2
Total	**$2,901.00**	**$2,405.80**	**$1,016.60**	**$903.10**	**$1,900.8**	**$1,523.1**

SOURCES: Fiscal 2007-2011, Office of the Comptroller; fiscal 2012, Executive Office for Administration and Finance.

(1) Totals may not add due to rounding.
(2) The fiscal year 2012 budget adopted changes to the Workforce Training Fund, which annually is funded through employer contributions for workforce training initiatives for incumbent workers in the private sector. Beginning in fiscal 2012 the WTF will not be subject to annual appropriation and the employer contributions, estimated at $19.2 million, are transferred directly to the WTF after their collection.
(3) Inter-fund Transfers from Non-budgeted Funds and Other Sources include profits from the State Lottery, transfer of tobacco settlement funds to allow their expenditure, abandoned property proceeds as well as other inter-fund transfers.
(4) Excludes off-budget Medicaid spending in fiscal 2007 estimated at $292 million and $290 million, respectively. Fiscal 2007 through fiscal 2009 included program administration.
(5) Starting in fiscal 2010 Post Employment Benefits include budgeted pension transfers and State Retiree Benefit Trust Fund.
(6) Transfers of approximately $133.4 million in fiscal 2010 are included in "Other Program Expenditures" above.
(7) Consists largely of appropriations from previous years, authorized to be expended in current years.
(8) Based on the fiscal 2012 budget tax revenue estimate of $21.010 billion, which was revised by the Executive Office for Administration and Finance on October 17, 2011.
(9) Current budgetary assumptions reflect up to date tax collections which indicate that the Commonwealth could end the fiscal year more than $200 million below the tax revenue benchmark of $21.010 billion.

State Taxes

The major components of state taxes are the income tax, which is projected to account for approximately 57.6% of total tax revenues in fiscal 2012, the sales and use tax, which is projected to account for approximately 23.8%, and the corporations and other business and excise taxes (including taxes on insurance companies, financial institutions and public utility corporations), which are projected to account for approximately 10.3%. Other tax and excise sources are projected to account for the remaining 8.3% of total fiscal 2012 tax revenues. See "FISCAL 2011 AND FISCAL 2012 – Fiscal 2011" for a description of certain tax law changes related to economic development signed by the Governor in August 2010.

Income Tax. The Commonwealth assesses personal income taxes at flat rates, according to classes of income, after specified deductions and exemptions. A rate of 5.3% has been applied to most types of income since January 1, 2002, although the rate was recently reduced to 5.25%, as described below. The tax rate on gains from the sale of capital assets held for one year or less and from the sale of collectibles is 12%, and the tax rate on gains from the sale of capital assets owned more than one year is now 5.25% (effective January 1, 2012). Interest on obligations of the United States and of the Commonwealth and its political subdivisions is exempt from taxation.

Under current law, the state personal income tax rate on most classes of taxable income is scheduled to be gradually reduced to 5.0%, contingent upon "baseline" state tax revenue growth (*i.e.*, revenue growth after factoring out the impact of tax law and administrative processing changes) growing by 2.5% more than the rate of inflation as measured by the consumer price index for all urban consumers in Boston. In the tax year following that in which the personal income tax rate is reduced to 5.0%, the charitable deduction, which was in effect for tax year 2000 but subsequently suspended, would be restored. State tax receipts for fiscal 2011 were significantly higher than receipts during fiscal 2010. See "COMMONWEALTH REVENUES AND EXPENDITURES – FISCAL 2011 AND FISCAL 2012; *Fiscal 2011*," below. Pursuant to state law, the state income tax rate on most classes of taxable income was reduced from 5.3% to 5.25% (effective January 1, 2012), because the growth in fiscal 2011 inflation adjusted baseline revenues (as defined in state law) over fiscal 2010 exceeded 2.5%, and because, for each consecutive three-month period starting in August and ending in November, 2011, there was positive inflation-adjusted baseline revenue growth as compared to the same consecutive three-month period in calendar 2010. The Department of Revenue estimates that the revenue impact of this rate reduction for fiscal 2012 will be between $52 million and $56 million (with a mid-point of $54 million). The revenue impact for fiscal 2013 (assuming no further rate reduction in calendar year 2013) is expected to be between $111 million and $117 million (mid-point of $114 million).

Sales and Use Tax. Effective August 1, 2009, the sales tax rate imposed on retail sales of certain tangible property (including retail sales of meals) transacted in the Commonwealth and a corresponding use tax rate on the storage, use or other consumption of like tangible properties brought into the Commonwealth was raised from 5% to 6.25%. Food, clothing, prescribed medicine, materials and produce used in food production, machinery, materials, tools and fuel used in certain industries and property subject to other excises (except for cigarettes) are exempt from sales taxation. The sales and use tax is also applied to sales of electricity, gas and steam for certain nonresidential use and to nonresidential and a portion of residential use of telecommunications services.

In August, 2009, when the sales tax rate increase was enacted, it was projected to produce an additional $759 million in fiscal 2010 and $900 million annually thereafter. Based on the most recently available data, reflecting both the economic recession and the recovery, the Department of Revenue currently estimates that the sales tax increase resulted in additional fiscal 2010 revenues of approximately $739 million, $918 million in fiscal 2011, and will result in additional revenues of $916 million to $954 million in fiscal 2012.

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

Sales tax receipts from establishments that first opened on or after July 1, 1997 and that are located near the site of the Boston Convention and Exhibition Center, sales tax receipts from retail vendors in hotels in Boston and Cambridge that first opened on or after July 1, 1997 and sales tax receipts from retail vendors located in the Springfield Civic and Convention Center or in hotels near the Springfield Civic and Convention Center that first opened on or after July 1, 2000 are required to be credited to the Convention Center Fund. As of enactment of the fiscal 2004 general appropriations act, this fund is no longer included in the calculation of revenues for budgeted operating funds. See "LONG-TERM LIABILITIES—Special Obligation Debt; *Convention Center Fund*."

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

Beginning in fiscal 2011, a portion of the Commonwealth's receipts from the sales tax (other than taxes required to be credited to the Convention Center Fund) is dedicated to the Commonwealth Transportation Fund. The amount dedicated is the amount raised by a portion of the sales tax equal to a 0.385% sales tax, with a floor of $275 million per fiscal year. Included in this amount is $100 million of general obligation contract assistance payments from the Commonwealth to the Massachusetts Department of Transportation. See "LONG TERM LIABILITIES – General Obligation Contract Assistance Liabilities" herein.

Business Corporations Tax. Business corporations doing business in the Commonwealth, other than banks and other financial institutions, insurance companies, railroads, public utilities and safe deposit companies, are subject to an excise that has a property measure and an income measure. The value of Massachusetts tangible property (not taxed locally) or net worth allocated to the Commonwealth is taxed at $2.60 per $1,000 of value. The net income allocated to Massachusetts, which is based on net income for federal taxes, is taxed at 8.00% (as of January 1, 2012), subject to further scheduled reductions. The minimum tax is $456. See discussion below under "Corporate Tax Reform" for a discussion of changes to the corporate tax structure and the business corporations' tax rates.

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

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

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

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

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

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

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

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

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

Insurance Taxes. Life insurance companies are subject to a 2% tax on gross premiums. Domestic companies also pay a 14% tax on net investment income. Property and casualty insurance companies are subject to a 2.28% tax on gross premiums. Domestic companies also pay a 1% tax on gross investment income.

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

Other Taxes. Other tax revenues are derived by the Commonwealth from excise taxes on motor fuels, cigarettes, alcoholic beverages and deeds, and hotel/motel room occupancy, among other tax sources. The excise tax on motor fuels is 21¢ per gallon. The state tax on hotel/motel room occupancy is 5.7%.

On July 1, 2008, the Governor approved legislation raising the tax on cigarettes from $1.51 per pack to $2.51 per pack. The Department of Revenue estimates that the $1.00 per pack cigarette tax increase resulted in a fiscal 2009 revenue increase of between $140 million and $150 million, and resulted in a fiscal 2010 revenue increase of $124 million, compared to revenue generated at the $1.51 per pack rate. The Department of Revenue estimates that revenue increases in subsequent years should also be between $115 million and $130 million annually.

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

In addition, the Commonwealth legislation specifically adopts a new federal exclusion from gross income of certain individuals. ARRA provides a subsidy of 65% of the cost of the Consolidated Omnibus Budget

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

Tax Credits and Other Incentives. Massachusetts law provides for a variety of tax credits that may be applied against corporate excise or personal income taxes due, as applicable under relevant law. These credits are designed as benefits for specified economic activities as a means to encourage such business in the state. Certain of these credits, to the extent not used to reduce a current tax liability, may be carried forward, transferred or refunded, as specified in the applicable statute. In addition, certain statutory provisions may also provide an exemption from sales and use taxes for qualifying expenditures, or other specified tax benefits. The annual "tax expenditure budget" filed by the Governor provides a list, description and revenue estimate of various tax credits and incentives (the fiscal 2012 tax expenditure budget is available on the Commonwealth's website at www.mass.gov and clicking on the link to "Your State Budget."

In July, 2007, the Commonwealth revised its film tax credit to provide tax credits of 25% of certain production costs incurred by film production companies in Massachusetts that incurred at least $50,000 of film production costs in the state. Such production companies were also granted a sales and use tax exemption for goods purchased in the Commonwealth. A film production company may elect either to transfer all or part of its production credit to another taxpayer or to claim a refund of 90% of the amount that is not currently used. There is no cap on the amount of film tax credits that may be claimed. Under current law, the film tax credit will expire on January 1, 2023. Since the program's inception, approximately $276.1 million in tax credits have been approved or are currently in the process of being approved by the Department of Revenue. The Department of Revenue estimates that the tax credits reduced fiscal 2007 tax revenues by approximately $11.9 million, reduced fiscal 2008 tax revenues by approximately $10.5 million, reduced fiscal 2009 tax revenues by approximately $110.0 million, reduced fiscal 2010 tax revenues by approximately $90.8 million, reduced fiscal 2011 tax revenues by approximately $45.4 million, and will reduce fiscal 2012 revenues by between $70 million and $90 million, not including any offsetting tax revenue from the film-related economic activity generated by the tax incentives. Virtually all of the reduction in tax payments resulting from credits that have been transferred or sold is reflected in the insurance, financial institutions, public utilities, and corporate tax categories. The Department of Revenue is required to prepare an annual report of the impact of the film tax credit (the most recent report is available at the Department's website at www.mass.gov/dor and by clicking on "News and Reports; Other Reports; Massachusetts Film Industry Tax Incentive Report."

Under legislation approved June 16, 2008 in support of the life sciences industry, up to $25 million per year in tax incentives is available to certified life sciences companies over a ten-year period, commencing January 1, 2009 for an aggregate amount of $250 million. The fiscal 2012 budget administratively reduced fiscal year 2012 tax expenditures by about $5 million (without reducing statutory authorizations) by limiting the actual tax credits that would be refunded or used by eligible corporations.

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

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

Tax Revenue Forecasting

Under state law, on or before October 15 and March 15 of each year, the Secretary of Administration and Finance is required to submit to the Governor and to the House and Senate Committees on Ways and Means estimates of revenues available to meet appropriations and other needs in the following fiscal year. On or before October 15, January 15 and April 15, the Secretary is required to submit revised estimates for the current fiscal year unless, in his opinion, no significant changes have occurred since the last estimate of total available revenues. On or before January 15 of each year, the Secretary is required to develop jointly with the House and Senate Committees on Ways and Means a consensus tax revenue forecast for the following fiscal year. Beginning in fiscal 2005, state finance law has required that the consensus tax revenue forecasts be net of the amount necessary to fully fund the pension system according to the applicable funding schedule, which amount is to be transferred without further appropriation from the General Fund to the Commonwealth's Pension Liability Fund. See "Employee Benefits; *Pension*" below.

The following table compares actual budgeted tax revenues to consensus tax revenue forecasts for fiscal 2007 to 2011 and as projected for 2012. The figures include sales tax receipts dedicated to the Massachusetts Bay Transportation Authority and the Massachusetts School Building Authority and amounts transferred to the state pension system.

Tax Revenue Forecasting (in millions)

	Fiscal 2007	Fiscal 2008	Fiscal 2009	Fiscal 2010	Fiscal 2011	Projected Fiscal 2012
Consensus forecast	$18,975	$19,879	$20,987	$17,989	$19,050	$20,525
Total taxes per enacted budget	$18,969	$19,879	$21,402	$18,879	$19,078	$20,615
October revision	19,132	20,225	20,302	18,279	-	21,010
January revision	19,300	20,225	19,450	18,460	19,784	-
April revision	-	-	19,333	-	-	-
May revision	-	-	18,436	-	-	-
Actual budgeted operating tax revenues	$18,445	$20,879	$18,260	$18,544	$20,517	$21,010
Actual revenues as a percentage of consensus forecast	97%	105%	87%	103%	108%	102%
Actual revenues as a percentage of total taxes per enacted budget	97%	105%	85%	98%	108%	102%

SOURCE: Executive Office for Administration and Finance.

Fiscal 2011, Fiscal 2012 and Fiscal 2013 Tax Revenues

Fiscal 2011. Tax revenues for fiscal 2011, ended June 30, 2011, totaled approximately $20.517 billion, an increase of approximately $1.973 billion, or 10.6%, over the same period in fiscal 2010. The following table shows the tax collections for fiscal 2011 and the change from tax collections in the same period in the prior year, both in dollars and as a percentage. The table also notes the amount of tax collections in each month of fiscal 2011 that were dedicated to the Massachusetts Bay Transportation Authority ("MBTA") and to the Massachusetts School Building Authority ("MSBA").

Fiscal 2011 Tax Collections (in millions)

Month	Tax Collections	Change from Prior Year	Percentage Change	MBTA Portion(2)	MSBA Portion	Tax Collections: Net of MBTA and MSBA
July	$1,352.7	$102.1	8.2%	$60.3	$60.3	$1,232.1
August	1,385.6	89.1	6.9	55.3	55.3	1,275.0
September	2,015.1	249.2	14.1	76.2	51.9	1,887.1
October	1,342.9	118.0	9.6	55.3	55.3	1,232.3
November	1,426.6	137.9	10.7	52.9	52.9	1,320.8
December	2,072.3	186.4	9.9	83.5	54.5	1,934.2
January	2,052.7	207.6	11.2	66.1	66.1	1,920.5
February	932.5	(70.1)	(7.0)	45.9	45.9	840.8
March	1,773.8	149.1	9.2	79.8	48.8	1,645.6
April	2,505.4	757.9	43.4	54.6	54.6	2,396.1
May	1,504.6	(69.7)	(4.4)	53.0	53.0	1,398.6
June	2,152.4	115.7	5.7	84.1	55.9	2,012.4
Total (1)	**$20,516.6**	**$1,972.9**	**10.6%**	**$767.1**	**$654.7**	**$19,094.9**

SOURCE: Executive Office for Administration and Finance.
(1) Totals may not add due to rounding.
(2) Includes adjustments of $24.3 million on account of the first quarter, $29 million on account of the second quarter, $31 million on account of the third quarter, and 28.1 million on account of the fourth quarter.

The tax revenue increase of approximately $1.973 billion for fiscal 2011 compared to fiscal 2010 is attributable, in large part, to an increase of approximately $431.8 million, or 34.2%, in income tax payments with returns and extensions (mostly in April), an increase of approximately $573.5 million, or 6.5%, in withholding collections, an increase of approximately $373.2 million, or 25.1%, in income tax estimated payments, a decrease of approximately $101.3 million, or 6.7%, in income tax refunds, an increase of approximately $293.1 million, or 6.4%, in sales and use tax collections, and an increase of approximately $107.6 million, or 5.1%, in corporate and business tax collections. Fiscal 2011 tax collections were approximately $732.6 million above the January 18, 2011 fiscal 2011 tax revenue estimate of $19.784 billion, which was an upward revision from the consensus estimate used for the original fiscal 2011 budget (adjusted for the impacts of the economic development bill and the sales tax holidays in August, 2010).

Fiscal 2012. The fiscal 2012 budget approved by the Governor on July 11, 2011 assumes tax revenues of $20.636 billion, reflecting the fiscal 2012 consensus tax estimate of $20.525 billion which was adjusted for the impact of revenue initiatives enacted as part of the budget, most notably including a one-year delay of the FAS 109 deductions ($45.9 million) and enhanced tax enforcement initiatives ($61.5 million). On August 1, 2011, the Governor approved legislation establishing a sales tax holiday on August 13-14, 2011. The $20.615 billion estimate also reflects the revenue loss impact from this two-day sales tax holiday, which is expected to be $20.9 million. (The estimate of $20.9 million was certified by the Commissioner of Revenue on December 30, 2011). As noted above, on October 17, 2011, the Secretary of Administration and Finance, based on available data on tax revenue collections and economic trends, revised the fiscal 2012 tax revenue estimate from $20.615 billion to $21.010 billion. See "RECENT DEVELOPMENTS – Fiscal 2012."

Tax revenues for the first ten months of fiscal 2012, ended April 30, 2012, totaled approximately $17.205 billion, an increase of approximately $345.6 million, or 2.0% over the same period in fiscal 2011. The following table shows the tax collections for the first ten months of fiscal 2012 and the change from tax collections in the same period in the prior year, both in dollars and as a percentage. The table also notes the amount of tax collections during the same ten-month period that are dedicated to the MBTA and the MSBA.

Fiscal 2012 Tax Collections (in millions)(1)

Month	Tax Collections	Change from Prior Year	Percentage Change	MBTA Portion(3)	MSBA Portion	Tax Collections: Net of MBTA and MSBA
July	$1,444.6	$91.9	6.8%	$59.6	$59.6	$1,325.3
August	1,425.3	39.7	2.9	54.1	54.1	1.317.0
September	2,195.8	180.8	9.0	81.0	52.4	2,062.4
October	1,448.8	105.8	7.9	56.4	56.5	1,335.9
November	1,363.3	(63.3)	(4.4)	52.9	52.9	1,257.5
December	1,967.3	(105.0)	(5.1)	85.4	57.3	1,824.5
January	2,038.6	(14.1)	(0.7)	67.4	67.4	1,903.7
February	1,011.1	78.5	8.4	49.6	49.6	911.8
March	1,802.1	28.3	1.6	77.7	49.6	1,674.7
April(1)	2,508.4	3.0	0.1	58.0	58.0	2,392.5
Total (2)	**$17,205.2**	**$345.6**	**2.0 %**	**$642.3**	**$557.5**	**$16,005.4**

SOURCE: Executive Office for Administration and Finance.
(1) Figures are preliminary.
(2) Totals may not add due to rounding.
(3) Includes adjustments of $28.6 million on the account of the first quarter, $28.1 million on the account of second quarter and $28.1 million on the account of third quarter.

The year-to-date tax revenue increase of approximately $345.6 million through April 30, 2012 from the same period in fiscal 2011 is attributable, in large part, to an increase of approximately $250.1 million, or 3.2%, in withholding collections, an increase of approximately $11.5 million, 0.8%, in income payments with returns and bills, a decrease of approximately $3.8 million, or 0.3%, in income cash refunds, an increase of approximately $122.0 million, or 3.0%, in sales and use tax collections, an increase of approximately $36.0 million, or 16.6%, in estate collections, which were partly offset by a decrease of approximately $19.7 million, 1.4%, in income cash estimated payments, and a decrease of approximately $79.4 million, or 4.6%, in corporate and business collections. The Department of Revenue confirmed in late April that significant non-recurring corporate and business tax-related payments were being made in amounts totaling close to $200 million.Those payments were received during the first two deposit days of May, 2012 and will be included in the May tax revenue report issued early in June. Year-to-date fiscal 2012 tax collections (through April) were approximately $180.4 million below the year-to-date benchmark for the fiscal 2012 tax revenue estimate of $21.010 billion.

Fiscal 2013. On January 12, 2012, a fiscal 2013 consensus tax revenue estimate of $21.950 billion was agreed upon by the Secretary of Administration and Finance and the chairs of the House and Senate Committees on Ways and Means. The fiscal 2013 consensus tax revenue estimate of $21.950 billion represents revenue growth of 4.5% actual and 5.4% baseline from the revised fiscal 2012 estimate of $21.010 billion.

Federal and Other Non-Tax Revenues

Federal revenues are collected through reimbursements for the federal share of entitlement programs such as Medicaid and through block grants for programs such as Transitional Assistance to Needy Families (TANF). The amount of federal reimbursements to be received is determined by state expenditures for these programs. The Commonwealth receives reimbursement for approximately 50% of its spending for Medicaid programs. Block grant funding for TANF is received quarterly and is contingent upon a maintenance-of-effort spending level determined annually by the federal government. Federal reimbursements for fiscal 2011 were $9.300 billion, including $1.244 billion as a result of enhanced federal medical assistance percentage (FMAP) reimbursement under the American Recovery and Reinvestment Act (ARRA). Federal reimbursements for fiscal 2012 are currently projected to be $7.863 billion.

Departmental and other non-tax revenues are derived from licenses, tuition, fees and reimbursements and assessments for services. For fiscal 2011, departmental and other non-tax revenues were $2.912 billion. The largest budgeted departmental revenues, assessments and miscellaneous revenues in fiscal 2011 included $461.3 million for Registry of Motor Vehicles fees, fines and assessments, $215.3 million from filing, registration and other fees paid to the Secretary of State's office, $116.2 million in fees, fines and assessments charged by the court systems and $68.9 million in tuition remitted to schools of higher education. Fiscal 2012 departmental and other non-tax revenues are projected to be $3.124 billion.

Lottery Revenues. For the budgeted operating funds, inter-fund transfers include transfers of profits from the State Lottery Fund and the Arts Lottery Fund and reimbursements for the budgeted costs of the State Lottery Commission, which accounted for transfers from the Lottery of $1.103 billion, $1.128 billion, $1.003 billion, $989.7 million and $976.5 million in fiscal 2007 through 2011, respectively. Under state law, the net balance in the State Lottery Fund, as determined by the Comptroller on each September 30, December 31, March 31 and June 30, is to be used to provide local aid.

The Lottery Commission's operating revenues for fiscal 2011 were $976.5 million. The result was a deficit of $10 million against the assumed $986.5 million budget to fund various commitments appropriated by the Legislature from the State Lottery Fund and Arts Lottery Fund, including Lottery administrative expenses, and $812.2 million in appropriations for local aid to cities and towns.

As enacted, the fiscal 2012 budget assumed total transfers from the Lottery of $986.5 million to fund various commitments appropriated by the Legislature from the State Lottery Fund and the Arts Lottery Fund, including Lottery administrative expenses and $809.8 million in appropriations for local aid to cities and towns, with the balance, if any to be transferred to the General Fund for the general activities of the Commonwealth. During fiscal 2012, the State Lottery Commission has revised its profit projections several times, most recently on May 1, 2012 to $1.038 billion, which would result in excess budgetary transfers of $51.7 million.

A five year history of Lottery revenues and profits is shown in the following table.

Lottery Revenues and Profits
(amounts in thousands)

Fiscal Year	Revenues	Net Operating Revenues	Net Profits
2011	$4,427,961	$976,547	$887,913
2010	4,423,732	989,727	903,486
2009	4,442,924	959,007	859,407
2008	4,709,343	1,014,430	913,048
2007	4,460,785	984,094	892,202

Source: State Lottery Commission

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

The Commonwealth's allocable share of the base amounts payable under the master settlement agreement is approximately 4.04% which equals more than $8.3 billion through 2025, subject to adjustments, reductions and offsets. However, in pending litigation tobacco manufacturers are claiming that because of certain developments they are entitled to reduce future payments under the master settlement agreement, and certain manufacturers withheld payments to the states due in April, 2006, April, 2007, April 2008, April, 2009, April 2010 and April 2011. The Commonwealth believes it is due the full amount and is pursuing its claim to unreduced payments. See "LEGAL MATTERS – Other Revenues." The Commonwealth was also awarded $414.3 million from a separate Strategic Contribution Fund established under the master settlement agreement to reward certain states' particular contributions to the national tobacco litigation effort. This additional amount, also subject to a number of adjustments, reductions and offsets, is payable in equal annual installments during the years 2008 through 2017.

Tobacco settlement payments were initially deposited in a permanent trust fund (the Health Care Security Trust), with only a portion of the moneys made available for appropriation. Beginning in fiscal 2003, however, the Commonwealth has appropriated the full amount of tobacco settlement receipts in each year's budget. The balance accumulated in the Health Care Security Trust amounted to $509.7 million at the end of fiscal 2007. The fiscal 2008 budget established the State Retiree Benefits Trust Fund for the purposes of depositing, investing and disbursing amounts set aside solely to meet liabilities of the state employee' retirement system for health care and other non-pension benefits for retired members of the system. In fiscal 2008 the Health Care Security Trust's balance was transferred to the State Retiree Benefits Trust Fund. The fiscal 2010, 2011 and 2012 budgets transfer all payments received by the Commonwealth in fiscal 2010, 2011 and 2012 pursuant to the master settlement agreement from the Health Care Security Trust to the General Fund. The fiscal 2012 budget included a requirement that, beginning in fiscal 2013, 10% of the annual tobacco payments are to be transferred to the State Retiree Benefits Trust Fund, with the difference deposited to the General Fund, and that the amount deposited to the State Retiree Benefits Trust Fund is to increase by 10% increments annually thereafter until 100% of all payments are transferred to that Fund. See "PENSION AND OPEB FUNDING – Other Post-Retirement Benefit Obligations (OPEB)."

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

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

Fiscal Year	Initial Payments	Annual Payments	Total Payments
2000	$186.6(2)	$139.6	$326.2(2)
2001	78.2	164.2	242.5
2002	82.8	221.7	304.5
2003	86.4	213.6	300.0
2004	-	253.6	253.6
2005	-	257.4	257.4
2006	-	236.3	236.3
2007	-	245.4	245.4
2008	-	288.5	288.5
2009	-	315.2	315.2
2010	-	263.7	263.7
2011	-	248.7	248.7
2012	-	253.6	253.6
Total	**$434.00**	**$3,101.50**	**$3,535.60**

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

Settlements and Judgments. The fiscal 2012 budget amended state finance law to provide that any one-time settlement or judgment amounting to $10 million or more is to be deposited in the Stabilization Fund rather than used as miscellaneous revenue for the current fiscal year. Upon receiving a joint certification from the Commissioner of Revenue and the Attorney General that a state agency is in receipt of a one-time settlement or judgment for the Commonwealth in excess of $10 million in any one fiscal year, the Comptroller is to transfer the proceeds of the settlement or judgment from the General Fund to the Stabilization Fund. Thus far in fiscal 2012, the Comptroller has transferred $213.8 million received on account of settlements and judgments. Such transfers are made on a bi-monthly basis.

Gaming. On November 22, 2011 the Governor approved legislation that authorize the licensing of up to three regional resort casinos (one per region) and one slot facility (up to 1,250 slots) in the Commonwealth. The legislation established an appointed, independent state gaming commission to oversee the implementation of the law and the regulation of the resultant gaming facilities. Licensing fees collected by the commission are to be applied to a variety of one-time state and local purposes, and gaming revenues received by the Commonwealth are to be applied to a variety of ongoing expenses, including local aid and education, with stipulated percentages also to be deposited in the Stabilization Fund and applied to debt reduction. The legislation stipulates that initial licensing fees, which are to be set by the gaming commission, must be at least $85 million per casino and $25 million for the slot facility. Neither the sponsors of the legislation nor the Executive Office for Administration and Finance have released any cost or revenue projections. The Commonwealth's fiscal 2012 budget does not assume any revenue from expanded gaming. The Governor did not assume any revenue from expanded gaming in his fiscal 2013 budget recommendations, nor did the House of Representatives in its version which it approved on April 25, 2012.

Limitations on Tax Revenues

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

Tax revenues in fiscal 2007 through 2011 were lower than the "allowable state tax revenue" limit set by Chapter 62F, and are expected to be lower than the limit in fiscal 2012.

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

As of December 31, 2011 actual state tax revenues for fiscal 2012 were lower than the permissible state tax revenue limit set by Chapter 62F by approximately $245.7 million.

The following table shows the quarter by quarter trend of the Temporary Holding Fund for fiscal 2008 through the third quarter of fiscal 2012.

Temporary Holding Fund
(in thousands)

	Fiscal 2008	Fiscal 2009	Fiscal 2010	Fiscal 2011	Fiscal 2012
First quarter - period ended September 30					
Cumulative net tax revenues, current fiscal year	$4,796,700	$4,870,214	$4,374,038	$4,819,581	$5,136,829
Cumulative net tax revenues, prior fiscal year	4,542,170	4,796,700	4,870,214	4,374,038	4,819,581
Permissible growth rate(1)	6.94%	7.89%	4.13%	2.57%	4.72%
Permissible state tax revenues(2)	4,857,306	5,175,160	5,080,266	4,486,538	5,047,065
Cumulative net revenues, current fiscal year, in excess of permissible revenues	$ -	$ -	$ -	$333,042	$89,764
Second quarter - period ended December 31					
Cumulative net tax revenues, current fiscal year	$9,194,513	$9,200,005	$8,834,580	$9,732,050	$9,986,749
Cumulative net tax revenues, prior fiscal year	8,831,036	9,194,513	9,200,005	8,834,580	9,732,050
Permissible growth rate(1)	6.93%	8.34%	2.10%	3.47%	5.14%
Permissible state tax revenues(2)	9,442,585	9,960,876	9,392,837	9,140,698	10,232,472
Cumulative net revenues, current fiscal year, in excess of permissible revenues	$ -	$ -	$ -	$591,351	$ -
Third quarter - period ended March 31					
Cumulative net tax revenues, current fiscal year	$14,485,334	$13,599,204	$13,358,852	$14,550,178	$14,900,137
Cumulative net tax revenues, prior fiscal year	13,659,294	14,485,334	13,599,204	13,358,852	14,550,178
Permissible growth rate(1)	7.41%	7.60%	2.00%	4.04%	5.30%
Permissible state tax revenues(2)	14,671,584	15,586,799	13,871,188	13,898,416	15,321,920
Cumulative net revenues, current fiscal year, in excess of permissible revenues	$ -	$.-	$.-	651,763	
Fourth Quarter - Period ending June 30					
Cumulative net tax revenues, current fiscal year	$21,009,329	$18,513,036	$18,792,777	$20,776,223	
Cumulative net tax revenues, prior fiscal year	19,848,064	21,009,085	18,513,036	18,792,777	
Permissible growth rate(1)	7.66%	6.27%	1.61%	4.24%	
Permissible state tax revenues(2)	21,368,426	22,325,305	18,810,911	19,588,839	
Cumulative net revenues, current fiscal year, in excess of permissible revenues	$ -	$ -	$ -	$1,187,394	

SOURCES: Office of the Comptroller .
(1) Defined as inflation plus 2%, but not less than 0%.
(2) Defined as cumulative net state tax revenues, prior fiscal year, multiplied by 1 plus the permissible growth rate.

Local Aid

Commonwealth Financial Support for Local Governments. The Commonwealth makes substantial payments to its cities, towns and regional school districts (local aid) to mitigate the impact of local property tax limits on local programs and services. See "*Property Tax Limits*" below. Local aid payments to cities, towns and regional school districts take the form of both direct and indirect assistance. Direct local aid consists of general revenue sharing funds and specific program funds sent directly to local governments and regional school districts as reported on the so-called "cherry sheet" prepared by the Department of Revenue, excluding certain pension funds and non-appropriated funds. In fiscal 2012, approximately $4.88 billion of the Commonwealth's budget was allocated to direct local aid. The Governor's budget recommendation for fiscal 2013 provides $4.97 billion of state-funded local aid to municipalities.

As a result of comprehensive education reform legislation enacted in June, 1993, a large portion of general revenue sharing funds is earmarked for public education and is distributed through a formula specified in Chapter 70 of the General Laws designed to provide more aid to the Commonwealth's poorer communities. The legislation requires the Commonwealth to distribute aid to ensure that each district reaches at least a minimum level of spending per public education pupil. Since fiscal 1994, the Commonwealth has fully funded the requirements imposed by this legislation in each of its annual budgets. Beginning in fiscal 2007, the Legislature implemented a new model for the Chapter 70 program which was adjusted to resolve aspects of the formulas that were perceived to be creating inequities in the aid distribution. The fiscal 2012 budget includes state funding for Chapter 70 education aid of $3.99 billion. This level of funding for Chapter 70 brings all school districts to the foundation level called for by 1993 education reform legislation, and is an increase of $139.6 million over the fiscal 2011 state supported amount of $3.85 billion.

The fiscal 2010 budget eliminated lottery local aid and additional assistance and created a new local aid funding source called unrestricted general government aid. This account is now the other major component of direct local aid, providing unrestricted funds for municipal use. The fiscal 2012 budget provided for cities and towns to receive $898.9 million in unrestricted general government aid. The Governor's fiscal 2013 budget recommendations propose to spend $833 million in unrestricted general government aid, with the ability to spend an additional $65 million should surplus funds be available at the end of fiscal 2012. The fiscal 2013 budget passed by the House of Representatives on April 25, 2012 proposes to spend $898 million for unrestricted general government aid.

Property Tax Limits. In November, 1980, voters in the Commonwealth approved a statewide tax limitation initiative petition, commonly known as Proposition 2½, to constrain levels of property taxation and to limit the charges and fees imposed on cities and towns by certain governmental entities, including county governments. Proposition 2½ is not a provision of the state constitution and accordingly is subject to amendment or repeal by the Legislature. Proposition 2½, as amended to date, limits the property taxes that may be levied by any city or town in any fiscal year to the lesser of (i) 2.5% of the full and fair cash valuation of the real estate and personal property therein or (ii) 2.5% over the previous year's levy limit plus any growth in the tax base from certain new construction and parcel subdivisions. The law contains certain voter override provisions and, in addition, permits debt service on specific bonds and notes and expenditures for identified capital projects to be excluded from the limits by a majority vote at a general or special election. Between fiscal 1981 and fiscal 2012, the aggregate property tax levy grew from $3.347 billion to $12.5 billion, a compound annual growth rate of 4.34%.

Medicaid and the Commonwealth Care Trust Fund

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

For fiscal 2012 nearly 34% of the Commonwealth's budget is devoted to MassHealth and Commonwealth Care. Health care expenditure is the largest and has been one of the fastest growing items in the Commonwealth's budget. Medicaid spending from fiscal 2007 to fiscal 2012 is estimated to have grown by 6.08% on a compound annual basis (including Medicaid administrative expenses and off-budget Medicaid expenses). During the same period, Medicaid enrollment is estimated to have increased 3.9% on a compound annual basis, driven largely by eligibility expansions and the individual mandate prescribed by the 2006 health care reform legislation. The economic recession has additionally contributed to Medicaid membership increases from fiscal year 2009 to 2012.

Fiscal 2012 estimated spending is $10.435 billion for MassHealth programs and includes almost $588 million in savings achieved through a variety of initiatives, including but not limited to rate restructuring, program integrity efforts, capitation cost control and payment strategies. In fiscal 2012, the Governor and the Legislature approved $35 million in additional funding to cover the restoration of Adult Day Health Medicaid benefit cut in the general appropriations act. MassHealth does not anticipate additional supplemental funding and is not projecting deficiencies in the program.

The Governor's fiscal 2013 budget recommendations include $10.953 billion for the MassHealth program. This is almost 5% higher than fiscal 2012 estimated spending of $10.435 billion. The fiscal 2013 budget fully maintains eligibility for MassHealth and funds projected enrollment growth of 2.79%. The budget keeps MassHealth costs affordable for the Commonwealth and members by maintaining appropriate discipline on rates, instituting new program integrity measures, and restructuring certain benefits. In light of fiscal challenges, the MassHealth adult dental benefit will continue to be restructured to cover preventative and emergency services but not restorative dental services. This change will not impact children or developmentally disabled members (DDS), and other members will be able to have access to restorative dental services at Community Health Centers through the Health Safety Net. See "*Health Care Cost Containment*," below.

The House version of the fiscal 2013 budget would expand funding for MassHealth in several areas, eliminate certain savings initiatives assumed in the Governor's fiscal 2013 budget recommendations and add certain earmarks. The House version would increase the budget to $10.99 billion, for an overall increase of approximately $40 million. The increase of $40 million from the House would include additional funding of $30 million for nursing homes and $14.8 million to restore MassHealth cuts assumed in the Governor's fiscal 2013 budget recommendations, including the Barbara McGinnis House ($3 million), and would also increase inpatient hospital rates for children ($11.8 million). The House budget would also decrease by $3.4 million the funding for new investments in MassHealth for operations and implementation of national health care reform. The House budget also makes small reductions in program spending in the MassHealth HIV line item and the Children's Behavioral Health Initiative (CBHI). In some cases, the House added language for earmark actions but did not fund the initiative.

Medicaid Expenditures and Enrollment (in millions)

	Fiscal 2007	**Fiscal 2008**	**Fiscal 2009**	**Fiscal 2010(2)**	**Fiscal 2011**	**Fiscal 2012(1)**
Budgeted Medicaid program expenses	$7,412.5	$8,102.5	$8,552.0	$9,288.3	$10,240	$10,435
Budgeted Medicaid administrative expenses	133.8	132.4	143.7	90.8	$86.5	$83.5
Off-Budget Medicaid expenses	290.0	-	-	-	-	-
Total expenditures	$7,836.3	$8,234.9	$8,695.70	$9,379.1	$10,326.5	$10,518.8
Annual percentage growth in total expenditures	9.2%	5.1%	5.6%	7.8%	10.1%	1.9%
Enrollment (in member months)	1,094,844	1,139,284	1,177,922	1,235,907	1,316,625	1,355,030
Annual percentage growth in enrollment	5.0%	4.1%	3.4%	4.9%	4.11%	2.92%

SOURCE: Executive Office for Administration and Finance.
(1) Fiscal 2012 figures are estimated.
(2) The Executive Office of Health and Human Services and Medicaid administrative budget for fiscal 2010 was reduced due to the shifting of information technology resources to a new account.

Commonwealth Care. State health care reform legislation enacted in 2006 created the Commonwealth Health Insurance Connector Authority to, among other things, administer the new Commonwealth Care program, a subsidized health insurance coverage program for adults whose income is up to 300% of the federal poverty level and who do not have access to employer-sponsored insurance. Commonwealth Care began enrolling individuals on October 1, 2006.

In addition to the Commonwealth Care program, the Connector Authority also administered the Commonwealth Care Bridge program during fiscal 2010 through fiscal 2012. The Commonwealth Care Bridge program was established to provide coverage for certain legal permanent residents known as aliens with special status (AWSS) that were enrolled in Commonwealth Care prior to the suspension of their eligibility by the Legislature at the beginning of fiscal 2010. On January 5, 2012, the Supreme Judicial Court held that the Massachusetts statute limiting the eligibility of many legal immigrants for Commonwealth Care violates the equal protection provisions of the Massachusetts Constitution. The Connector Authority has since re-integrated the former Commonwealth Care Bridge population into the Commonwealth Care program and has reinstated eligibility for the remaining AWSS population to apply for and enroll in the program. The Connector Authority estimates that over 24,000 new members, in addition to the 13,400 previously enrolled in Commonwealth Care Bridge, will enroll in the Commonwealth Care program as a result.

As of March 2012, 173,438 members are enrolled in Commonwealth Care. Enrollment includes integrated legal immigrants previously enrolled in the Bridge program. The current fiscal 2012 projected spending on non-AWSS Commonwealth Care members is $736 million. Actual end-of-year spending could be higher or lower depending on enrollment. This cost estimate reflects gross funding needs of the program (net of enrollee contributions) and does not account for federal reimbursement under the Commonwealth's Medicaid waiver. The fiscal 2012 budget also includes funding of $51 million to cover both the continuation of the Bridge program from July 2011 to February 2012, and the re-integration of legal immigrants into Commonwealth Care from March 2012 through the end of the fiscal year.

The Governor's fiscal 2013 budget recommendation provides $817 million for non-AWSS Commonwealth Care. These funds are designed to maintain eligibility for the program and pay for additional enrollment (including coverage for individuals that transition from the Medical Security Plan to Commonwealth Care after their unemployment benefits expire). The budget does not assume any material increases in Commonwealth Care base enrollee premiums. See "*Health Care Cost Containment*," below.

Additionally, the Governor's fiscal 2013 budget recommendation includes $156 million for continuing the re-integration of the AWSS population into Commonwealth Care.

Also included in the Governor's fiscal 2013 budget is $1 million to fund the implementation of a provision enacted in 2010 that requires the Connector to offer premium discounts for certain small businesses that purchase coverage through Commonwealth Choice and set up wellness programs for their employees. The budget also provides $30 million to support the Health Safety Net Trust Fund.

The Governor's fiscal 2013 budget recommendations fund the Commonwealth Care Trust Fund at $737 million and assume a $73 million tobacco tax increase to provide offsetting revenues. The increase in revenue is associated with the new costs tied to integrating the Aliens With Special Status (AWSS) population from the Bridge program to Commonwealth Care. In its version of the fiscal 2013 budget, the House did not adopt the tobacco tax revenue proposal and funded the Commonwealth Care Trust fund at $742 million, a $5 million overall transfer increase. The House budget also assumes $69 million less in program spending, which is based on updated Connector projections related to a successful managed care contract procurement that brought rates down by 5%.

Commonwealth Care, the Commonwealth Choice wellness subsidy and support for the Health Safety Net Trust Fund are funded through the Commonwealth Care Trust Fund (CCTF). The trust fund is supported by transfers from the General Fund and several dedicated revenue sources, including:

- Fair Share Assessment: The "Fair Share" test requires employers with over 11 full-time equivalents to either make a "fair and reasonable" contribution to health insurance for their full-time employees or pay a $295 per employee annual assessment to the state. Revenue estimates for the fair share assessment average over $15 million annually.

- Cigarette Tax Revenue: Starting in fiscal 2009, the state raised taxes on cigarettes by $1 per pack and dedicated the increased revenues to the Commonwealth Care Trust Fund. These revenues are projected to total over $120 million per year.

- Individual Tax Penalties: Adults who can afford health insurance but fail to purchase coverage are required to pay monetary penalties when filing their tax returns. These revenues are projected to generate over $15 million in fiscal 2012 and 2013.

Federal 1115 MassHealth Demonstration Waiver. The Commonwealth's 1115 waiver expired on June 30, 2011, but the Commonwealth received six successive one-month extensions from the Centers for Medicare and Medicaid Services (CMS) while renewal negotiations continued. On December 20, 2011 the waiver was renewed by CMS and will extend through June 30, 2014. The $26.750 billion agreement, which represents a $5.690 billion increase over the previous waiver, preserves existing eligibility and benefit levels in the Medicaid and Commonwealth Care programs and includes more than $13.3 billion in revenue to the Commonwealth through federal financial participation. During the three-year waiver period, the Commonwealth will fully implement the federal Affordable Care Act, whose major provisions go into effect on January 1, 2014. The waiver supports spending authority to support alternative payment models and integrated care through Delivery System Transformation Initiative (DSTI) incentive payments to eligible safety net hospitals. The total amount of payments to these safety net providers over the three year period is up to $628 million, of which up to $82.2 million is expected to be covered by state resources annually.

Health Safety Net/Health Safety Net Trust Fund. Overseen by the state's Division of Health Care Finance and Policy, the Health Safety Net reimburses hospitals and community health centers for health care services provided to low- and moderate-income uninsured or underinsured residents. It was formerly known as the Uncompensated Care Pool.

Success in expanding enrollment in health insurance through health care reform has resulted in decreased Health Safety Net utilization and payments. As compared to Uncompensated Care Pool fiscal 2007, Health Safety Net payments sustained a record drop through Health Safety Net fiscal 2008 (from $661 million to $396 million). However, recent economic conditions have caused demand in the Health Safety Net usage to increase from this level.

The current fiscal 2012 budget provides $420 million in dedicated resources for the Health Safety Net, including $320 million from hospital and insurer assessments, $70 million from supplemental payments made by other sources and a $30 million contribution from the General Fund. The Division of Health Care Finance and Policy continues to monitor Health Safety Net service volume and costs, to update evolving trends relating to Trust Fund care demand. Projections will likely change as more data emerges regarding demand on the Health Safety Net, and a Health Safety Net shortfall of funding for fiscal 2012 of $100 million to $150 million is anticipated. These projections are largely influenced by the current economic conditions and their impacts on the Health Safety Net.

Both Commonwealth Care and Health Safety Net spending occurs in the Commonwealth Care Trust Fund. As noted above, both the Commonwealth Care program and Health Safety Net are financed by a number of different sources. The transfer to the Commonwealth Care Trust Fund detailed in the Statutory Basis Distribution of Budgetary Revenues and Expenditures table above only reflects the General Fund-supported portion of Commonwealth Care and the Health Safety Net.

Federal Health Care Reform. On March 23, 2010 the President signed into law a comprehensive national health reform measure, the Patient Protection and Affordable Health Care Act (P.L. 111-148). Many of the provisions that were passed in the Affordable Care Act are similar to the Massachusetts health care reform model, including the introduction of a health insurance exchange, insurance market reforms, individual mandate requirements to ensure that individuals are accessing health insurance, and rules designed to encourage employers to contribute to health insurance for their employees. Unlike many other states, the Commonwealth will not need to devote new state funding to cover populations under the federal Medicaid expansions, as the Commonwealth is already providing coverage exceeding the new federal coverage levels. Instead, the Affordable Care Act will provide the Commonwealth with significant additional federal funding for the Commonwealth's health insurance programs for low-income individuals starting in 2014. The Commonwealth continues to analyze this legislation aggressively to identify funding opportunities and compliance requirements for the Commonwealth and to plan for regulatory and statutory adjustments needed as key provisions of national health care reform are gradually phased in (with many taking effect in 2014).

The Executive Office of Health and Human Services is coordinating a statewide effort to implement the federal health reform law and to actively pursue federal health reform grants and demonstration project opportunities to transform how health care is delivered, to expand access to health care and to support healthcare workforce training. To date, the Commonwealth has been awarded more than $198 million in federal grant funds under the Affordable Care Act (most notably the Early Innovator Grant which was awarded on February 16, 2011 to seven states). Projects already underway for fiscal 2013 include establishing the Health Connector as the ACA compliant health insurance exchange, the development of an integrated care Dual Demonstration to improve health outcomes for individuals with both Medicare and Medicaid, enhancing the availability of community-based long-term care services and supports that help elders and persons with disabilities of all ages remain in their own homes and continued to work to develop simplified eligibility and enrollment systems to make it easier for individuals to find and enroll in the most appropriate health insurance coverage.

Health Care Cost Containment. The Governor's fiscal 2013 budget proposal also assumes growth in spending for the Commonwealth's health care coverage programs, including MassHealth, Commonwealth Care and the Group Insurance Commission, will be mitigated in fiscal 2013 based on new procurement and enrollment strategies expected to drive care to lower-cost settings. Through its procurement the Connector was able to reduce premiums by 5% from the fiscal 2012 level, which is expected to save the Commonwealth tens of millions of dollars. In addition the Group Insurance Commission has held premium growth to 1.43% for fiscal 2013, the lowest increase in the last ten years which will result in further savings to the Commonwealth. With respect to MassHealth, other steps to control growth in costs are being taken, as described above under "MassHealth." In the absence of these steps to control growth in costs, the Executive Office for Administration and Finance estimates that costs in the Commonwealth's health care coverage programs would grow by approximately $730 million.

Payment Reform Legislation. In February, 2011, the Governor filed legislation that would significantly alter the health care payment system in the Commonwealth. The Governor's bill would enhance the regulatory authority of the Division of Insurance, while beginning to move providers and payers – including state purchasers of health care such as MassHealth, the GIC and the Connector – away from fee-for-service methods of payment and instead encourage the use of alternatives to fee-for-service such as global payments, bundled payments and other alternatives. These kinds of payments are intended to provide for more integrated and coordinated care for patients to reduce costs and improve quality. This new coordinated system is designed to benefit patients by giving providers the flexibility to provide the right services to patients in the right way, at the right time and in the right place. On May 4, 2012 leaders of the House of Representatives released their version of health care payment reform legislation. Like the Governor's bill, the House bill would change the way that health services are paid for and delivered in the Commonwealth. The bill would require the movement away from fee-for-service to alternative payment methods in order to coordinate care and reduce costs. The most significant differences from the Governor's bill are that there would be no expanded authority for the Division of Insurance, there would be the creation of a new quasi-public independent entity to transition the market to payment reform, and there would be a cost growth target that would have to be met by 2015. The cost target would be based on potential gross state product, which is estimated to be 3.6% for the 2012-2013 period. The growth rate of potential state product is the long run average growth rate of the Commonwealth's economy, ignoring fluctuations due to business cycles. The bill targets cost growth at the same rate as the potential gross state product ("PGSP") through 2015 and then at PGSP -0.5% from 2016-2026 and at PGSP +1% after 2027. If cost targets were not met the new quasi-public entity would have the ability to (1) require insurers and providers that were above the growth rate to open up contracts, (2) work with providers to implement a corrective action plan to bring costs down or (3) make a recommendation to the Legislature around needed next steps in legislation to bring health care cost growth down. The House bill acknowledges that there could be reasons for some providers and insurers to have growth rates that were above the potential gross state product amount and stipulates that such reasons would be taken into account. Leaders of the Senate are expected to release their version of health care payment reform legislation on or about May 9, 2012.

Other Health and Human Services

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

Expenditure Category	Fiscal 2007	Fiscal 2008	Fiscal 2009	Fiscal 2010	Fiscal 2011	Projected Fiscal 2012
Office of Health Services						
Department of Mental Health	$630.2	$651.0	$623.5	$614.0	$598.2	$648.10
Department of Public Health	543.6	546.8	548.5	493.7	488.1	500.4
Division of Healthcare and Finance Policy	10.3	11.7	14.0	13.4	14.8	31.3
Sub Total	$1,184.1	$1,209.6	$1,186.0	$1,121.2	$1,101.1	$1,179.80
Office of Children, Youth, and Family Services						
Department of Social Services	$783.4	$816.2	$810.0	$772.1	$741.6	$740.30
Department of Transitional Assistance	781.9	814.2	859.5	724.5	736.7	776.8
Department of Youth Services	152.8	157.3	154.7	147.1	142.1	144.8
Office for Refugees and Immigrants	1.2	1.6	1.3	1.0	1.0	0.2
Sub Total	$1,719.3	$1,789.3	$1,823.5	$1,644.8	$1,621.4	$1,662.10
Office of Disabilities and Community Services						
Department of Developmental Services	$1,179.6	$1,228.9	$1,250.6	$1,247.0	$1,278.5	$1,328.20
Other	128.3	135.9	133.6	125.7	124.6	121.3
Sub Total	$1,307.9	$1,364.8	$1,384.2	$1,372.1	$1,403.1	$1,449.50
Department of Elder Affairs	$278.8	$293.9	$279.7	$257.7	$250.2	$239.40
Executive Office of Human Services (1)	92.5	92.6	101.0	192.4(2)	210.1	216.5
Veterans' Services (3)	42.7	46.4	51.9	28.2	28.9	30.5
Sub Total	$414.0	$432.9	$432.6	$478.5	$489.2	$486.40
Budgeted Expenditures and Other Uses	**$4,625.30**	**$4,796.60**	**$4,828.30**	**$4,616.6**	**$4,614.8**	**$4,777.80**

SOURCES: Fiscal 2007-2011 Office of the State Comptroller; fiscal 2012, Executive Office for Administration and Finance.
(1) Includes the Department of Medical Assistance (DMA) which was a separate department through fiscal 2004; but consolidated into the Executive Office of Human Services in fiscal 2005. Fiscal 2011 includes Medicaid program administration.
(2) Fiscal 2010 and 2011 spending includes a new IT chargeback account that incorporates IT spending in other departments within the Executive Office of Health and Human Services.
(3) Beginning in fiscal 2010, the Veterans' Benefits account, worth approximately $30.0 million, is included in the Direct Local Aid category.

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

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

Through the Department of Transitional Assistance, the Commonwealth funds three major programs of public assistance for eligible state residents: transitional aid to families with dependent children (TAFDC); emergency aid to the elderly, disabled and children (EAEDC); and the state supplemental benefits for residents enrolled in the federal supplemental security income (SSI) program. In addition, the Department is responsible for administering the entirely federally funded Supplemental Nutrition Assistance Program (SNAP, formerly food stamps), which provides food assistance to low-income families and individuals. Lastly, beginning in fiscal 2008, the Department established a new supplemental nutritional assistance (SNA) program, which provides small supplemental benefits to certain working families currently enrolled in the SNAP program. As noted below, this program was terminated in 2010 and reinstated in 2012.

The federal welfare reform legislation that was enacted on August 22, 1996 eliminated the federal entitlement program of aid to families with dependent children and replaced it with block grant funding for transitional assistance to needy families (TANF). The TANF program replaced Title IV-A of the Social Security Act and allows states greater flexibility in designing programs that promote work and self-sufficiency. The block grant for the Commonwealth was established at $459.4 million annually for federal fiscal years 1997 through 2006. The Commonwealth must meet federal maintenance-of-effort requirements in order to be eligible for the full TANF grant award. In February, 2006, federal legislation reauthorized the TANF block grant providing $459.4 million annually to the Commonwealth for the next five years, provided that the Commonwealth meets federal work requirements outlined below.

Under federal TANF program rules, the Commonwealth must meet the federal work participation rate (*i.e.,* the percentage of work-eligible individuals receiving assistance who are participating in work or training-related activities allowed under the program) of 50% for all families and 90% for two-parent families. The Commonwealth remains eligible under the federal program rules to lower the state’s work participation rate requirement by applying credits earned through annual caseload reductions while continuing to meet federal requirements for state maintenance of effort spending. Beginning in fiscal 2008, the Commonwealth became subject to a revised methodology in determining the total annual caseload reduction credit that could be applied to the state’s work participation target. Because the revised methodology, the worsened economy and the large percentage of federally work-eligible cases with state exemptions diminished the state’s ability to meet its work participation target, the state established a supplemental nutrition assistance program. Working families enrolled in this new program were counted towards the work participation rate and allowed the state to meet the federal participation rate. This avoided potential losses in federal revenue due to penalties, while providing the working poor with a supplemental food assistance benefit. In February, 2010, the Commonwealth was informed that, based on the caseload reduction credit for 2008, the revised target was 0%. Consistent with federal guidance in 2009 (under the Recovery Act), the Commonwealth’s target participation rate for 2008 through 2011 was the lower of the 2008 or 2009 targets. Based on the 0% for 2008, the targets for 2008 through 2011 were 0%. Since the supplemental nutrition program was no longer needed to enable the Commonwealth to meet its target, the program was suspended. When the Recovery Act-based target participation rates were eliminated in 2012, the SNA program was reinstated.

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

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

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

Education

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

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

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

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

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

Public Safety

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

In addition to expenditures for these twelve state public safety agencies, the Commonwealth provides funding for the departments of the 14 independently elected Sheriffs that operate 23 jails and correctional facilities. In fiscal 2010, through enactment of chapter 61 of the Acts of 2009, as later amended by Chapter 102 of the Acts of 2009, all 14 Massachusetts state and county sheriffs were aligned under the state budgeting and finance laws. Prior to the transfer, the Commonwealth had seven sheriffs operating as state agencies under the state accounting and budgeting system and seven sheriffs operating as county entities. The sheriff departments have successfully transitioned onto the state budgeting and accounting system, and all sheriff employees have been placed on the state payroll. Appropriations have been established to support sheriff department operations for the balance of this fiscal year. Thus, all 14 sheriff departments are now functioning as independent state agencies within the Executive Branch.

Energy and Environmental Affairs

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

Debt Service

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

Other Program Expenditures

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

Employee Benefits

Group Insurance. The Group Insurance Commission (GIC) provides health insurance benefits to approximately 375,000 people, including active and retired state employees and dependents, participating municipalities, and certain retired municipal teachers. The Governor's budget recommednations for fiscal 2013 funds the GIC at $1.666 billion. State employee contributions are based on date of hire; employees hired on or before June 30, 2003 contribute 20% of total premium costs, and employees hired after June 30, 2003 pay 25% of premium costs. Similarly, state retiree contributions are based on retirement date, and are either 10, 15 or 20 percent. In an effort to control employee health care costs, the Commonwealth required state employees to re-enroll in a health plan for fiscal 2012. The Commonwealth offered a three-month premium holiday for state employees who selected a limited network plan. The purpose of the mandatory re-enrollment was to require employees to reexamine their health plan choices, which included considering lower-cost, narrower-network options. The re-enrollment initiative is estimated to save the Commonwealth $20 million in fiscal 2012.

During fiscal 2012 the GIC brought five municipalities into the program, adding 8,400 enrollees. The GIC provides the health insurance benefits for participating municipalities; the municipalities reimburse the state for their enrollees' premium costs. The contribution ratio(s) for municipal enrollees is set through a collective bargaining process. Nine more municipalities are expected to join the GIC for fiscal 2013, adding approximately 12,000 GIC enrollees. As of July 1, 2012, the GIC is expected to provide health insurance to employees and retirees of 45 municipalities: nine cities, 24 towns, eight regional school districts and four planning councils.

The fiscal 2012 budget is consistent with Government Accounting Standards Board (GASB) Statement No. 45 and the state's intent to account separately for spending for current retirees with deposits towards the Commonwealth's non-pension retiree liability. See "*Other Post-Retirement Benefit Obligations (OPEB)*" below. The fiscal 2012 budget for the GIC, to fund health coverage for active employees, their dependents and municipal employees, both active and retired, that have joined the GIC in fiscal 2012 is estimated at $1.126 billion. The fiscal 2012 budget authorizes transfers of up to $414 million to the State Retiree Benefits Trust Fund for the purpose of making expenditures for current retirees and their dependents. Estimated fiscal 2012 GIC spending, including health coverage for active and retired state employees, participating municipalities, certain retired municipal teachers and other costs, totals $1.603 billion.

Pension. The Commonwealth is responsible for the payment of pension benefits for Commonwealth employees (members of the state employees' retirement system) and for teachers of the cities, towns and regional school districts throughout the state (including members of the Massachusetts teachers' retirement system and teachers in the Boston public schools, who are members of the State-Boston retirement system but whose pensions are also the responsibility of the Commonwealth). See "PENSION AND OPEB FUNDING."

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

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PENSION AND OPEB FUNDING

Retirement Systems

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

The Massachusetts State Employees' Retirement System (MSERS) and the Massachusetts Teachers' Retirement System (MTRS) are the two largest plans of the public contributory retirement systems operated in the Commonwealth. Membership in MSERS as of January 1, 2012 and of the MTRS as of January 1, 2011, the date of the most recent valuations, is as follows:

Retirement Systems Membership

	MSERS	MTRS
Retirees and beneficiaries currently receiving benefits	54,544	55,690
Terminated employees entitled to benefits but not yet receiving them	4,127	N/A
Subtotal	58,671	55,690
Current Members	85,935	87,136
Total	144,606	142,826

SOURCE: Public Employee Retirement Administration Commission

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

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

Boston teachers are not included in the membership data shown above for the MTRS. Legislation approved in May, 2010 changed the methodology for the Commonwealth's funding of pension benefits paid to Boston teachers. Prior to this change, the Commonwealth reimbursed the City of Boston for pension benefits paid to Boston teachers as certified by the State Boston Retirement System (SBRS). Those costs were funded one fiscal year in arrears. The cost of pension benefits of the other participants of the SBRS is the responsibility of the City of Boston. The SBRS is a cost-sharing multiple-employer pension system that is not administered by the Commonwealth and is not part of the reporting entity of the Commonwealth for accounting purposes. The 2010 legislation clarified that the Commonwealth is responsible for all employer contributions and future benefit requirements for Boston teachers that are members of the SBRS. The Commonwealth's actuarially required contribution to the SBRS was $127.7 million for fiscal 2011.

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

Employee Contributions

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

Employee Contribution Rates

MTRS(1)

Hire Date	**% of Compensation(1)**	**Active Members**	**% of Total Active**
Pre-1975	5%	828	0.9%
1975-1983	7%	1,310	1.5%
1984-June 30, 1996	8%	10,420	12.0%
July 1, 1996-Present	9%	12,553	14.4%
July 1, 2001-Present	11%	62,025	71.2%
Totals		87,136	100.00%

SOURCE: Public Employee Retirement Administration Commission. Membership data from Teachers' Retirement System January 1, 2011 Actuarial Valuation.

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

MSERS(1)

Hire Date	% of Compensation(1)	Active Members	% of Total Active
Pre-1975	5%	1,698	2.0%
1975-1983	7%	8,176	9.5%
1984-June 30, 1996	8%	23,386	27.2%
July 1, 1996-Present	9%	52,142	60.7%
State Police 1996-Present	12%	533	0.6%
Totals		85,935	100.00%

SOURCE: Public Employee Retirement Administration Commission. Membership data from State Board of Retirement January 1, 2012 Actuarial Valuation (in process).
(1) Employees hired after January 1, 1979 contribute an additional 2% of any regular compensation in excess of $30,000 annually.

Funding Schedule

The retirement systems were originally established as "pay-as-you-go" systems, meaning that amounts were appropriated each year to pay current benefits, and no provision was made to fund currently the future liabilities already incurred. In fiscal 1988, the Commonwealth began to address the unfunded liabilities of the two state systems by making appropriations to pension reserves. Under current law such unfunded liability is required to be amortized to zero by June 30, 2040.

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

Current Funding Schedule for Pension Obligations (in thousands)

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

SOURCE: Executive Office for Administration and Finance

Actuarial Valuations

On September 30, 2011, the Public Employee Retirement Administration Commission (PERAC) released its actuarial valuation of the Commonwealth's total pension obligation as of January 1, 2011. This valuation was based on the plan provisions in effect at the time and on member data and asset information as of December 31, 2010.

The unfunded actuarial accrued liability as of that date for the total obligation was approximately $18.589 billion, including approximately $4.998 billion for the Massachusetts State Employees' Retirement System

(MSERS), $11.773 billion for the Massachusetts Teachers' Retirement System (MTRS), $1.536 billion for Boston Teachers and $282 million for cost-of-living increases reimbursable to local systems. The valuation study estimated the total actuarial accrued liability as of January 1, 2011 to be approximately $64.219 billion (comprised of $26.243 billion for MSERS, $34.891 billion for MTRS, $2.804 billion for Boston Teachers and $282 million for cost-of-living increases reimbursable to local systems). Total assets were valued on an actuarial basis at approximately $45.631 billion based on a five-year average valuation method, which equaled 110% of the January 1, 2011 total asset market value.

On April 23, 2012, PERAC approved the actuarial valuation for the MSERS as of January 1, 2012. The report is expected to be released soon. The report estimates the unfunded actuarial accrued liability for the MSERS to be $7.277 billion. The total actuarial accrued liability as of January 1, 2012 is estimated to be approximately $27.8 billion, and total assets were valued on an actuarial basis at approximately $20.5 billion.

The principal assumptions used in the valuations were an investment return assumption of 8.25% and a salary increase assumption based on Group and years of service. (The 2012 MSERS report includes a recommendation that the investment return assumption be reduced to 8.0%, in conjunction with the completion of an ongoing review of other assumptions related to a current experience analysis being conducted by PERAC. The experience analysis is expected to be completed in time for the January 1, 2013 actuarial valuation.) The ultimate salary increase rate is 4.5% for Groups 1 and 2, 5.0% for Groups 3 and 4, and 4.75% for teachers. The assumption is higher in early years of employment and grades down to the ultimate rate. All assumptions other than the investment return assumption are based on PERAC's most recent Experience Study Analysis for the State Retirement System, published in 2007 and the Massachusetts Teachers' Retirement System, published in 2008.

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

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

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

The Actuarial Value of Assets is determined in accordance with the deferred recognition method under which 20% of the gains or losses occurring in the prior year are recognized, 40% of those occurring two years prior are recognized, etc., so that 100% of gains and losses occurring five years ago are recognized. This has the effect of smoothing the short-term volatility of market values over a five-year period. The actuarial value of assets will be adjusted, if necessary, in order to remain between 90% and 110% of market value. In valuations prior to 1998, plan assets were determined at market value. As part of the 1998 valuation, this methodology was adjusted to reduce the potential volatility in the market value approach from year to year. The actuarial value of assets as of January 1, 2011 is 110% of the market value (the 110% limit has applied as of January 1, 2009, 2010 and 2011). The unfunded actuarial liability decreased from $20.0 billion on January 1, 2010 to $18.6 billion on January 1, 2011. However, the unfunded liability is expected to increase in the ensuing years as remaining 2008 investment losses are recognized

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

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

Valuation Date (Jan. 1)	Actuarial Value of Assets(1)	Market Value of Assets	% of Actuarial Value to Market Value	Funded Ratio (actuarial value)	Funded Ratio (Market Value)
2002	$31,698	$28,708	110.4%	81.1%	73.5%
2003	29,629	25,764	115.0%	68.9%	59.9%
2004	34,045	31,709	107.4%	73.9%	84.0%
2005	34,939	35,497	98.4%	72.3%	82.8%
2006	36,377	39,020	93.2%	71.5%	81.5%
2007	40,412	44,902	90.0%	75.2%	83.5%
2008	44,532	49,235	90.4%	78.6%	86.9%
2009	37,058	33,689	110.0%	62.7%	57.0%
2010	41,589	37,809	110.0%	67.5%	61.4%
2011	45,631	41,482	110.0%	71.1%	64.6%

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

The following tables show, for each of the MSERS and the MTRS and for Commonwealth obligations in the aggregate (including Boston Teachers and cost-of-living allowances as well as MSERS and MTRS), the historical funded status for the most recent ten years, based on actuarial values and market values of assets (the tables do not include the January 1, 2012 valuation report for the MSERS, described below, which has not been officially released):

Historical Pension Funding Progress for the last ten fiscal years- Actuarial Value

(Amounts in thousands except for percentages)

	Actuarial Value of Plan Assets	Actuarial Accrued Liability	Unfunded Actuarial Liability (UAAL)	Funded Ratio	Annual Covered Payroll*	UAAL as % of Covered Payroll*
State Employees' Retirement System						
Actuarial Valuation as of Jan. 1						
2011	$21,244,900	$26,242,776	$4,997,876	81.0%	$4,808,250	103.9%
2010	19,019,062	24,862,421	5,843,359	76.5%	4,711,563	124.0%
2009	16,992,214	23,723,240	6,731,026	71.6%	4,712,655	142.8%
2008	20,400,656	22,820,502	2,419,846	89.4%	4,574,233	52.9%
2007	18,445,225	21,670,810	3,225,585	85.1%	4,391,891	73.4%
2006	16,638,043	20,406,926	3,768,883	81.5%	4,200,577	89.7%
2005	16,211,000	19,575,000	3,364,000	82.8%	3,967,000	84.8%
2004	15,931,000	18,996,000	3,065,000	83.9%	3,842,000	79.8%
2003	13,947,000	17,551,000	3,604,000	79.5%	3,779,000	95.4%
2002	15,002,000	15,961,000	959,000	94.0%	4,034,000	23.8%
Teachers; Retirement System						
Actuarial Valuation as of Jan. 1						
2011	$23,117,952	$34,890,991	$11,773,039	66.3%	$5,558.311	211.8%
2010	21,262,462	33,738,966	12,476,504	63.0%	5,509,698	226.4%
2009	18,927,731	32,543,782	13,616,051	58.2%	5,389,895	252.6%
2008	22,883,553	30,955,504	8,071,951	73.9%	5,163,498	156.3%
2007	20,820,392	29,320,714	8,500,322	71.0%	4,969,092	171.1%
2006	18,683,295	27,787,716	9,104,421	67.2%	4,819,325	188.9%
2005	17,684,000	26,167,000	8,483,000	67.6%	4,643,000	182.7%
2004	17,075,000	24,519,000	7,444,000	69.6%	4,556,000	163.4%
2003	14,762,000	22,892,000	8,130,000	64.5%	4,406,000	184.5%
2002	15,712,000	20,620,000	4,908,000	76.2%	4,264,000	115.1%
Aggregate Commonwealth Pension Obligations						
Actuarial Valuation as of Jan. 1						
2011	$45,630,507	$64,219,135	$18,588,628	71.1%	$10,811,975	171.9%
2010	41,589,706	61,575,676	19,985,970	67.5%	10,655,881	187.6%
2009	37,057,703	59,142,155	22,084,452	62.7%	10,537,212	209.6%
2008	44,531,652	56,636,710	12,105,058	78.6%	10,156,252	119.2%
2007	40,411,920	53,761,095	13,349,175	75.2%	9,766,122	136.7%
2006	36,376,773	50,864,974	14,488,201	71.5%	9,406,336	154.0%
2005	34,938,529	48,357,694	13,419,165	72.3%	8,989,134	149.3%
2004	34,045,177	46,059,209	12,014,032	73.9%	8,765,592	137.1%
2003	29,628,897	43,030,338	13,401,442	68.9%	8,573,114	156.3%
2002	31,698,803	39,067,455	7,368,652	81.1%	8,667,492	85.0%

SOURCE: Public Employee Retirement Administration Commission.

Historical Pension Funding Progress for the last ten fiscal years- Market Value

(Amounts in thousands except for percentages)

	Market Value of Plan Assets	Actuarial Accrued Liability	Unfunded Actuarial Liability (UAAL)- Market Value	Funded Ratio	Annual Covered Payroll*	UAAL as % of Covered Payroll*
State Employees' Retirement System						
Actuarial Valuation as of Jan. 1						
2011	$19,313,545	$26,242,776	$6,929,231	73.6%	$4,808,250	144.1%
2010	17,290,056	24,862,421	7,572,365	69.5%	4,711,563	160.7%
2009	15,447,467	23,723,240	8,275,773	65.1%	4,712,655	175.6%
2008	22,538,610	22,820,502	281,892	98.8%	4,574,233	6.2%
2007	20,494,694	21,670,810	1,176,116	94.6%	4,391,891	26.8%
2006	17,875,032	20,406,926	2,531,894	81.5%	4,200,577	89.7%
2005	16,489,000	19,575,000	3,086,000	82.8%	3,967,000	84.8%
2004	14,834,000	18,996,000	4,162,000	84.0%	3,842,000	79.8%
2003	12,128,000	17,551,000	5,423,000	69.1%	3,779,000	143.5%
2002	13,597,000	15,961,000	2,364,000	85.2%	4,034,000	58.6%
Teachers; Retirement System						
Actuarial Valuation as of Jan. 1						
2011	$21,016,320	$34,890,991	$13,874,671	60.2%	$5,558.311	249.6%
2010	19,329,511	33,738,966	14,409,455	57.3%	5,509,698	261.5%
2009	17,207,028	32,543,782	15,336,754	52.9%	5,389,895	284.5%
2008	25,316,044	30,955,504	5,639,460	81.8%	5,163,498	109.2%
2007	23,133,769	29,320,714	6,186,945	78.9%	4,969,092	124.5%
2006	20,013,412	27,787,716	7,774,304	67.2%	4,819,325	188.9%
2005	17,946,000	26,167,000	8,221,000	67.6%	4,643,000	182.7%
2004	15,907,000	24,519,000	8,612,000	69.6%	4,556,000	163.4%
2003	12,837,000	22,892,000	10,055,000	56.1%	4,406,000	228.2%
2002	14,219,000	20,620,000	6,401,000	69.0%	4,264,000	150.1%
Aggregate Commonwealth Pension Obligations						
Actuarial Valuation as of Jan. 1						
2011	$41,482,279	$64,219,135	$22,736,856	64.6%	$10,811,975	210.3%
2010	37,808,823	61,575,676	23,766,853	61.4%	10,655,881	223.0%
2009	33,688,821	59,142,155	25,453,334	57.0%	10,537,212	241.3%
2008	49,234,569	56,636,710	7,402,141	86.9%	10,156,252	72.9%
2007	44,902,133	53,761,095	8,858,962	83.5%	9,766,122	90.7%
2006	39,020,885	50,864,974	11,844,089	76.7%	9,406,336	125.9%
2005	35,496,704	48,357,694	12,860,990	73.4%	8,989,134	143.1%
2004	31,709,129	46,059,209	14,350,080	68.8%	8,765,592	163.7%
2003	25,764,258	43,030,338	17,266,080	59.9%	8,573,114	201.4%
2002	28,708,211	39,067,455	10,359,244	73.5%	8,667,492	119.5%

SOURCE: Public Employee Retirement Administration Commission.

The Commonwealth is projecting that the January 1, 2012 pension actuarial valuation will reflect a material increase in the Commonwealth's unfunded actuarial accrued liability (UAAL) as a result of certain items that will impact the actuarial value of assets and the actuarial liability. As noted above, on April 23, 2012, PERAC approved an actuarial valuation for the MSERS which showed an increase in the UAAL for the MSERS of approximately $2.279 billion. Changes to the aggregate UAAL are expected to include an estimated $3.9 billion increase associated with the partial recognition of the 2008 investment loss, which is recognized over a five-year period for purposes of actuarial valuation, and the investment shortfall in 2011. The shortfall in 2011 is the result of an annual rate of return on assets of 0.14% as compared to the assumed rate of 8.25%. The actuarial liability is expected to increase by an estimated $900 million to $1.1 billion as a result of expected changes to mortality assumptions toward "fully generational mortality" based on revised Actuarial Standards of Practice, and a $1,000 increase in the level of pension income that is protected by Cost of Living Adjustments (COLA), from $12,000 to $13,000, which was included in pension reform legislation passed in 2011. The pension reform legislation also included certain changes to benefits for new employees hired after April 1, 2012 that are expected to reduce the normal costs by an estimated $3 billion over 30 years and are expected, over the course of the current funding schedule, to offset the impact of the changes to the actuarial liability noted above. The legislation also mandates that additional studies be commissioned for the pension system as well as a commission to study Other Post-Employment Benefits (OPEB) liabilities. These studies and the associated legislative recommendations are due at various dates in 2012.

Later in 2012 PERAC expects to provide five-year projections of the prospective funded status of the Commonwealth's pension systems.

Annual Required Contributions

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

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Annual Required Contributions and Other Pension Contributions
(amounts in thousands)

	SERS	MTRS	Total	COLA(1)	BTRS(1)
2011					
Annual required contribution (ARC)…………………………………………………………	$471,096	$767,960	$1,239,056	n/a	n/a
Contributions made, excluding COLAs……………………………………………….	431,166	855,201	1,286,367	34,153	121,290
% Funded for the fiscal year……………………………………………….	92%	111%	104%		
ARC as ratio of total government expenditures(2)	1.5%	2.4%	3.9%	n/a	n/a
2010					
Annual required contribution (ARC)…………………………………………………………	$646,932	$1,106,052	$1,752,984	n/a	n/a
Contributions made, excluding COLAs……………………………………………….	410,682	690,397	1,101,079	32,683	242,857
% Funded for the fiscal year……………………………………………….	63%	62%	63%		
ARC as ratio of total government expenditures(2)	2.1%	3.6%	5.8%	n/a	n/a
2009					
Annual required contribution…………………………………………………………	697,340	1,149,629	1,846,969	n/a	n/a
Contributions made, excluding COLAs……………………………………………….	397,482	781,026	1,178,508	34,696	122,216
% Funded for the fiscal year……………………………………………….	57%	68%	64%		
ARC as ratio of total government expenditures(2)	2.3%	3.8%	6.0%	n/a	n/a
2008					
Annual required contribution…………………………………………………………	369,866	749,853	1,119,719	n/a	n/a
Contributions made, excluding COLAs……………………………………………….	460,788	809,000	1,269,788	34,000	98,000
% Funded for the fiscal year……………………………………………….	125%	108%	113%		
ARC as ratio of total government expenditures(2)	1.2%	2.4%	3.6%	n/a	n/a
2007					
Annual required contribution…………………………………………………………	432,219	763,798	1,196,017	n/a	n/a
Contributions made, excluding COLAs……………………………………………….	435,610	747,000	1,182,610	37,005	93,300
% Funded for the fiscal year……………………………………………….	101%	98%	99%		
ARC as ratio of total government expenditures(2)	1.5%	2.6%	4.1%	n/a	n/a

SOURCE: Office of the Comptroller.
(1) COLA and BTRS contributions are additional amounts funded by the Commonwealth, but are not part of the Commonwealth's funding of ARC.
(2) Based on total budgeted fund expenditures and other uses.

PRIT Fund Investments

The PRIM Board's overall investment performance goal is to achieve an annual rate of return that exceeds the targeted actuarial rate of return used in determining the Commonwealth's pension obligations (currently 8.25%). The investment policy statement adopted by the PRIM Board requires a comprehensive review of the PRIM Board's asset allocation plan and its underlying assumptions at reasonable intervals of not more than three to five years. In addition, the investment policy statement requires that the PRIM Board conduct an annual evaluation of the PRIT Fund's asset allocation. The PRIM Board's last comprehensive review of the PRIT Fund asset allocation was conducted in the beginning of fiscal 2011.

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

The PRIT Fund's asset allocation plan currently uses the following categories of investments (the description is as of June 30, 2011):

Domestic Equity. Domestic Equity constitutes 22% of the PRIT Fund portfolio, approximately 23% of which is invested using a large capitalization stock strategy (two active managers), with the remaining 77% invested under a Russell 3000 index strategy (one passive manager). The portfolio is style neutral as between growth- and value-oriented stocks.

International Equity. International Equity constitutes 22% of the PRIT Fund portfolio which is allocated to one passively managed account (which comprises 44% of the portfolio) and four actively managed accounts (56% of the portfolio). The PRIM Board maintains a target weighting of 50% passive and 50% active for the international equity portfolio. The primary strategy for this portfolio is investing in companies in developed market, industrialized nations outside of the United States.

Emerging Markets. Emerging Markets constitutes 7% of the PRIT Fund portfolio, which is allocated to three active managers (which comprise about 76% of the emerging market portfolio) and one passive manager (24%). Since May, 2010, the PRIM Board has targeted a weighting of 75% active and 25% passive for this portfolio.

Core Fixed Income. Core Fixed Income constitutes 13% of the PRIT Fund portfolio, which is invested in corporate, government and mortgage-backed securities in the investment grade bond market (37% active, 36% passive). Approximately 13% is invested in global inflation linked bonds, and approximately 10% in U. S. Treasury Inflation Protected Securities. The balance of the portfolio (4%) contains investments under the PRIM Board's economically targeted investment (ETI) program.

Value-Added Fixed Income. Value Added Fixed Income constitutes 6% of the PRIT Fund portfolio, which is invested in distressed debt (44%), high-yield bonds (24%), emerging markets debt (23%) and bank loans (9%).

Private Equity. Private Equity constitutes 11% of the PRIT Fund portfolio. Two components comprise the private equity portfolio: venture capital (early-stage and multi-stage) and special equity partnerships (large market buyout, middle market buyout, and growth equity). These private market investments are illiquid and typically have 10- to 15-year life cycles. The portfolio is highly diversified at the underlying portfolio company level.

Real Estate. Real estate holdings constitute 8% of the PRIT Fund portfolio, which consists of directly-owned properties (73%) and real estate investment trusts (27%).

Timber/Natural Resources. Timber/Natural Resources constitutes 4% of the PRIT Fund portfolio, which is invested in both timberland investments (52%), and natural resource-oriented companies (48%) such as oil, mining and energy companies.

Hedge Funds. Hedge Funds constitute 7% of the PRIT Fund portfolio. This portfolio has investments in five active hedge funds of funds managers and one residual liquidating portfolio.

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PRIT Fund Asset Allocation
(As of June 30)

	2011	2010	2009	2008	2007
Domestic Equity	22.00%	19.90%	24.40%	26.10%	29.90%
International Equity	21.70%	20.00%	19.00%	20.00%	21.00%
Emerging Markets	6.60%	5.70%	5.00%	5.50%	5.50%
Fixed Income	13.20%	14.00%	13.00%	16.80%	15.40%
Value-Added Fixed Income	6.00%	7.00%	7.70%	5.00%	4.60%
Private Equity	10.70%	10.60%	9.60%	8.40%	6.70%
Real Estate	8.20%	9.10%	10.90%	10.90%	8.60%
Timber/Natural Resources	4.00%	4.10%	4.70%	2.10%	3.20%
Hedge Funds	7.20%	7.70%	5.70%	5.20%	5.10%
Portable Alpha Wind Down(1)	0.40%	1.90%	0.00%	0.00%	0.00%

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

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

PRIT Fund Rates of Return

Fiscal Year	Rate of Return	Fiscal Year	Rate of Return
2011	22.30%	**2006**	15.47%
2010	12.82%	**2005**	13.39%
2009	(23.87)%	**2004**	19.43%
2008	(1.81)%	**2003**	4.02%
2007	19.92%	**2002**	(6.47)%

3yr average	1.65%
5yr average	4.35%
10yr average	6.53%
Assumed Rate	8.25%

SOURCE: Pension Reserves Investment Management Board.

Other Post-Retirement Benefit Obligations (OPEB)

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

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

Employer and employee contribution rates are set by statute. The Commonwealth recognizes its share of the costs on an actuarial basis. As of June 30, 2009, Commonwealth participants contributed 0% to 20% of premium costs, depending on the date of hire and whether the participant is active, retiree or survivor status. As of July 1, 2009, all active employees were required to pay an additional 5% of premium costs. There were 151,013 participants eligible to receive benefits as of January 1, 2011.

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

The most recent update of this actuarial valuation report was released in October, 2011. According to this report, the Commonwealth's actuarial accrued OPEB liability, assuming no pre-funding and using a discount rate of 4.5%, was approximately $16.569 billion as of January 1, 2011. The 4.5% discount rate (which is the rate of return since its inception of the Massachusetts Municipal Depository Trust) is intended to approximate the Commonwealth's rate of return on non-pension (liquid) investments over the long term. Assuming pre-funding, the study estimated the Commonwealth's liability to be approximately $12.450 billion using a discount rate of 6.4% and approximately $9.892 billion using a discount rate of 8.25%. In order to qualify its OPEB liabilities as pre-funded, the Commonwealth must deposit annual contributions in a qualifying trust in accordance with the requirements of GASB Statement No. 45 (and similar to the program for funding the Commonwealth's unfunded actuarial liability for pensions).

As the Commonwealth is not fully funding the amortization of the actuarial liability, a liability for the difference between the amount funded and the actuarially required contribution is reflected on the Commonwealth's statement of net assets, as presented on a GAAP basis. The liability increases or decreases each year depending on the amount funded, investment return and changes in amortization and assumptions. This change in liability is reflected either as a revenue or expense item in the Commonwealth's statement of activities as presented on a GAAP basis, dependent on these factors. As of June 30, 2011, this net OPEB obligation as reflected on the Commonwealth's statement of net assets is $2.691 billion.

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

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

The executive and legislative branches have been working to develop a short- and long- term strategy for addressing the Commonwealth's OPEB liability. The State Retiree Benefits Trust Fund was created, and in fiscal 2008 spending for current retirees' healthcare occurred from the fund, helping to consolidate the state's retiree funding efforts and better project future liabilities. In fiscal 2008, the fund benefited from a one-time transfer of approximately $329 million from the Health Care Security Trust. The actuarial value of plan assets as of January 1, 2011 was approximately $350.5 million, reflecting market losses in investments.

State Retiree Benefits Trust
(amounts in thousands)

	Actuarial Value of Plan Assets	Actuarial Liability	Accrued Unfunded Liability (UAAL)	Actuarial Ratio Covered	Funded Payroll	Annual Covered Payroll as % of UAAL
Actuarial Valuation as of Jan. 1, 2011	$350,500	$16,568,600	$16,218,100	2.12%	$4,808,250	337.30%
Actuarial Valuation as of Jan. 1, 2010	309,800	15,166,300	14,856,500	2.00%	4,711,563	315.30%
Actuarial Valuation as of Jan. 1, 2009	273,500	15,305,100	15,031,600	1.80%	4,712,655	319.00%
Actuarial Valuation as of Jan. 1, 2008	-	9,812,000	9,812,000	0.0%	4,574,233	214.50%

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

State finance law was amended in 2010 to require deposits, on an annual basis, to the State Retiree Benefits Trust Fund in the amount of 5% of any capital gains tax revenues in excess of $1 billion.

The fiscal 2012 budget included a requirement that, beginning in fiscal 2013, 10% of annual tobacco settlement payments received by the Commonwealth are to be transferred to the State Retiree Benefits Trust Fund, with the amount to be deposited to the State Retiree Benefits Trust Fund to increase by 10% increments annually thereafter until 100% of all payments are transferred to that Fund. See "COMMONWEALTH REVENUES AND EXPENDITURES – Federal and Other Non-Tax Revenues; *Tobacco Settlement*."

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STATE WORKFORCE

The following table sets forth information regarding the Commonwealth's workforce as of the end of the last five fiscal years and as of December 31, 2011.

State Workforce

	June 2007	June 2008	June 2009	June 2010	June 2011	December 2011
Executive Office	79	81	72	69	76	70
Office of the Comptroller	124	124	115	115	113	110
Executive Departments						
Administration and Finance (2)	2,791	2,904	2,861	2,768	2,679	2,773
Energy and Environmental Affairs (1)	2,168	2,236	2,208	2,020	1,960	1,946
Housing and Community Development (1)	-	-	-	-	-	-
Early Education and Care (3)	189	-	-	-	-	-
Health and Human Services	21,072	21,449	20,895	19,763	19,435	19,202
Transportation and Public Works (4)	1,087	1,245	1,200	-	-	-
Board of Library Commissioners	13	13	13	10	10	9
Economic Development (1)	-	-	-	-	-	-
Housing and Economic Development (1)	610	650	616	693	673	664
Labor and Workforce Development (1)	320	307	316	285	269	263
Executive Office of Education (3)	-	562	570	336	318	329
Department of Education (3)	269	-	-	-	-	-
Board of Higher Education (3)	55	-	-	-	-	-
Public Safety and Security	8,457	8,627	8,483	8,444	8,259	8,346
Elder Affairs	44	47	50	38	39	38
Subtotal under Governor's Authority	37,278	38,244	37,398	34,541	33,831	33,750
Judiciary	7,993	8,021	7,821	7,387	7,109	7,071
Higher Education	13,265	13,219	13,409	12,048	12,940	14,309
Other (5)	7,947	8,245	8,044	10,320	10,111	10,062
Subtotal funded by the Operating Budget	66,483	67,729	66,672	64,297	63,991	65,192
Federal Grant, Trust and Capital Funded	15,727	15,934	16,381	20,551	20,078	19,003
Total	**82,210**	**83,663**	**83,053**	**84,848**	**84,069**	**84,195**

SOURCE: Executive Office for Administration and Finance.

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

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

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

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

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

Unions and Labor Negotiations

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

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

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

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

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

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

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

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

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

(6) The contract with the Massachusetts Nurses Association runs from January 1, 2010 through December 31, 2012 and provides increases of 1%, 3% and 3% effective December 31, 2010, 2011 and 2012, respectively. The total estimated cost of the contract is $11.1 million.

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

(8) The contract with the Massachusetts Correction Officers Federated Union runs from July 1, 2010 through June 30, 2012 and provides increases of 1%, 3% and 3% effective June 30, 2011, 2012 and 2013, respectively. The total estimated cost of the contract is $16.6 million.

(9) The contract with the Coalition of Public Safety runs from July 1, 2010 through June 30, 2013 and provides increases of 1%, 3% and 3% effective June 30, 2011, 2012 and 2013, respectively. The total estimated cost of the contract is $0.4 million.

(10) The contract with the International Association of Fire Fighters runs from January 1, 2010 through December 31, 2012 and provides increases of 3% and 3% effective December 31, 2011 and 2012. The total estimated cost of the contract is $0.08 million.

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

Human Resources Division Bargaining Units(1)

Contract Unit	Bargaining Union	Type of Employee	FTEs	Contract Expiration Dates
1, 3, 6	National Association of Government Employees	Clerical, Skilled Trades, Administrative Professionals	10,542	6/30/12
2	Alliance/American Federation of State, County & Municipal Employees and Service Employees International Union	Institutional services	8,303	6/30/12
4	Massachusetts Correction Officers Federated Union	Corrections	3,739	6/30/09
4A	Corrections Captains	Corrections	90	6/30/08
5	Coalition of Public Safety	Law enforcement	199	6/30/09
5A, C22	State Police Association of Massachusetts	State Police	1,972	12/31/08
7	Massachusetts Nurses Association	Health professionals	1,566	12/31/08
8, 10	Alliance/Service Employees International Union	Social workers, Secondary Education	7,601	12/31/11
9	Massachusetts Organization of State Engineers and Scientists	Engineers/scientists	1,701	6/30/12
		Total	**35,713**	

SOURCE: Executive Office for Administration and Finance.

(1) Numbers represent full-time equivalent filled positions (FTEs) in the standard workforce as of February 26, 2011 whose positions are established in accounts funded by all sources (the annual operating budget, capital projects funds, direct federal grants and expendable trusts and other non-appropriated funds).

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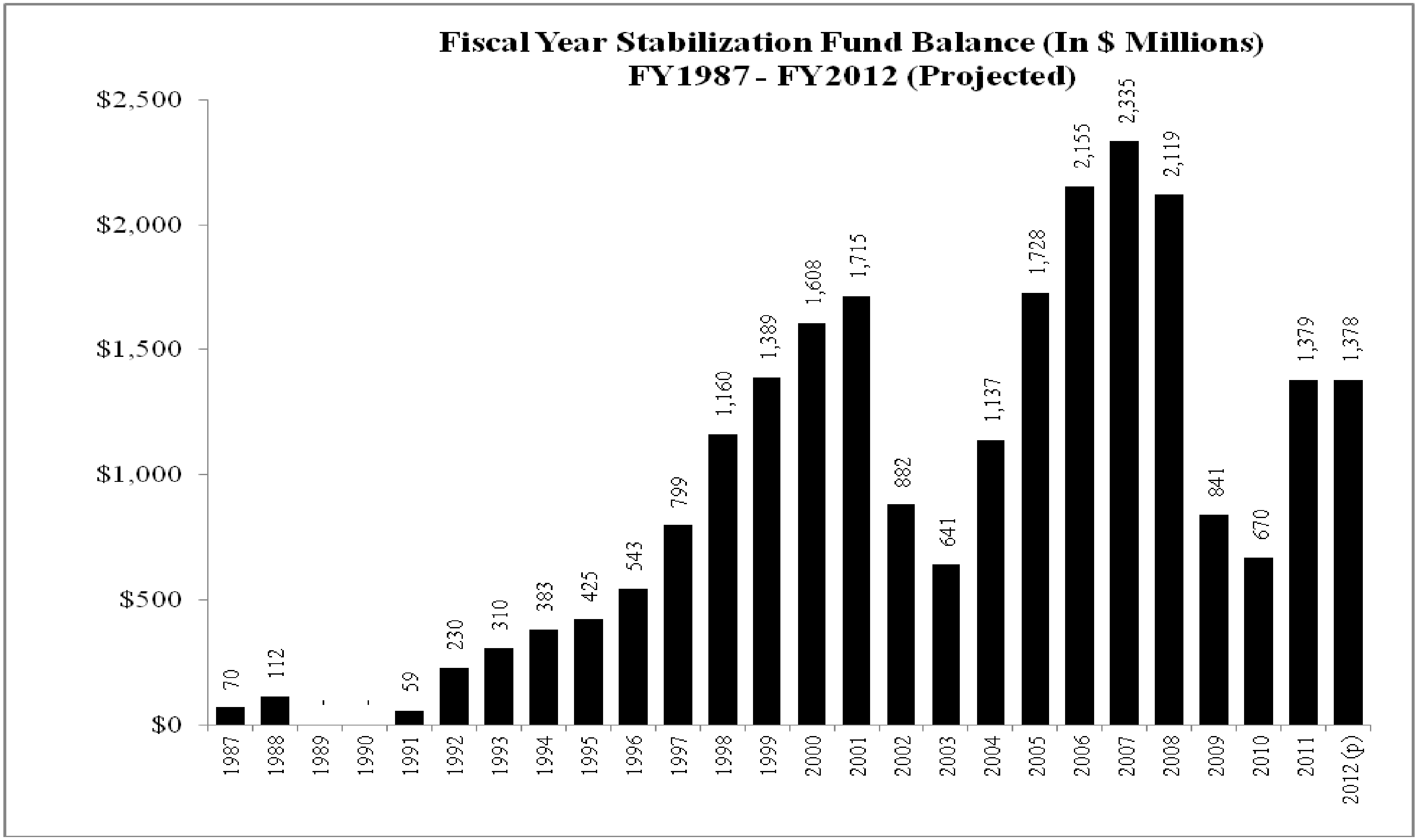
SELECTED FINANCIAL DATA

Stabilization Fund

The Stabilization Fund is established by state finance law as a reserve of surplus revenues to be used for the purposes of covering revenue shortfalls, covering state or local losses of federal funds or for any event which threatens the health, safety or welfare of the people or the fiscal stability of the Commonwealth or any of its political subdivisions. The fund is sometimes referred to as the state's "rainy day fund," serving as a source of financial support for the state budget in times of slow or declining revenue growth and as the primary source of protection against having to make drastic cuts in state services in periods of economic downturns. See "FISCAL 2012 AND FISCAL 2013" for a description of fiscal 2012 and 2013 activity in the Stabilization Fund.

Required Deposits and Allowable Stabilization Fund Balance. Beginning July 1, 2004, state finance law has provided that (i) 0.5% of the net tax revenues from each fiscal year must be deposited into the Stabilization Fund at fiscal year-end, (ii) 0.5% of current-year net tax revenues must be made available for the next fiscal year before the year-end surplus is calculated and (iii) any remaining amount of the year-end surplus must be transferred to the Stabilization Fund. In accordance with language included in the fiscal 2010 budget, the Comptroller transferred $10 million of the fiscal 2010 consolidated net surplus to the Life Sciences Investment Fund prior to making transfers to the Stabilization Fund; similar language requiring a $10 million transfer to the Life Sciences Investment Fund from any fiscal 2011 consolidated net surplus was included in the fiscal 2011 budget. Prior to fiscal 2004, the allowable Stabilization Fund balance at fiscal year-end could not exceed 10% of the total revenues for that year. Since fiscal 2004, the allowable Stabilization Fund balance has been 15% of total current-year revenues. If the Stabilization Fund balance exceeds the allowable limit, the excess amounts are to be transferred to the Tax Reduction Fund.

The following chart shows the Stabilization Fund balance from fiscal 1987 through fiscal 2011 (actual) and fiscal 2012 (projected).



SOURCE: Fiscal 1987-Fiscal 2011, Office of the Comptroller; Fiscal 2012 (projected), Executive Office for Administration and Finance.
The projected fiscal 2012 ending balance does not reflect an aggregated amount of approximately $185 to $195 million in one-time settlements in excess of $10 million received in May 2012 that are expected to be deposited into the Stabilization Fund upon the next bimonthly certification jointly issued by the Department of Revenue and the Attorney General in early July 2012.

The following table shows the sources and uses of the Stabilization Fund during fiscal 2007 through fiscal 2011:

Stabilization Fund Sources and Uses (in thousands)

	Fiscal 2007	Fiscal 2008	Fiscal 2009	Fiscal 2010	Fiscal 2011
Beginning fund balances	$2,154,664	$2,335,021	$2,119,194	$841,344	$669,803
Revenues and Other Sources					
Consolidated net surplus	90,883	-	64,747	11,269	698,605
Lottery transfer taxes	2,680	2,243	2,436	1,982	1,619
Investment income	86,794	96,930	43,967	21,782	9,044
Excess permissible tax revenue	-	-	-	-	9,044
Total Revenues and Other Sources	180,357	99,173	111,150	35,033	718,312
Total Expenditures and Other Uses	-	315,000	1,389,000	206,574	9,044
Excess (Deficiency) of Revenues and Other Sources Over **Expenditures and Other Uses**	180,357	(215,827)	(1,227,850)	(171,541)	709,268
Ending fund balances	$2,335,021	$2,119,194	$841,344	$669,803	$1,379,071
Allowable Stabilization Fund Balance	$4,292,382	$4,546,976	$4,382,687	$4,546,502	$4,961,300

SOURCE: Office of the Comptroller.

GAAP Basis

The Commonwealth's GAAP financial statements for the year ended June 30, 2011, incorporated herein by reference as Exhibit C, are prepared in accordance with reporting standards first established by GASB Statements 34 and 35, as amended. See "COMMONWEALTH BUDGET AND FINANCIAL MANAGEMENT CONTROLS - Fiscal Control, Accounting and Reporting Practices of Comptroller." The GAAP financial statements present a government-wide perspective, including debt, fixed assets and accrual activity on a comprehensive statement of net assets. All fixed assets, including road and bridge infrastructure and all long-term liabilities, including outstanding debt and commitments of long-term assistance to municipalities and authorities, are part of the statements. The Commonwealth's statement of revenues, expenditures and changes in fund balances are presented as a statement of activities.

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

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

(Amounts in Millions of Dollars)

Governmental Funds-Statutory Basis, June 30, 2011	
Budgeted Fund Balance	$1,900.8
Non-budgeted special revenue fund balance	1,983.9
Capital Projects Fund Balance	199.2
Governmental Fund Balance-Statutory Basis, June 30, 2011	**$4,083.97**
Plus: Expendable Trust and similar fund statutory balances that are considered governmental fund for GAAP reporting purposes	428.0
Less: Massachusetts Department of Transportation Funds	(1,164.3)
Adjusted Statutory Governmental Fund Balance	**$3,347.7**
Short term accruals, net of allowances and deferrals for increases/(decreases)	
Taxes, net of refunds and abatements	1,743.7
Tobacco settlement agreement receivable	137.9
Medicaid	(284.1)
Assessments and other receivables	183.7
Amounts due to authorities and municipalities, net	(584.1)
Amounts due to healthcare providers and insurers	(91.8)
Workers' compensation and group insurance	(114.5)
Other accruals, net	(164.6)
Net increase to governmental funds balances	**$826.3**
Massachusetts School Building Authority fund balance	1,093.6
Total changes to governmental funds	**$1,919.9**
Governmental fund balance (fund perspective)	5,267.6
Plus: Capital assets including infrastructure, net of accumulated depreciation	4,127.4
Deferred revenue, net of other eliminations	1,036.6
Long term accruals:	
Pension benefits cumulative over/(under) funding	(1,199.4)
Post employment benefits other than pensions cumulative over/(under) funding	(2,691.0)
Environmental remediation liability	(174.2)
Massachusetts School Building Authority debt and school construction payables	(6,844.3)
Long term debt, unamortized premiums and deferred losses on debt refundings	(21,164.0)
Compensated Absences	(479.9)
Capital leases	(61.0)
Accrued interest on bonds	(346.2)
Other long term liabilities	(304.6)
Total governmental net assets (government-wide perspective)	**($22,832.9)**

SOURCE: Office of the Comptroller

The deficit of $22.8 billion in government-wide net assets can be largely attributed to the Commonwealth's policy decision to finance the construction of assets owned by other government entities, particularly transportation assets. Transportation reform legislation implemented during fiscal 2010 shifted these assets from the books of the Commonwealth to the newly formed Massachusetts Department of Transportation (MassDOT), a component unit of the Commonwealth. At the end of fiscal 2011, MassDOT held over $18.4 billion in road, bridge and other transportation-related assets (excluding assets of the Massachusetts Bay Transportation Authority), net of related depreciation, the vast majority of which were formerly held by the Commonwealth. Those assets were financed by the Commonwealth, and the debt remains a long-term obligation of the Commonwealth. In addition, the

Commonwealth holds $6.8 billion in debt and grant obligations for the school building assistance program administered by the Massachusetts School Building Authority that finances construction of schools for the Commonwealth's cities and towns.

Change in Statement of Net Assets

(amounts in thousands of dollars)

	Governmental Activities	Business Type Activities	Government Wide
Total net assets:			
Fiscal Year 2010	(22,373,344)	3,772,341	(18,601,003)
Fiscal Year 2011	(22,832,865)	4,368,912	(18,463,953)
Change in net assets	(459,521)	596,571	137,050

During the fiscal year, approximately $634 million in restricted net asset balances were set aside for unemployment benefits and an additional approximate $1.226 billion were restricted for debt retirement.

Revenues – GAAP Basis. The measurement of revenues for the budgeted operating funds from a statutory basis differs from governmental revenues on a GAAP basis in that certain funds that are not governmental for statutory purposes are included on a GAAP basis, including revenue accruals for Medicaid and taxes, which are included on a GAAP basis but not on a statutory basis. In addition, internal transfers are eliminated under GAAP from an entity-wide perspective. The following table shows the distribution of major sources of revenue in fiscal 2011:

Comparison of Fiscal 2011 Governmental Revenues (in millions)

	Governmental Funds	GAAP Basis – Governmental	
	Statutory Basis	Fund Perspective	Entity-wide Perspective
Taxes	$20,776	$20,854	$21,066
Federal Revenue	13,248	14,377	14,386
Departmental and Miscellaneous Revenue	20,422	18,667	9,029
Total	**$54,446**	**$53,898**	**$44,481**

SOURCE: Office of the Comptroller.

The following table provides financial results on a GAAP basis for all governmental operating funds of the Commonwealth for fiscal 2007 through fiscal 2011.

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

	Fiscal 2007	Fiscal 2008	Fiscal 2009	Fiscal 2010	Fiscal 2011
Beginning fund balances	$7,263.2	$7,735.9	$7,062.7	$5,061.3	$4,585.7
Restatement due to fund reclassification	5.0	-	-	-	-
Revenues and Financing Sources	49,402.2	50,136.8	49,787.9	49,853.1	53,898.4
Expenditures and Financing Uses	48,934.5	50,810.0	51,789.3	50,328.7	53,216.5
Excess (deficit)	472.7	(673.2)	(2,001.4)	(475.6)	681.9
Ending fund balances—GAAP fund perspective	**$7,735.9**	**$7,062.7**	**$5,061.3**	**$4,585.7**	**$5,267.6**

SOURCE: Office of the Comptroller.

Financial Reports. The Commonwealth issues annual reports, including financial statements on the statutory basis of accounting (reviewed not audited) and the GAAP basis audited financial statements . These financial statements are issued as two separate reports, the Statutory Basis Financial Report (SBFR) and the Comprehensive Annual Financial Report (CAFR). The SBFR is published by the Comptroller by October 31 and the CAFR is published by the Comptroller by the second Wednesday in January. The SBFR for the year ended June 30, 2011 and the CAFR for the year ended June 30, 2011 are included herein by reference as Exhibits B and C, respectively. For fiscal 1991 through 2011 the independent auditor's opinions were unqualified. Copies of these financial reports are available at the address provided under "CONTINUING DISCLOSURE." The SBFR for fiscal 1997 through fiscal 2011 and the CAFR for fiscal 1994 through fiscal 2011are also available on the web site of the Comptroller of the Commonwealth located at http://www.mass.gov/osc by clicking on "Financial Reports/Audits."

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

For each year beginning in fiscal 1991, the Commonwealth CAFRs, from which certain information contained in this Information Statement has been derived, have been awarded the Certificate of Achievement for Excellence in Financial Reporting by the Government Finance Officers Association of the United States and Canada (GFOA). The Certificate of Achievement is the highest form of recognition for excellence in state and local government financial reporting. Fiscal 2010 marked the twentieth consecutive year that the Commonwealth has received this award. The CAFR for fiscal 2011 has been submitted to the GFOA for the award.

Discussion of Financial Condition

As the annual operating budget of the Commonwealth is adopted in accordance with the statutory basis of accounting, public and governmental discourse on the financial affairs of the Commonwealth has traditionally followed the statutory basis. Consequently, the financial information set forth in this document follows the statutory basis, except where otherwise noted. Since fiscal 1990, the Commonwealth has prepared separate audited financial reports on the statutory basis and on a GAAP basis. See "COMMONWEALTH BUDGET AND FINANCIAL MANAGEMENT CONTROLS – Fiscal Control, Accounting and Reporting Practices of Comptroller; *Financial Reports*." The SBFR for the year ended June 30, 2011 is included herein by reference as Exhibit B. The CAFR for the year ended June 30, 2011 is included herein by reference as Exhibit C. Without limiting the generality of the references to the SBFR and CAFR for the year ended June 30, 2011, attention is called in particular to the portion of the CAFR under the heading "Management's Discussion and Analysis."

Auditor's Report on Fiscal 2011 CAFR

The basic financial statements included in the CAFR of the Commonwealth for the year ended June 30, 2011 were audited by KPMG LLP (KPMG). The KPMG audit report dated January 3, 2012 on the general purpose financial statements included in the CAFR for the year ended June 30, 2011 contained an unqualified opinion. A copy of the audit report of KPMG dated January 3, 2012 has been filed with EMMA and is incorporated by reference in Exhibit C to this Information Statement and in each statement in this Information Statement referred to the Commonwealth CAFR for the year ended June 30, 2011. KPMG has not been engaged to perform, and has not performed, since the respective dates of its reports included herein, any procedures on the financial statements addressed in such reports, nor has said independent auditor performed any procedures relating to any official statement of which this Information Statement may be a part.

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FISCAL 2012 AND FISCAL 2013

Fiscal 2012

On July 11, 2011 the Governor approved the fiscal 2012 budget, which totaled $30.598 billion. The budget assumed tax revenues of $20.615 billion, reflecting the fiscal 2012 consensus tax estimate of $20.525 billion, which was adjusted for the impact of revenue initiatives enacted as part of the budget (most notably a one-year delay of the FAS 109 deductions (additional $45.9 million), enhanced tax enforcement initiatives (additional $61.5 million) and the impact of a two-day sales tax holiday held on August 13-14, 2011 (reduction of $20.98 million). The fiscal 2012 budget authorized a $200 million withdrawal from the Stabilization Fund, the use of fiscal 2012 interest earnings on the Stabilization Fund and an additional $103.7 million in savings achieved by suspending the statutorily required deposit into the Stabilization Fund of 0.5% of total tax revenue. After taking into account the $ 213.8 million certified by the Attorney General and the Commissioner of Revenue for transfer to the Stabilization Fund through April related to one-time settlements (See "COMMONWEALTH REVENUES AND EXPENDITURES – Federal and Other Non-Tax Revenues; *Settlements and Judgments*"), as well as the $20 million withdrawal from the Fund called for in the recently passed gaming legislation to support start-up costs of the Massachusetts Gaming Commission, the Stabilization Fund is projected to have a $1.378 billion balance at the end of fiscal 2012. The gaming legislation provides that upon receipt by the Massachusetts Gaming Commission of sufficient initial license fees, the Commission will transfer $20 million back to the Stabilization Fund.

On October 17, 2011, the Secretary of Administration and Finance, based on available data on tax revenue collections and economic trends, revised the fiscal 2012 tax revenue estimate from $20.615 billion to $21.010 billion. A portion of the increase in the tax revenue estimate is proposed to be used to support supplemental appropriations filed by the Governor on October 17, 2011, as described below, and the balance is proposed to be preserved to address non-tax revenue shortfalls and other cost exposures that may occur later in the fiscal year. To address non-tax revenue shortfalls that have already occurred in fiscal 2012, the Secretary also revised the aggregate fiscal 2012 non-tax revenue projection downward by $26 million from the level assumed in the enacted fiscal 2012 budget. The revised tax estimate took account of the reduction in the income tax rate to 5.25%, effective January 1, 2012. See "COMMONWEALTH REVENUE AND EXPENDITURES – State Taxes; *Income Tax*."

On November 11, 2011 the Governor approved supplemental budget legislation containing approximately $52 million in supplemental appropriations, including $21 million for the Department of Housing and Community Development's emergency assistance (EA) program, which provides shelter and other emergency housing services to low-income families with children and pregnant women who are homeless, $18.2 million for the Department of Housing and Community Development's HomeBase program and $10 million for a reserve to offset fiscal 2012 costs of state agencies incurred in response to the August Tropical Storm Irene.

On January 25, 2012 the Governor filed supplemental budget legislation requesting funding of $251.1 million, or $136.5 million after accounting for off-setting revenues. The bill would fund costs associated with health care reforms at MassHealth (delivery system transformation initiative) and the Group Insurance Commission (municipal health care). Beyond these items, there were a limited number of additional spending items proposed for items that could not be addressed through alternative means and/or are required to be funded under current law, including $11.7 million for cash assistance caseloads at the Department of Transitional Assistance, $10.2 million for facility costs of the Department of Disability Services and $9 million of the summer jobs program for low-income youth.

On February 17, 2012 the Governor approved supplemental budget legislation containing approximately $127.1 million in supplemental appropriations, or $100.6 million after accounting for offsetting federal revenues. The supplemental appropriations included $35 million to ensure that adult day health services provided by MassHealth to low-income seniors and persons with disabilities can continue for the remainder of the year, $21.2 million for home energy assistance to low-income seniors and families who have seen federal aid for this purpose reduced substantially this year, $24.8 million to fund correctional facility operations at state sheriffs' offices and $21 million for information services provided by executive departments on behalf of a wide scope of governmental programs and services.

In March, 2012 the Executive Office for Administration and Finance updated its spending and revenue assumptions for fiscal 2012. Spending projections were lowered by roughly $200 million, from $31.375 billion to $31.174 billion, largely due to additional savings achieved in state health care spending and lowered projected costs for debt service this year. In addition, fiscal 2012 budgetary assumptions were updated to reflect year-to-date fiscal 2012 tax collection trends indicating that the Commonwealth could end the fiscal year more than $200 million below the tax revenue benchmark of $21.010 billion and to reflect changes in non-tax revenue assumptions. Based on these updated spending and revenue assumptions, the Executive Office for Administration and Finance currently projects budgetary resources to be sufficient to meet estimated budgetary expenditures for fiscal 2012.

Fiscal 2013 Budget Proposals

On January 12, 2012, a fiscal 2013 consensus tax revenue estimate of $21.950 billion was agreed upon by the Secretary of Administration and Finance and the chairs of the House and Senate Committees on Ways and Means. Of this amount, $1.1 billion is assumed to be generated from taxes on capital gains. Under the new statutory fiscal policy, $100 million of the projected capital gains tax revenue will be required to be deposited into the Stabilization Fund and will not be available for budgetary purposes. The gross tax figure also includes $1.552 billion dedicated to the Commonwealth's pension obligation, $786.8 million in sales tax revenues dedicated to the MBTA, $689.4 million in sales tax revenues dedicated to the MSBA and $20.2 million for the Workforce Training Fund. After taking into account these off-budget transfers and the $100 million of capital gains tax revenue that must be deposited in the Stabilization Fund, the Secretary and committees agreed that $18.801 billion would be the maximum amount of tax revenue available for the fiscal 2013 budget. The fiscal 2013 consensus tax revenue estimate of $21.950 billion represents revenue growth of 4.5% actual from the revised fiscal 2012 estimate of $21.010 billion.

On January 25, 2012, the Governor filed with the Legislature his budget recommendations for fiscal 2013. The Governor's fiscal 2013 budget recommendation proposed state spending of $32.310 billion, approximately $935.9 million, or 2.98%, greater than fiscal 2012 estimated spending levels at the timing of the filing. The Governor's budget relies on $541 million in one-time resources, including a $400 million withdrawal from the Stabilization Fund, down from the fiscal year 2012 assumption of $620 million. In his fiscal 2013 proposal, the Governor includes $260 million in new revenue initiatives and proposes a number of reforms to existing state programs, including family homeless services, public counsel services for indigent persons, continued cost-controlling measures in the state's various health care programs and state community college programs. Many of these and other reform proposals are expected to generate savings that have been assumed in the Governor's fiscal 2013 budget proposal.

On April 25, 2012, the House of Representatives approved its version of the fiscal 2013 budget, which is based upon the consensus tax revenue estimate for fiscal 2013 of $21.950 billion. According to the House Committee on Ways and Means, the House budget provides for $32.454 billion in spending, which is approximately $144 million greater than the Governor's fiscal 2013 budget proposal. The House budget, like the Governor's proposal, relies upon a $400 million withdrawal from the Stabilization Fund. The House adopted approximately $69 million out of the $260 million in new revenue initiatives proposed by the Governor. The House budget also relies upon approximately $110 million from the suspension of the fiscal 2013 statutory carry-forward of .05% of current-year tax revenues that must be made available for the ensuing fiscal year and $31 million in additional non-budgetary trust fund resources. These provisions were not included in the Governor's budget recommendations.

The Senate is expected to debate and approve its version of the budget in late May. Differences between the House and Senate versions of the fiscal 2013 budget will be reconciled by a legislative conference committee.

Cash Flow

The State Treasurer is responsible for cash management and ensuring that all Commonwealth financial obligations are met on a timely basis. See "COMMONWEALTH BUDGET AND FINANCIAL MANAGEMENT CONTROLS - Cash Management Practices of State Treasurer." Cash flow management incorporates the periodic use of short-term borrowing to meet cash flow needs for both capital and operating expenditures. In particular, the Commonwealth makes local aid payments of approximately $1 billion to its cities and towns at the end of each calendar quarter, which in recent years has often resulted in the need for short-term cash flow borrowings. All short-term cash flow borrowings, including both commercial paper and revenue anticipation notes, must be repaid by the end of the fiscal year. The state currently has liquidity support for a $400 million tax-exempt commercial paper program for general obligation notes. The Commonwealth has relied upon the commercial paper program for additional liquidity since 2002.

The Commonwealth ended fiscal 2011 with a non-segregated cash balance from $2.2 billion. The most recent cash flow statement projects a fiscal 2012 ending balance of $1.675 billion.

On March 2, 2012, the State Treasurer and the Secretary of Administration and Finance released cash flow statements for fiscal 2012 and fiscal 2013, which are summarized in the tables below. Fiscal year 2012 is based upon the fiscal 2012 budget signed on July 11, 2011, plus all supplemental appropriations filed, enacted or anticipated, as well as all prior appropriations continued into fiscal 2012. Fiscal 2012 projections are based on actual spending and revenue through January, 2012 and estimates for the remainder of fiscal 2012. The fiscal 2013 cash flow statement is based upon the $21.95 billion consensus tax revenue estimate announced on January 12, 2012 and the Governor's budget recommendations for fiscal 2013.

The Commonwealth's five-year capital investment plan, which is reviewed annually, calls for fiscal 2012 bond issuance of approximately $2.07 billion, which includes $1.75 billion in bond cap and an adjusted $320.0 million of borrowing for the accelerated bridge program. For cash flow needs for fiscal 2012, the Commonwealth issued $1.2 billion in revenue anticipation notes on November 22, 2011 with repayment in April and May, 2012. Fiscal 2013 bond issuance of approximately $2.363 billion is expected to include $1.875 billion in bond cap and $488.7 million of borrowing for the accelerated bridge program. For cash flow needs for fiscal 2013, the Treasurer's office expects to issue revenue anticipation notes in September, 2012 with repayment in the final quarter of fiscal 2013.

The next cash flow statement is expected to be released on or about May 31, 2012.

Overview of Fiscal 2012 Non-Segregated Operating Cash Flow (in millions) (1)

(as of March 2, 2012)

	Jul-11	Aug-11	Sep-11	Oct-11	Nov-11	Dec-11	Jan-12	Feb-12	Mar-12(2)	Apr-12(2)	May-12(2)	June-12(2)	Total FY 2012(2)
Opening Non-Segregated Operating Cash Balance	$2,200.4	$2,194.6	$2,153.0	$1,462.0	$1,522.5	$1,973.0	$1,287.4	$1,995.5	$1,425.9	$913.3	$1,982.0	$1,367.8	$2,200.4
Operating Activities:													
Budgetary Funds:													
Transfer from/(to) Stabilization Fund	0.0	0.0	2.8	(71.3)	(717.7)	6.8	(66.2)	0.0	185.0	0.0	0.0	0.0	(660.7)
Total Budgetary Revenue/Inflows	2,275.6	2,555.9	2,865.4	2,377.4	1,707.1	3,086.2	3,143.8	2,140.8	3,387.6	4,105.5	2,548.9	3,533.9	33,728.0
Total Budgetary Expenditures/Outflows	2,304.8	2,444.0	3,434.0	2,180.4	2,338.4	3,412.3	2,199.9	2,660.7	3,862.8	2,400.8	2,450.6	3,246.4	32,935.0
Net Budgetary Funds	(29.3)	111.9	(568.6)	197.1	(631.4)	(326.1)	943.9	(519.9)	(475.2)	1,704.7	98.3	287.5	792.9
Non Budgetary Funds (Non Budgetary, Higher Ed and Trust Funds):													
Total Non Budgetary Revenue/Inflows	842.3	888.8	794.2	689.4	783.4	729.8	611.8	778.3	1,032.0	747.9	732.8	1,104.2	9,734.9
Total Non Budgetary Expenditures/Outflows	806.7	1,018.2	1,029.3	803.5	823.6	1,143.9	865.6	900.2	1,069.5	909.0	829.0	950.6	11,149.0
Net Non Budgetary Funds	35.6	(129.4)	(235.1)	(114.1)	(40.2)	(414.0)	(253.8)	(121.9)	(37.5)	(161.1)	(96.2)	153.6	(1,414.1)
Net Undesignated Revenue/Inflows and Expenditures/Outflows	7.1	1.3	1.2	1.3	1.3	1.5	2.0	1.0	1.0	1.0	1.0	1.0	20.8
Net Operating Activities	**$13.4**	**($16.2)**	**($802.4)**	**$84.3**	**($670.2)**	**($738.7)**	**$692.1**	**($640.8)**	**($511.6)**	**$1,544.6**	**$3.1**	**$442.2**	**($600.4)**
Federal Grants:													
Total Federal Grants Revenue/Inflows	191.0	299.9	178.1	156.5	173.0	273.2	226.0	230.0	225.0	250.0	225.0	285.6	2,713.2
Total Federal Grants Expenditures/Outflows	231.7	284.9	185.0	178.8	203.6	248.0	225.0	234.0	241.5	234.5	224.0	275.5	2,766.5
Net Federal Grants	**($40.7)**	**$14.9**	**($6.9)**	**($22.3)**	**($30.6)**	**$25.2**	**$1.1**	**($4.0)**	**($16.5)**	**$15.5**	**$1.0**	**$10.1**	**($53.2)**
Capital Funds:													
Total Capital Revenue/Inflows	288.0	222.9	355.1	234.2	142.1	284.5	187.6	283.9	224.6	334.8	207.8	141.0	2,906.5
Total Capital Expenditures/Outflows:	266.4	263.3	236.8	235.7	190.7	256.6	172.7	208.7	209.1	226.1	226.1	285.1	2,777.3
Net Capital Funds	**$21.62**	**($40.32)**	**$118.26**	**($1.48)**	**($48.62)**	**$27.93**	**$14.89**	**$75.21**	**$15.52**	**$108.65**	**($18.34)**	**($144.11)**	**$129.2**
Financing Activities:													
Cash Flow Financing Activities Inflows:													
Commercial Paper	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Revenue Anticipation Notes (RANS)	0.0	0.0	0.0	0.0	1,200.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1,200.0
Total Cash Flow Financing Activities Inflows	0.0	0.0	0.0	0.0	1,200.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1,200.0
Cash Flow Financing Activities Outflows:													
Commercial Paper – (Principal + Interest)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
RANS – (Principal + Interest)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	600.0	600.0	0.0	1,200.0
Total Cash Flow Financing Activities Outflows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	600.0	600.0	0.0	1,200.0
Net Financing Activities	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$1,200.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**($600.0)**	**$(600.0)**	**$0.0**	**$0.0**
Ending Non-Segregated Operating Cash Balance	**$2,194.6**	**$2,153.0**	**$1,462.0**	**$1,522.5**	**$1,973.0**	**$1,287.4**	**$1,995.5**	**$1,425.9**	**$913.3**	**$1,982.0**	**$1,367.8**	**$1,675.9**	**$1,675.9**

SOURCE: Office of the Treasurer and Receiver-General.

(1) Totals may not add due to rounding.

(2) Figures are estimated.

Overview of Fiscal 2013 Non-Segregated Operating Cash Flow (in millions) (1)
(as of March 2, 2012)

	Jul-12(2)	Aug-12(2)	Sep -12(2)	Oct-12(2)	Nov -12(2)	Dec-12 (2)	Jan-13 (2)	Feb-13 (2)	Mar-13(2)	Apr-13 (2)	May-13(2)	June-13(2)	Total FY 2013 (2)
Opening Non-Segregated Operating Cash Balance	$1,675.8	$1,613.0	$1,206.1	$1,816.5	$1,863.7	$1,486.8	$1,294.6	$2,005.4	$1,459.7	$795.7	$2,223.7	$1,910.9	$1,675.8
Operating Activities:													
Budgetary Funds:													
Transfer from/(to) Stabilization Fund	0.0	0.0	0.0	0.0	0.0	400.0	0.0	0.0	0.0	0.0	0.0	0.0	400.0
Total Budgetary Revenue/Inflows	2,361.1	2,410.6	3,042.5	2,559.1	2,507.4	3,633.3	3,220.0	2,268.1	3,326.3	4,437.6	2,554.3	3,666.4	35,986.7
Total Budgetary Expenditures/Outflows	2,233.0	2,722.6	3,419.6	2,363.8	2,660.5	3,620.6	2,295.5	2,674.1	3,955.7	2,482.7	2,369.6	3,248.2	34,045.9
Net Budgetary Funds	128.1	(312.0)	(377.1)	195.3	(153.1)	12.7	924.5	(406.0)	(629.4)	1,954.9	184.7	418.2	1,940.8
Non Budgetary Funds (Non Budgetary, Higher Ed and Trust Funds):													
Total Non Budgetary Revenue/Inflows	748.9	933.2	741.7	798.9	693.7	854.5	713.7	808.1	871.0	744.8	710.3	752.9	9,371.7
Total Non Budgetary Expenditures/Outflows	908.6	1,008.6	898.6	870.6	870.6	1,023.6	901.6	929.3	1,096.6	931.6	867.6	954.1	11,261.4
Net Non Budgetary Funds	(159.7)	(75.4)	(156.9)	(71.7)	(176.9)	(169.1)	(187.9)	(121.2)	(225.6)	(186.8)	(157.3)	(201.2)	(1,889.7)
Net Undesignated Revenue/Inflows and Expenditures/Outflows	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	12.0
Net Operating Activities	**($30.6)**	**($386.4)**	**($533.0)**	**$124.6**	**($329.0)**	**($155.4)**	**$737.6**	**($526.2)**	**($854.0)**	**$1,769.1**	**$28.4**	**$218.0**	**$63.1**
Federal Grants:													
Total Federal Grants Revenue/Inflows	193.0	193.0	193.0	193.0	193.0	213.0	193.0	191.0	222.0	193.5	194.0	213.5	2,385.0
Total Federal Grants Expenditures/Outflows	193.0	193.0	193.0	193.0	193.0	213.0	193.0	191.0	222.0	193.5	194.0	213.5	2,385.0
Net Federal Grants	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**
Capital Funds:													
Total Capital Revenue/Inflows	292.2	258.1	216.5	247.1	220.7	299.6	196.5	193.0	391.0	279.3	288.9	355.5	3,237.9
Total Capital Expenditures/Outflows:	324.3	278.6	273.1	324.4	268.6	336.4	223.2	212.5	200.9	220.4	230.0	345.6	3,238.0
Net Capital Funds	**(32.13)**	**(20.50)**	**(56.68)**	**(77.35)**	**(47.93)**	**(36.80)**	**(26.79)**	**(19.59)**	**190.08**	**58.87**	**58.81**	**9.86**	**($0.1)**
Financing Activities:													
Cash Flow Financing Activities Inflows:													
Commercial Paper	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Revenue Anticipation Notes (RANS)	0.0	0.0	1,200.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1,200.0
Total Cash Flow Financing Activities Inflows	0.0	0.0	1.,200.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1,200.0
Cash Flow Financing Activities Outflows:													
Commercial Paper – (Principal + Interest)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
RANS – (Principal + Interest)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	400.0	400.0	400.0	1,200.0
Total Cash Flow Financing Activities Outflows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	400.0	400.0	400.0	1,200.0
Net Financing Activities	**$ 0.0**	**$0.0**	**$1,200.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**($400.0)**	**($400.0)**	**($400.0)**	**$0.0**
Ending Non-Segregated Operating Cash Balance	**$1,613.0**	**$1,206.1**	**$1,816.5**	**$1,863.7**	**$1,486.8**	**$1,294.6**	**$2,005.4**	**$1,459.7**	**$795.7**	**$2,223.7**	**$1,910.9**	**$1,738.8**	**$1,738.8**

SOURCE: Office of the Treasurer and Receiver-General.
(1) Totals may not add due to rounding.
(2) Figures are estimated.

LONG-TERM LIABILITIES

General Authority to Borrow

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

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

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

Other Long-Term Liabilities. The Commonwealth is also authorized to pledge its credit in aid of and provide contractual support for certain independent authorities and political subdivisions within the Commonwealth. These Commonwealth liabilities are classified as (a) general obligation contract assistance liabilities, (b) budgetary contract assistance liabilities or (c) contingent liabilities. In addition, the Commonwealth is authorized to pledge its credit in support of scheduled, periodic payments to be made by the Commonwealth under interest rate swaps and other hedging agreements related to bonds or notes of the Commonwealth.

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

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

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

Statutory Limit on Direct Debt. Legislation enacted in December 1989 imposes a limit on the amount of outstanding "direct" bonds of the Commonwealth. The law, which is codified in Section 60A of Chapter 29 of the General Laws, set a fiscal 1991 limit of $6.8 billion and provided that the limit for each subsequent fiscal year was to be 105% of the previous fiscal year's limit. This limit is calculated under the statutory basis of accounting, which differs from GAAP in that the principal amount of outstanding bonds is measured net of underwriters' discount, costs of issuance and other financing costs. The law further provides that bonds to be refunded from the proceeds of Commonwealth refunding bonds are to be excluded from outstanding "direct" bonds upon the issuance of the refunding bonds. Pursuant to special legislation enacted over the years, certain outstanding Commonwealth debt obligations are not counted in computing the amount of bonds subject to the limit, including Commonwealth refunding/restructuring bonds issued in September and October, 1991, federal grant anticipation notes, bonds issued to pay operating notes issued by the MBTA or to reimburse the Commonwealth for advances to the MBTA, bonds payable from the Central Artery and Statewide Road and Bridge Infrastructure Fund, bonds issued to finance the Massachusetts School Building Authority and bonds issued to finance the Commonwealth's accelerated structurally-deficient bridge program. The statutory limit on "direct" bonds during fiscal 2012 is approximately $18.944 billion.

The outstanding Commonwealth debt, the amounts of such outstanding debt excluded from the statutory debt limit, the net amounts of such outstanding Commonwealth debt subject to the statutory debt limit and the statutory debt limit as of the end of each of the last five fiscal years are shown in the following table on a statutory basis:

Calculation of the Debt Limit
(in thousands)

	Fiscal 2007	Fiscal 2008	Fiscal 2009	Fiscal 2010	Fiscal 2011
Balance as of June 30	$18,736,961	$18,734,440	$19,264,569	$19,726,507	$21,210,134
Plus/ (Less) amounts excluded:					
Unamortized (discount)/premium and issuance costs	102,043	123,390	216,890	216,688	(335,078)
Special obligation debt (1)	(1,260,941)	(1,126,668)	(1,100,698)	(1,063,500)	(1,015,380)
Accelerated bridge program	-	-	-	-	(676,125)
Federal grant anticipation notes (1)	(1,666,690)	(1,536,206)	(1,134,797)	(997,467)	(666,790)
Assumed county debt	(450)	(375)	(300)	(225)	(150)
MBTA forward funding	(368,873)	(309,203)	(231,000)	(165,559)	(44,472)
Transportation Infrastructure Fund	(1,462,870)	(1,434,654)	(1,401,581)	(1,243,250)	(1,356,606)
School Building Assistance (SBA)	(946,285)	(946,285)	(921,751)	(894,502)	(824,279)
Outstanding Direct Debt(2)	$13,132,895	$13,504,384	$14,691,322	$15,578,692	$16,291,254
Statutory Debt Limit	$14,843,547	$15,585,725	$16,365,011	$17,183,261	$18,042,424

SOURCE: Office of the Comptroller.

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

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

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

Debt Service Expenditures (in millions)

Fiscal Year	Budgeted Debt Service	Total Budgeted Expenditures and Other Uses	Percentage
2007	1,611.6	29,475.9	5.5
2008	1,598.0	33,034.7	4.8
2009	1,581.2	32,570.4	4.9
2010	1,596.4	31,194.4	5.1
2011	1,397.9	35,538.5	3.9

SOURCE: Office of the Comptroller.

General Obligation Debt

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

As of December 31, 2011, the Commonwealth had approximately $18.5 billion in general obligation bonds outstanding, of which $15.0 billion, or approximately 81% was fixed rate debt and $3.5 billion, or 19%, was variable rate debt. The Commonwealth's outstanding general obligation variable rate debt consists of several variable rate structures. Most of the outstanding variable rate bonds are in the form of variable rate demand bonds, which account for $1.5 billion of outstanding general obligation debt as of December 31, 2011. Other outstanding variable rate structures include LIBOR Index bonds, auction rate securities, SIFMA Index Bonds and consumer price index bonds. Of the variable rate debt outstanding, the interest rates on $3.1 billion, or approximately 17% of total general obligation debt, have been synthetically fixed by means of floating-to-fixed interest rate swap agreements. These agreements are used as hedges to mitigate the risk associated with variable rate bonds.

Under legislation approved by the Governor on August 11, 2008, scheduled, periodic payments to be made by the Commonwealth pursuant to swap agreements in existence on August 1, 2008 or entered into after such date constitute general obligations of the Commonwealth to which its full faith and credit are pledged. The remaining variable rate debt of $384 million, or approximately 2% of the total outstanding general obligation debt, is unhedged and, accordingly, floats with interest rates re-set on a periodic basis.

As of December 31, 2011, the Commonwealth had outstanding approximately $141.1 million ($75.7 million principal and $65.3 million discount) of variable rate "U. Plan" bonds, sold in conjunction with a college savings program administered by the Massachusetts Educational Financing Authority, which bear deferred interest at a rate equal to the percentage change in the consumer price index plus 2%, together with current interest at the rate of 0.5%.

The Commonwealth has issued general obligation bonds in the form of Build America Bonds (BABs). BABs were authorized under the federal American Recovery and Reinvestment Act of 2009 (ARRA). Pursuant to ARRA, the Commonwealth is entitled to receive a cash subsidy from the federal government equal to 35% of the investment payable on the BABs provided the Commonwealth makes certain required filings in accordance with applicable federal rules. Such interest subsidy payments are treated under federal law as overpayments of tax and, accordingly, are subject to offset against certain amounts that may be owed by the Commonwealth to the federal government or its agencies. The Commonwealth is obligated to make payments of principal and interest on the BABs whether or not it receives interest subsidy payments. As of December 31, 2011, the Commonwealth had approximately $2.1 billion of BABs outstanding.

The Commonwealth is authorized to issue short-term general obligation debt as revenue anticipation notes or bond anticipation notes. Revenue anticipation notes may be issued by the State Treasurer in any fiscal year in anticipation of revenue receipts for that year. Revenue anticipation notes must be repaid no later than the close of the fiscal year in which they are issued. Bond anticipation notes may be issued by the State Treasurer in anticipation of the issuance of bonds, including, in some circumstances special obligation bonds. See "Special Obligation Debt" below. In addition, as of December 31, 2011 the Commonwealth had liquidity support for a $400 million commercial paper program which it utilizes regularly for cash flow purposes. In addition to borrowing via its commercial paper program, the Commonwealth issues fixed-rate revenue anticipation notes (or "RANs")

Special Obligation Debt

Commonwealth Transportation Fund. Section 2*O* of Chapter 29 of the General Laws, as amended, authorizes the Commonwealth to issue special obligation bonds secured by all or a portion of revenues accounted to the Commonwealth Transportation Fund (formerly the Highway Fund). Revenues, which are currently accounted to the Commonwealth Transportation Fund, are primarily derived from taxes and fees relating to the operation or use of motor vehicles in the Commonwealth, including the motor fuels excise tax and registry of motor vehicles fees.

Between 1992 and 2005, the Commonwealth issued special obligation bonds secured by a lien on a specified portion of the motor fuels excise tax. As of December 31, 2011, the Commonwealth had outstanding $376,680,000 of such special obligation bonds secured by a pledge of 6.86¢ of the 21¢ motor fuels excise tax. In December, 2010, the trust agreement securing such bonds was closed to further issuance of debt.

The Commonwealth is also authorized to issue $1.9 billion of special obligation bonds secured by a pledge of all or a portion of revenues accounted to the Commonwealth Transportation Fund to fund a portion of the Commonwealth's accelerated structurally-deficient bridge program (CTF Bonds). As of December 31, 2011, the Commonwealth had outstanding $576,125,000 of CTF Bonds. See "COMMONWEALTH CAPITAL INVESTMENT PLAN."

The outstanding CTF Bonds were issued as BABs (approximately $419.8 million) and as Recovery Zone Economic Development Bonds (RZEDBs) (approximately $156.4 million). Pursuant to ARRA, the Commonwealth is entitled to receive cash subsidy payments from the federal government equal to 35% of the debt service payable on the BABs and 45% of the debt service payable on the RZEDBs, provided, in both cases, that the Commonwealth makes certain required filings in accordance with applicable federal rules. As noted above, such subsidy payments are treated under federal law as overpayments of tax and, accordingly, are subject to offset against certain amounts that may be owed by the Commonwealth to the federal government or its agencies. Under current law, such payments received by the Commonwealth are required to be deposited in the General Fund and thus do not secure the CTF Bonds. The Executive Office for Administration and Finance intends to seek legislative authority to provide that such payments will be pledged to secure the CTF Bonds.

Convention Center Fund. Chapter 152 of the Acts of 1997, as amended, authorizes $694.4 million of special obligation bonds to be issued for the purposes of building a new convention center in Boston ($609.4 million), the Springfield Civic Center ($66 million) and the Worcester convention center ($19 million). The bonds are payable from moneys credited to the Convention Center Fund created by such legislation, which include certain hotel tax receipts from hotels in Boston, Cambridge, Springfield and Worcester, a surcharge on car rentals in Boston, a parking surcharge at all three facilities, a surcharge on sightseeing tours and cruises in Boston and sales tax receipts from certain hotels and other retail establishments in Boston, Cambridge and Springfield. The legislation requires a capital reserve fund to be maintained at a level equal to maximum annual debt service and provides that if the fund falls below its required balance, the 2.75% convention center financing fee in Boston is to be increased (though the overall hotel tax in Boston, including the fee, cannot exceed 14%). In June, 2004, the Commonwealth issued $686.7 million of special obligation bonds secured solely by the pledge of receipts of tax revenues within the special districts surrounding the centers and other special revenues connected to such facilities, $638.7 million of which remained outstanding as of December 31, 2011.

Federal Grant Anticipation Notes

Between 1998 and 2003, the Commonwealth issued federal grant anticipation notes yielding aggregate net proceeds of $1.5 billion, the full amount authorized to finance the current cash flow needs of the Central Artery/Ted Williams Tunnel (CA/T) project, in anticipation of future federal reimbursements. The legislation authorizing such notes contains a statutory covenant that as long as any such grant anticipation notes remain outstanding, the Commonwealth will deposit all federal highway reimbursements into the Grant Anticipation Note Trust Fund, to be released to the Commonwealth once all the debt service and reserve funding obligations of the trust agreement securing the grant anticipation notes have been met. If the United States Congress reduces the aggregate amount appropriated nationwide for federal highway spending to less than $17.1 billion and debt service coverage with respect to the notes falls below 120%, then the legislation further pledges that 10¢ per gallon of existing motor fuel tax collections will be deposited into the trust fund, to be used for debt service on the notes, subject to legislative appropriation. The 10¢-per-gallon pledge of motor fuel tax collections is subordinate to the pledge of Commonwealth Transportation Fund revenues securing the CTF Bonds. Principal amortization of the notes began in fiscal 2006 and will continue through fiscal 2015. Under the trust agreement securing the notes, aggregate annual debt service on grant anticipation notes may not exceed $216 million unless the rating agencies rating the notes confirm that exceeding $216 million in annual debt service will not cause them to withdraw or reduce their credit ratings. Such notes and the interest thereon are secured solely by the pledge of federal highway construction reimbursement payments and by a contingent pledge of certain motor fuels excises. In practice, the interest on such notes has been paid from state appropriations. As of December 31, 2011, $557.81 million of such notes remained outstanding. The lien securing such notes has been closed to further issuance.

The Commonwealth is also authorized to issue an additional $1.1 billion of grant anticipation notes secured by future federal funds to fund a portion of the Commonwealth's accelerated structurally deficient bridge program. Such notes are subordinated to the notes described in the preceding paragraph, but are also secured by a back-up pledge of net amounts in the Commonwealth Transportation Fund after application of such amounts in accordance with the trust agreement securing the CTF Bonds, the senior federal grant anticipation notes and previously issued bonds secured by motor fuels excise taxes. Similar to the notes issued for the CA/T project, the Commonwealth expects to pay interest on the notes for the bridge program from state appropriations. As of December 31, 2011, $100 million of such notes was outstanding.

The $100 million of junior-lien grant anticipation notes were issued as BABs. Under current law, such payments received by the Commonwealth are required to be deposited in the General Fund and thus do not secure the notes. The Executive Office for Administration and Finance intends to seek legislative authority to provide that such payments will be pledged to secure the notes.

The following table shows long-term debt of the Commonwealth issued and retired from fiscal 2007 through fiscal 2011, exclusive of unamortized bond premiums:

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

	Fiscal 2007	Fiscal 2008	Fiscal 2009	Fiscal 2010	Fiscal 2011
Beginning Balance as of July 1	$18,461,406	$18,736,961	$18,734,440	$19,264,569	$19,726,507
Debt Issued	1,556,485	1,280,824	1,887,108	1,669,088	2,233,368
Subtotal	20,017,891	20,017,785	20,621,548	20,933,657	21,959,875
Debt retired or defeased, exclusive of refunded debt	(1,399,715)	(1,179,730)	(1,227,029)	(1,207,150)	(974,770)
Refunding debt issued, net of refunded debt (3)	118,785	(103,615)	(129,950)	-	(110,050)
Ending Balance June 30 (2)	**$18,736,961**	**$18,734,440**	**$19,264,569**	**$19,726,507**	**$20,875,055**

SOURCE: Office of the Comptroller.

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

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

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

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

Outstanding Long Term Commonwealth Debt (in thousands)

	Fiscal 2007	Fiscal 2008	Fiscal 2009	Fiscal 2010	Fiscal 2011	December 31, 2011
General Obligation Debt	$15,822,591	$16,086,470	$17,051,724	$17,655,539	$18,516,760	$18,504,993
Special Obligation Debt	1,248,750	1,112,590	1,078,630	1,063,501	$1,591,505	1,591,505
Federal Grant Anticipation Notes(1)	1,665,620	1,535,380	1,134,215	997,467	766,790	657,810
TOTAL	**$18,736,961**	**$18,734,440**	**$19,264,569**	**$19,726,507**	**$20,875,055**	**$20,754,308**

SOURCE: Office of the Comptroller.

(1)The fiscal year 2007 to 2010 amounts include federal grant anticipation notes issued as crossover refunding bonds. The refunding escrows funded by these bonds and related premiums were used to pay interest on the refunding bonds until the refunded bonds were callable and then to redeem the refunded bonds. Interest on the refunded bonds prior to redemption continued to be paid from pledged revenues as before. These bonds were retired during fiscal year 2011.

Debt Service Requirements

The following table sets forth, as of December 31, 2011, the annual fiscal year debt service requirements on outstanding Commonwealth general obligation bonds, special obligation bonds and federal grant anticipation notes. For variable-rate bonds with respect to which the Commonwealth is a fixed-rate payor under an associated interest rate swap agreement, the debt service schedule assumes payment of the fixed rate due under such agreement. For other variable-rate bonds, the schedule assumes a 5% interest rate.

Debt Service Requirements on Commonwealth Bonds as of December 31, 2011 through Maturity (in thousands) (1)

	General Obligation Bonds						Federal Highway Grant Anticipation Notes				
Period Ending	**Principal**	**Compounded Interest**	**Gross Interest**	**Build America Bonds Subsidies**	**Net Interest**	**Debt Service**	**Principal**	**Gross Interest**	**Build America Bonds Subsidies**	**Net Interest**	**Debt Service**
6/30/2012	$353,995	$0	$436,247	$(18,279)	$417,969	$771,964	$47,425	$15,197	$(747)	$14,450	$61,875
6/30/2013	1,342,899	9,413	833,785	(36,557)	797,228	2,149,540	161,285	26,876	(1,494)	25,382	186,667
6/30/2014	1,266,297	7,735	780,851	(36,557)	744,294	2,018,326	170,710	17,450	(1,494)	15,956	186,666
6/30/2015	1,128,428	7,686	728,595	(36,557)	692,038	1,828,152	178,390	9,773	(1,494)	8,279	186,669
6/30/2016	1,176,015	6,652	677,145	(36,557)	640,588	1,823,254	11,390	4,098	(1,434)	2,664	14,054
6/30/2017	952,287	5,580	625,688	(36,557)	589,131	1,546,997	11,635	3,720	(1,302)	2,418	14,053
6/30/2018	890,300	4,237	581,076	(36,557)	544,518	1,439,055	11,925	3,277	(1,147)	2,130	14,055
6/30/2019	874,266	3,688	537,247	(36,557)	500,690	1,378,644	12,245	2,780	(973)	1,807	14,052
6/30/2020	870,829	2,970	495,789	(36,300)	459,489	1,333,288	12,600	2,235	(782)	1,453	14,053
6/30/2021	1,133,033	2,566	446,606	(35,014)	411,593	1,547,191	12,985	1,648	(577)	1,071	14,056
6/30/2022	1,036,371	2,274	395,098	(32,698)	362,400	1,401,044	13,390	1,020	(357)	663	14,053
6/30/2023	814,238	2,130	349,448	(31,412)	318,036	1,134,403	13,830	348	(122)	226	14,056
6/30/2024	764,750	1,796	311,112	(31,295)	279,817	1,046,364					
6/30/2025	711,860	1,679	276,229	(31,295)	244,934	958,473					
6/30/2026	664,501	1,577	243,763	(30,776)	212,987	879,065					
6/30/2027	575,599	1,524	214,822	(30,203)	184,619	761,742					
6/30/2028	535,965	1,667	189,596	(28,953)	160,643	698,275					
6/30/2029	643,744	1,021	162,772	(26,687)	136,085	780,849					
6/30/2030	604,701	623	131,113	(22,892)	108,221	713,545					
6/30/2031	517,331	355	97,984	(16,808)	81,176	598,863					
6/30/2032	258,797	157	82,021	(14,776)	67,245	326,199					
6/30/2033	187,300		69,908	(12,440)	57,468	244,768					
6/30/2034	188,585		60,460	(11,068)	49,392	237,977					
6/30/2035	196,755		50,745	(9,647)	41,098	237,853					
6/30/2036	205,130		40,643	(8,177)	32,466	237,596					
6/30/2037	214,730		30,106	(6,654)	23,452	238,182					
6/30/2038	194,135		19,102	(5,077)	**14,025**	208,160					
6/30/2039	123,805		10,940	(3,445)	7,495	131,300					
6/30/2040	91,905		4,596	(1,609)	2,988	94,893					
TOTAL	**$18,518,550**	**$65,328**	**$8,883,490**	**$(701,404)**	**$8,182,085**	**$26,765,963**	**$657,810**	**$88,422**	**$(11,923)**	**$76,499**	**$734,309**

SOURCE: Office of the Comptroller.

(1) Totals may not add due to rounding.

Period Ending	Special Obligation Revenue Bonds (Convention Center) Principal	Interest	Debt Service	Special Obligation Revenue Bonds (CTF-Accelerated Bridge Program) Principal	Gross Interest	Build America Bonds Subsidies	Net Interest	Debt Service	Special Obligation Revenue Bonds (Gas Tax) Principal	Interest	Debt Service
6/30/2012		$17,243	$17,243		$16,312	$(6,157)	$10,155	$10,155	$39,135	$9,902	$49,037
6/30/2013		34,486	34,486		32,623	(12,314)	20,309	20,309	41,150	17,772	58,922
6/30/2014		34,486	34,486		32,623	(12,314)	20,309	20,309	37,170	15,534	52,704
6/30/2015	$19,995	34,486	54,481		32,623	(12,314)	20,309	20,309	39,070	13,631	52,701
6/30/2016	21,075	33,436	54,511		32,623	(12,314)	20,309	20,309	39,900	11,482	51,382
6/30/2017	22,210	32,330	54,540		32,623	(12,314)	20,309	20,309	42,465	9,287	51,752
6/30/2018	23,310	31,164	54,474		32,623	(12,314)	20,309	20,309	23,040	7,261	30,301
6/30/2019	24,475	30,126	54,601		32,623	(12,314)	20,309	20,309	24,300	5,994	30,294
6/30/2020	23,380	28,842	52,222		32,623	(12,314)	20,309	20,309	25,640	4,658	30,298
6/30/2021	24,610	27,673	52,283		32,623	(12,314)	20,309	20,309	26,905	3,392	30,297
6/30/2022	25,970	26,380	52,350		32,623	(12,314)	20,309	20,309	28,385	1,912	30,297
6/30/2023	27,440	24,952	52,392		32,623	(12,314)	20,309	20,309	9,520	476	9,996
6/30/2024	28,990	23,443	52,433	$21,325	32,623	(12,314)	20,309	41,634	0	0	0
6/30/2025	30,625	21,848	52,473	22,395	31,546	(11,937)	19,609	42,004	0	0	0
6/30/2026	32,360	20,164	52,524	23,550	30,381	(11,529)	18,851	42,401	0	0	0
6/30/2027	34,190	18,384	52,574	24,860	29,054	(11,065)	17,989	42,849	0	0	0
6/30/2028	36,125	16,504	52,629	26,245	27,655	(10,575)	17,079	43,324	0	0	0
6/30/2029	38,170	14,517	52,687	27,710	26,177	(10,058)	16,119	43,829	0	0	0
6/30/2030	40,330	12,418	52,748	29,250	24,616	(9,512)	15,105	44,355	0	0	0
6/30/2031	42,610	10,199	52,809	30,880	22,969	(8,935)	14,034	44,914	0	0	0
6/30/2032	45,020	7,856	52,876	32,635	21,200	(8,316)	12,884	45,519	0	0	0
6/30/2033	47,565	5,380	52,945	34,485	19,329	(7,661)	11,668	46,153	0	0	0
6/30/2034	50,250	2,764	53,014	36,440	17,353	(6,970)	10,383	46,823	0	0	0
6/30/2035				38,505	15,265	(6,239)	9,026	47,531	0	0	0
6/30/2036				40,685	13,058	(5,466)	7,591	48,276	0	0	0
6/30/2037				42,995	10,726	(4,650)	6,076	49,071	0	0	0
6/30/2038				45,430	8,262	(3,718)	4,544	49,974	0	0	0
6/30/2039				48,005	5,659	(2,546)	3,112	51,117	0	0	0
6/30/2040				50,730	2,907	(1,308)	1,599	52,329	0	0	0
TOTAL	**$638,700**	**$509,081**	**$1,147,781**	**$576,125**	**$713,947**	**$(274,414)**	**$439,533**	**$1,015,658**	**$376,680**	**$101,300**	**$477,980**

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

Interest Rate Swaps

The Commonwealth has entered into interest rate swap agreements for the sole purpose of hedging changes in the interest rates on a portion of its outstanding variable rate bonds, predicated on the assumption that the interest on such bonds, combined with the cost of the associated interest rate swaps, would produce lower aggregate interest costs than fixed-rate bonds. Approximately $3.1 billion of the Commonwealth's outstanding variable-rate debt is synthetically fixed via floating-to-fixed interest rate swap hedge agreements.

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

The intended effect of these agreements is essentially to fix the Commonwealth's interest rate obligations with respect to its variable-rate bonds in order to hedge or mitigate the Commonwealth's exposure to changes in interest rates on these bonds. For example, during a period when interest rates rise, the Commonwealth would receive higher payments from swap counterparties that would be used to offset higher payments to bondholders of the outstanding variable rate bonds. During a period when interest rates decline, the reduction in interest payments to bondholders would offset the higher payments made to swap counterparties. In both scenarios, the net obligation of the Commonwealth is essentially fixed through the life of the swap and bonds. This allows the Commonwealth to finance its capital budget using floating rate bonds, which, combined with interest rate swaps, are assumed to be less costly than fixed-rate bonds, while hedging the risk of rising interest rates on those bonds to provide long-term budget certainty. As of December 31, 2011, all of the Commonwealth's interest rate swaps were floating-to-fixed rate agreements and were deemed effective hedges, as provided for in GASB Statement No. 53.

The bonds and related swap agreements have final maturities ranging from 2013 to 2037. The total notional value of approximately $3.1 billion effectively matches the par amount of the related variable-rate bonds. Under the swap agreements, the Commonwealth pays the relevant counterparties fixed rates ranging from 3.333% to 5.25% and receives variable-rate payments equal to or approximately equal to the amount of variable rate payments the Commonwealth pays on the related variable-rate refunding bonds or a payment based on a market index.

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

The following table describes the interest rate swap agreements, all of which are floating-to-fixed rate hedges that the Commonwealth has entered into in connection with certain of its outstanding variable rate bond issues as of December 31, 2011.

	Associated Bond Issue	Outstanding Notional Amount (in thousands)	Bond Floating Rate	Swap Fixed Rate Paid (Range)	Swap Variable Rate Received	Effective Date	Termination Date	Counterparty
General Obligation Bonds:								
	Series 1997B (refunding)	$131,076	VRDB	4.659%	Cost of Funds/VRDBs	8/12/1997	8/1/2015	Goldman Sachs Matsui Marine Derivative Products Co., LP
	Series 1997B (refunding)	87,384	VRDB	4.659%	SIFMA	9/1/2010	8/1/2015	Sumitomo Mitsui Banking Corp.
	Series 1998A (refunding) Consolidated Loan of 2006, Series A Central Artery Loan of 2000, Series A Central Artery Loan of 2000, Series B	229,437	VRDB	4.174%	LIBOR	11/17/2008	9/1/2016	Deutsche Bank AG
	Series 1998A (refunding)	152,958	VRDB	4.174%	Cost of Funds/VRDBs	9/17/1998	9/1/2016	Citi Swapco, Inc.
	Series 2001B & C (refunding)	496,225	VRDB	4.150%	Cost of Funds/VRDBs	2/20/2001	1/1/2021	Morgan Stanley Derivative Products Inc.
	Series 2003B (refunding)	87,455	CPI	4.500%	Cost of Funds/CPI	3/12/2003	12/1/2014	Goldman Sachs Matsui Marine Derivative Products Co., LP
	Series 2003B (refunding)	10,000	CPI	4.500%	Cost of Funds/CPI	10/8/2008	12/1/2013	Deutsche Bank AG
	Series 2010A (refunding) Series 2011A (refunding)	532,515	SIFMA	3.333 - 4.004%	Cost of Funds/SIFMA	3/15/2005	2/1/2028	Citi
	Series 2006C (refunding)	100,000	CPI	3.730 - 3.850%	Cost of Funds/CPI	1/1/2007	11/1/2020	Citi
	Consolidated Loan of 2007, Series A	400,000	LIBOR	4.420%	Cost of Funds/LIBOR	10/8/2008	5/1/2037	Barclays Bank, PLC
	Series 2007A (refunding)	31,665	LIBOR	3.936%	Cost of Funds/LIBOR	10/8/2008	11/1/2020	Deutsche Bank AG
	Series 2007A (refunding)	414,130	LIBOR	3.936 - 4.083%	Cost of Funds/LIBOR	10/8/2008	11/1/2025	Bank of New York Mellon
	Central Artery Loan of 2000, Series A	106,675	VRDB	3.942%	SIFMA	8/16/2007	8/1/2018	Merrill Lynch Capital Services, Inc.
	Central Artery Loan of 2000, Series A	53,575	VRDB	3.942%	SIFMA	8/16/2007	8/1/2018	J. P. Morgan Chase Bank
	Consolidated Loan of 2006, Series B Consolidated Loan of 2000, Series D	294,000	VRDB/ARS	4.515%	LIBOR	4/2/2009	6/15/2033	Barclays Bank, PLC
Subtotal		**$ 3,127,095**						

Special

	Associated Bond Issue	Outstanding Notional Amount (in thousands)	Bond Floating Rate	Swap Fixed Rate Paid (Range)	Swap Variable Rate Received	Effective Date	Termination Date	Counterparty
Obligation Dedicated Tax Revenue Bonds:								
	Series 2004	28,863	CPI	4.450 - 5.250%	Cost of Funds/CPI	6/29/2004	1/1/2018	Goldman Sachs Capital Markets, LP
	Series 2004	28,864	CPI	4.450 - 5.250%	Cost of Funds/CPI	6/29/2004	1/1/2018	J.P. Morgan Chase Bank
	Series 2004	28,863	CPI	4.450 - 5.250%	Cost of Funds/CPI	6/29/2004	1/1/2018	J. P. Morgan Chase Bank
	Series 2005A	96,490	CPI	4.771 - 5.059%	Cost of Funds/CPI	1/12/2005	6/1/2022	Merrill Lynch Capital Services, Inc.
Subtotal		**$183,080**						
Total		**$3,429,480**						

SOURCE: Office of the Treasurer and Receiver General.

Liquidity Facilities

Most of the Commonwealth's outstanding variable rate debt consists of variable rate demand bonds whose interest rates re-set daily or weekly through a remarketing process. Because these bonds offer a "put" or tender feature, they are supported by standby liquidity facilities provided by commercial banks which require the applicable bank to purchase any bonds that are tendered and not successfully remarketed. The following table describes the liquidity facilities that the Commonwealth had with respect to such bonds as of March 31, 2012.

Variable Rate Bonds	Facility Amount (in thousands)	Bank	Facility Type	Termination Date
1997 Series B (Refunding)	$218,460	JP Morgan Chase	Line	1/11/2013
2000 Series A	$200,000	Bank of America	Line	12/23/2014
2000 Series B	$75,590	State Street Bank (1)	Line	5/29/2012
2001 Series C (Refunding)	$248,115	State Street Bank	Line	2/20/2014
2006 Series A	$150,000	Wells Fargo Bank	Line	8/15/2014
2006 Series B	$200,000	Bank of America (2)	Line	6/1/2012

SOURCE: Office of the Treasurer and Receiver General.
(1) The Commonwealth is currently negotiating with U. S. Bank to replace State Street Bank on this facility.
(2) The Commonwealth is currently negotiating with JP Morgan Chase to replace Bank of America on this facility.

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

General Obligation Contract Assistance Liabilities

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

Massachusetts Water Pollution Abatement Trust. The Massachusetts Water Pollution Abatement Trust (the "Trust") manages the Commonwealth's state revolving fund program under the federal Clean Water Act and the federal Safe Drinking Water Act. The Trust is authorized to apply for and accept federal grants and associated Commonwealth matching grants to capitalize the revolving funds and to issue debt obligations to make loans to local governmental units and others to finance eligible water pollution abatement and water treatment projects. Under state law, loans made by the Trust are required to provide for subsidies or other financial assistance to reduce the debt service expense on the loans. Currently, most new loans made by the Trust bear interest at 2%. Other loans made by the Trust have, in the past, and may in the future, bear interest at lower rates, including a zero rate of interest, and a portion of the principal of certain loans has also been subsidized by the Trust. To provide for a portion of the subsidy on most of its loans, the Trust receives contract assistance payments from the Commonwealth. Under the Trust's enabling act, the aggregate annual contract assistance payment for the Trust's Clean Water Act program may not exceed $71 million, and the aggregate annual contract assistance payment for the Trust's Safe Drinking Water Act program may not exceed $17 million. The Commonwealth's agreement to provide contract assistance constitutes a general obligation of the Commonwealth for which its faith and credit are pledged, and the Commonwealth's contract assistance payments are pledged as security for repayment of the Trust's debt obligations. As of December 31, 2011 the Trust had approximately $3.38 billion of bonds outstanding. Approximately 10.3 % of the Trust's aggregate debt service is covered by Commonwealth contract assistance.

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

Legislation approved by the Governor on August 8, 2008 includes an authorization to finance up to $43 million of the costs of a parkway at the former South Weymouth naval air base to support the development of the former base. Similar to the I-Cubed program financing model, the bonds to be issued by MassDevelopment to finance the parkway will be secured and payable from a general obligation pledge of contract assistance from the Commonwealth. In the event that the new state tax revenues generated from the new private development are less than the debt service cost on the bonds, the South Shore Tri-Town Development Corporation, a public entity with municipal taxing and other powers over the geographic area of the former base, will be required to reimburse the Commonwealth for any such shortfall. The legislation provides that such payment obligations of the Corporation be secured by a general obligation pledge of the Corporation. As of December 31, 2011, approximately $28.7 million of such bonds were outstanding.

The following table sets forth the Commonwealth's general obligation contract assistance requirements pursuant to contracts with the Massachusetts Water Pollution Abatement Trust, the Massachusetts Department of Transportation (as successor to the Massachusetts Turnpike Authority) and Massachusetts Development Finance Agency. These figures are as of December 31, 2011.

General Obligation Contract Assistance Requirements
(in thousands)

Fiscal Year	Massachusetts Water Pollution Abatement Trust	Massachusetts Department of Transportation	Massachusetts Development Finance Agency	Total
2012	$64,987	$125,000	$2,166	$192,152
2013	62,536	125,000	2,544	190,080
2014	59,420	125,000	2,547	186,967
2015	57,988	125,000	2,544	185,532
2016	53,156	125,000	2,546	180,702
2017	46,066	125,000	2,545	173,610
2018	40,343	125,000	2,543	167,886
2019	40,129	125,000	2,545	167,674
2020	34,819	125,000	2,544	162,363
2021	28,010	125,000	2,546	155,556
2022	18,847	125,000	2,547	146,394
2023	19,261	125,000	2,543	146,804
2024	11,270	125,000	2,544	138,814
2025	7,323	125,000	2,544	134,867
2026	5,179	125,000	2,547	132,726
2027 through 2049	9,525(1)	1,875,000	35,626	1,820,151
Total	**$558,859**	**$3,750,000(2)**	**$73,421**	**$4,282,278**

SOURCES: Massachusetts Water Pollution Abatement Trust column – Office of the Treasurer and Receiver-General; Massachusetts Department of Transportation and Massachusetts Development Finance Agency columns - Executive Office for Administration and Finance.
(1) Current contract assistance payments end in fiscal 2031.
(2) Represents $25 million per year for fiscal years 2027 to 2049, inclusive and $100 million per year for fiscal years 2027 to 2039, inclusive.

Budgetary Contract Assistance Liabilities

Route 3 North Transportation Improvements Association Commonwealth Lease Revenue Bonds. In August, 2000, the Route 3 North Transportation Improvements Association (the "Association") issued approximately $394.3 million of lease revenue bonds to finance the reconstruction and widening of a portion of state Route 3 North. In May, 2002, the Route 3 North Transportation Improvements Association issued approximately $312.7 million of additional lease revenue bonds, $305.6 million of which were issued as refunding bonds. In connection with the financing, the Commonwealth leased the portion of the highway to be improved to the Association, and the Association leased the property back to the Commonwealth pursuant to a sublease. Under the sublease, the Commonwealth is obligated to make payments equal to the debt service on the bonds and certain other expenses associated with the project. The obligations of the Commonwealth do not constitute a general obligation or a pledge of the credit of the Commonwealth and are subject to annual appropriation by the Legislature. In May, 2007 and November, 2008, the Commonwealth sold general obligation bonds to refund most of the lease revenue bonds and replace them with fixed-rate general obligation bonds. As of December 31, 2011, the Route 3 North Transportation Improvements Association had $9.875 million of such lease revenue bonds outstanding, all of which are fixed-rate.

Saltonstall Building Redevelopment Corporation Project. In May, 2002, MassDevelopment issued $195.8 million of lease revenue bonds pursuant to an agreement to loan the proceeds of the bonds to the MassDevelopment/ Saltonstall Building Redevelopment Corporation. The loan was used to finance the redevelopment of the Saltonstall State Office Building. Under the provisions of the legislation relating to the building's redevelopment, the building was leased to MassDevelopment/Saltonstall Building Redevelopment Corporation for a term of up to 50 years, with extension terms permitted for an aggregate of 30 more years. MassDevelopment/Saltonstall Building Redevelopment Corporation has paid the Commonwealth $1,225,000 in ground rent for the first six months of fiscal 2012. For January through June, 2012, the additional projected ground rent payments will be $1,225,000.

MassDevelopment/Saltonstall Building Redevelopment Corporation has renovated the building and subleased half of it back to the Commonwealth for office space and related parking (for a comparable lease term), in respect of which sublease the Commonwealth makes sublease payments to MassDevelopment/Saltonstall Building

Redevelopment Corporation. The remainder of the building has been redeveloped as private office space, as well as private housing units and retail establishments. The obligations of the Commonwealth under the office sublease do not constitute a general obligation or a pledge of the credit of the Commonwealth and are subject to annual appropriation by the Legislature. The Commonwealth's full-year costs include $7,076,954 per year of base rent and parking space rent.Parking space rent may be adjusted for fair market value every five years and was last adjusted in 2009. In addition, included in the table below are the Commonwealth's estimated pro-rata shares of office operating expense reimbursements, escalating at 3% per year and also the Commonwealth's replacement reserve contribution calculated at 21¢ per rental square foot per year.

As of December 31, 2011 MassDevelopment/Saltonstall Building Redevelopment Corporation had approximately $166.3 million of such lease revenue bonds outstanding.

City of Chelsea Commonwealth Lease Revenue Bonds. In November, 1993, the Chelsea Industrial Development Financing Authority issued approximately $95.8 million of lease revenue bonds. The proceeds of the bonds were loaned to the Massachusetts Industrial Finance Agency (now MassDevelopment) and applied to the cost of the Massachusetts Information Technology Center, a tax and data processing facility of the Department of Revenue and certain other departments and agencies of the Commonwealth. The bonds bore interest at a variable rate, and under two interest rate swap agreements that were entered into at the time with Lehman Brothers Special Financing, Inc. (LBSF), MassDevelopment received variable rate payments with respect to the bonds and was obligated to make fixed rate payments in exchange therefor. Simultaneously with the issuance of the bonds, the Commonwealth entered into a 30-year lease, which provided for the payment of debt service on the bonds, including swap related payments, and certain other expenses associated with the project. In September, 2008, LBSF and its parent, Lehman Brothers Holdings Inc. (LBHI), filed for bankruptcy. In December, 2008, the bonds were refinanced by the Commonwealth through the issuance of general obligation debt, and the Commonwealth made a $2.3 million payment to LBSF to terminate the swap agreements. In May, 2010, LBHI advised the Executive Office for Administration and Finance that it calculated the termination value to be approximately $13.7 million. In June, 2011, LBHI issued a subpoena to the Executive Office for Administration and Finance relating to the termination of the swap agreements. In April, 2012, LBHI issued a Derivative ADR Notice obligating the parties to submit to mandatory court ordered mediation. The Derivative ADR notice contains a settlement demand from LBHI in the amount of approximately $16.5 million. A response to the Derivative ADR Notice is due no later than May 21, 2012. Any obligation of the Commonwealth with respect to this termination does not constitute a general obligation or a pledge of the credit of the Commonwealth or of MassDevelopment and is subject to appropriation by the Legislature.

Long-Term Operating Leases and Capital Leases. In addition to Commonwealth-owned buildings and facilities, the Commonwealth leases additional space from private parties. In certain circumstances, the Commonwealth has acquired certain types of capital assets under long-term capital leases; typically, these arrangements relate to computer and telecommunications equipment and to motor vehicles. Minimum future rental expenditure commitments of the Commonwealth under operating leases and long-term principal and interest obligations related to capital leases in effect at June 30, 2011 are set forth in the table below.

The following table sets forth the Commonwealth's budgetary contract assistance requirements. These figures are as of June 30, 2011.

Budgetary Contract Assistance Liabilities (in thousands)

Fiscal Year	Route 3 North Transportation Improvements Association Commonwealth Lease Revenue Bonds	MassDevelopment/ Saltonstall Building Redevelopment Corporation Lease Revenue Bonds(1)	Other Leases(2)	Total
2012	$5,409	$9,464	$176,126	$190,999
2013	1,129	9,394	119,843	130,366
2014	1,130	9,463	97,751	108,344
2015	1,128	9,535	80,897	91,560
2016	1,129	9,609	66,746	77,484
2017	1,116	9,685	38,953	49,754
2018	--	9,763	38,953	48,716
2019	--	9,844	38,953	48,797
2020	--	9,927	38,953	48,880
2021	--	10,012	38,953	48,965
2022	--	10,100	12,252	22,352
2023	--	10,191	12,252	22,443
2024	--	10,284	12,252	22,536
2025		10,380	12,252	22,632
2026 through 2036	--	121,426	79,581	201,007
Total	**$11,041**	**$259,077**	**$864,717**	**$1,134,835**

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

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

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

Contingent Liabilities

Massachusetts Bay Transportation Authority. The MBTA issues its own bonds and notes and is also responsible for the payment of obligations issued by the Boston Metropolitan District prior to the creation of the MBTA in 1964. Prior to July 1, 2000, the Commonwealth supported MBTA bonds, notes and other obligations through guaranties of the debt service on its bonds and notes, contract assistance generally equal to 90% of the debt service on outstanding MBTA bonds and payment of the MBTA's net cost of service (current expenses, including debt service, minus current income). Beginning July 1, 2000, the Commonwealth's annual obligation to support the MBTA for operating costs and debt service is limited to a portion of the revenues raised by the Commonwealth's sales tax, but the Commonwealth remains contingently liable for the payment of MBTA bonds and notes issued prior to July 1, 2000 and for MBTA payment obligations related to leases, reimbursement obligations, interest exchange agreements and other financing obligations entered into prior to July 1, 2000. The Commonwealth's obligation to pay such prior bonds is a general obligation for which its full faith and credit have been pledged. As of December 31, 2011, the Massachusetts Bay Transportation Authority had approximately $578.6 million of such prior bonds outstanding. Such bonds are currently scheduled to mature annually through fiscal 2030, with annual debt service in the range of approximately $156 million to $134 million through fiscal 2014 and declining thereafter.

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

Woods Hole, Martha's Vineyard and Nantucket Steamship Authority. The Steamship Authority operates passenger ferries to Martha's Vineyard and Nantucket. The Steamship Authority issues its own bonds and notes. Commonwealth support of the bonds and notes of the Steamship Authority includes a Commonwealth guaranty pursuant to statutory provisions requiring the Commonwealth to provide the Authority with funds sufficient to meet the principal of and interest on their bonds and notes as they mature to the extent that funds sufficient for this purpose are not otherwise available to the Authority and the Commonwealth's payment, under applicable statutory provisions, of the net cost of service of the Steamship Authority (current expenses, including debt service, minus current income). The Steamship Authority is currently self-supporting, requiring no net cost of service or contract assistance payments. As of December 31, 2011 the Steamship Authority had approximately $63.1 million of bonds outstanding. The Commonwealth's obligations to the Steamship Authority are general obligations for which its full faith and credit have been pledged.

University of Massachusetts Building Authority and Massachusetts State College Building Authority. These higher education building authorities, created to assist institutions of public higher education in the Commonwealth, have outstanding bonds some of which are guaranteed as to their principal and interest by the Commonwealth. The guaranty is a general obligation of the Commonwealth for which its full faith and credit is pledged. In addition to such guaranty, certain revenues of these authorities, including dormitory rental income and student union fees, are pledged to their respective debt service requirements. As of December 31, 2011, the Massachusetts State College Building Authority had approximately $34.2 million of Commonwealth-guaranteed debt outstanding. Under its enabling act, the Massachusetts State College Building Authority is not permitted to issue any additional Commonwealth-guaranteed debt. The University of Massachusetts Building Authority may have outstanding up to $200 million in Commonwealth-guaranteed debt and had approximately $134.075 million of Commonwealth-guaranteed debt outstanding as of December 31, 2011.

Massachusetts Housing Finance Agency (MassHousing). MassHousing is authorized to issue bonds to finance multi-family housing projects within the Commonwealth and to provide mortgage loan financing with respect to certain single-family residences within the Commonwealth. Such bonds are solely the obligations of MassHousing, payable directly or indirectly from, and secured by a pledge of, revenues derived from MassHousing's mortgage on or other interest in the financed housing. MassHousing's enabling legislation also permits the creation of a capital reserve fund in connection with the issuance of such bonds. No single-family housing bonds secured by capital reserve funds are outstanding, and no such bonds have been issued by MassHousing since 1985. As of December 31, 2011, MassHousing had outstanding approximately $284.0 million of multi-family housing bonds secured by capital reserve funds. Any such capital reserve fund must be in an amount at least equal to the maximum annual debt service in any succeeding calendar year on all outstanding bonds secured by such fund. All such capital reserve funds are maintained at their required levels. If amounts are withdrawn from a capital reserve fund to pay debt service on bonds secured by such fund, upon certification by the chairperson of MassHousing to the Governor of any amount necessary to restore the fund to the above-described requirement, the Legislature may, but is not legally bound to, make an appropriation in such amount. No such appropriation has been necessary to date.

Regional Transit Authorities. There are 15 regional transit authorities throughout the Commonwealth that provide public transportation in 231 municipalities with areas not served by the MBTA. These authorities are overseen by the Massachusetts Department of Transportation and are funded from operating revenues, federal subsidies, state subsidies and assessments paid by the participating municipalities. The subsidies and local assessments are paid one fiscal year in arrears to reimburse the authorities for the net cost of service not covered by operating revenues. In anticipation of receipt of these subsidies and local assessments in the following fiscal year, the authorities issue revenue anticipation notes to fund their net costs of service. Legislation approved by the Governor on July 13, 2008, provided for the Commonwealth guaranty for revenue anticipation notes issued by regional transit authorities. The legislation provides that the Commonwealth is required to pay any principal or interest on any such note if the authority does not have sufficient funds to make the payment and grants the holder of any such note the right to require such payment by the Commonwealth, which right is enforceable as a claim against the Commonwealth. As of December 31, 2011, revenue anticipation notes issued by regional transit authorities were outstanding in the aggregate principal amount of approximately $158.196 million.

Authorized But Unissued Debt

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

Authorized but Unissued Debt (in thousands)

Fiscal Year	Authorized But Unissued Debt
2007	$8,349,391
2008	7,043,446
2009	19,517,272
2010	18,516,310
2011	15,870,432

SOURCE: Office of the Comptroller.

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

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COMMONWEALTH CAPITAL INVESTMENT PLAN

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

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

In November, 2011, the Governor released a five-year capital investment plan for fiscal 2012 through fiscal 2016, totaling over $17.3 billion. With the release of the plan, the Governor announced that the bond cap is expected to be $1.75 billion for fiscal 2012, plus $148 million in unused bond cap from fiscal 2011 which has been carried forward to support spending in fiscal 2012. The bond cap for fiscal 2013 is projected to be $1.875 billion, and is projected to increase by $125 million in each subsequent fiscal year through fis cal 2016.

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

For the purpose of the debt affordability analysis, budgeted revenue includes all Commonwealth taxes and other revenues available to pay Commonwealth operating expenses, including debt service, pensions and other budgetary obligations. It does not include off-budget revenues dedicated to the Massachusetts Bay Transportation Authority, the Massachusetts School Building Authority and the Massachusetts Convention Center Authority. The fiscal 2011 estimate was based on the adopted fiscal 2011 budget. For purposes of projecting budgeted revenue in future fiscal years, the compound annual growth rate in budgeted revenues from fiscal 2001 through 2011 of 2.75% was applied to fiscal 2012 revenues and to each year thereafter. This is consistent with the debt affordability policy, which states that projected increases to budgeted revenues will be the lesser of 3% or the actual compound annual growth rate over the last ten fiscal years.

In addition to keeping debt service within 8% of budgeted revenues, the debt management policy limits future annual growth in the bond cap for the regular capital program to not more than $125 million. This additional constraint is designed to ensure that projected growth in the bond cap will be held to stable and sustainable levels. As noted above, the bond cap is expected to grow by $125 million annually from fiscal 2012 through fiscal 2015.

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

Executive Office for Administration and Finance will annually assess the appropriateness of the methodology and constraints for establishing the bond cap.

The following table shows the annual bond cap, the resulting estimated total annual debt service payment obligations and the estimated debt service as a percentage of estimated budgeted revenues, all as presented in the debt affordability analysis released in October 2010.

Bond Cap (in thousands)

	Fiscal 2012	Fiscal 2013	Fiscal 2014	Fiscal 2015	Fiscal 2016
Bond Cap (1)	$1,898,000	$1,875,000	$2,000,000	$2,125,000	$2,250,000
Total Debt Service Obligations	2,155,501	2,362,788	2,435,106	2,516,124	2,685,599
Estimated Budgeted Revenues	32,266,808	33,117,853	34,106,820	35,125,321	36,178,258
Debt Service as % of Budgeted Revenues	6.68%	7.13%	7.14%	7.16%	7.42%

SOURCE: Executive Office for Administration and Finance, Debt Affordability Analysis, released November, 2011.
(1) Includes $148 million of fiscal 2011 unused bond cap that has been carried forward to fiscal 2012.

In the past, the Commonwealth aggregated its capital expenditures into eight major categories based primarily on the agencies responsible for spending and carrying out capital projects: information technology, infrastructure and facilities, environment, housing, public safety, transportation, convention centers, other and school building assistance. The following table sets forth historical capital spending in fiscal 2007 through fiscal 2011 according to these categories.

Commonwealth Historical Capital Spending (in millions) (1)

Investment Category:	Fiscal 2007	Fiscal 2008	Fiscal 2009	Fiscal 2010	Fiscal 2011
Information technology	$ 53	$ 65	$ 97	$ 100	$ 119
Infrastructure/facilities	271	186	333	391	458
Environment	153	188	246	158	142
Housing	140	172	252	318	174
Public safety	18	19	21	11	7
Transportation	1,120	1,109	1,388	1,694	1,512
Convention centers	2	-	-	5	-
Other	29	43	96	108	127
Total (1)	$1,786	$1,782	$2,432	$2,785	$2,539

SOURCE: Executive Office for Administration and Finance.
(1) Totals may not add due to rounding.

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

The capital investment plan for fiscal 2012 through fiscal 2016 is designed to allocate resources strategically to invest in the Commonwealth's public facilities and programs and represents the Governor's vision for public infrastructure. The following tables show the allocation of bond cap spending by major investment category and the allocation of total capital spending from all sources of funding by major investment category for fiscal 2012 through fiscal 2016.

Capital Investment Plan – Total Bond Cap (in millions)

Investment Category:	Fiscal 2012(2)	Fiscal 2013	Fiscal 2014	Fiscal 2015	Fiscal 2016	5-Year Total	% of 5-Year Total
Community Investments	$275	$257	$274	$266	$265	$1,337	13%
Corrections	28	49	74	81	88	321	3%
Courts	32	45	67	114	91	348	3%
Economic Development	121	129	134	139	139	661	7%
Energy/Environment	138	126	103	93	93	552	5%
Health/Human Services	100	60	63	65	68	357	4%
Higher Education	206	208	255	276	286	1,231	12%
Housing	169	170	173	178	178	866	9%
Information Technology	125	89	78	80	84	455	4%
Public Safety	21	24	41	42	49	177	2%
State Buildings/Facilities	113	70	66	47	52	348	3%
Transportation	571	648	673	745	859	3,495	34%
Total (1)	**$1,898**	**$1,875**	**$2,000**	**$2,125**	**$2,250**	**$10,148**	**100%**

SOURCE: Executive Office for Administration and Finance, Five-Year Capital Investment Plan released November, 2011.
(1) Totals may not add due to rounding.
(2) Includes $1.75 billion in Bond Cap and $148 million in unused capacity from the prior fiscal year.

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

Investment Category:	Fiscal 2012	Fiscal 2013	Fiscal 2014	Fiscal 2015	Fiscal 2016	5-Year Total	% of 5-Year Total
Community Investments	313	293	310	302	301	1,519	9%
Corrections	28	49	74	81	88	321	2%
Courts	32	45	79	123	99	377	2%
Economic Development	248	189	184	189	189	999	6%
Energy/Environment	204	191	181	196	195	966	6%
Health/Human Services	145	132	136	131	106	650	4%
Higher Education	280	240	295	291	296	1,402	8%
Housing	241	170	173	178	178	938	5%
Information Technology	125	100	100	100	100	525	3%
Public Safety	39	39	52	46	49	226	1%
State Buildings/Facilities	113	70	66	47	52	348	2%
Transportation	1,610	1,824	1,914	1,843	1,890	9,082	52%
Total(1)	**$3,378**	**$3,342**	**$3,563**	**$3,525**	**$3,543**	**$17,351**	**100%**

SOURCE: Executive Office for Administration and Finance, Five-Year Capital Investment Plan released November, 2011.
(1) Totals may not add due to rounding.

The different sources of funding for the capital program, as reflected in the table above, include:

- Bond cap – Commonwealth borrowing to support the regular capital program;
- Federal – federal reimbursements for capital expenditures, primarily for transportation projects;
- Third-party – contributions made by third parties to capital projects being carried out by the Commonwealth;
- Project-financed bonds – self-supporting bonds payable by the Commonwealth from project-related revenue;
- Accelerated Bridge Program – Commonwealth special obligation bonds secured by revenues credited to the Commonwealth Transportation Fund or federal grant anticipation notes issued to fund the accelerated bridge program;
- American Recovery and Reinvestment Act of 2009 (ARRA) – funds provided by the federal stimulus bill directly to the Commonwealth for targeted capital investments; and
- Energy Efficiency – self-supporting Commonwealth general obligation bonds payable with savings to be achieved as a result of energy efficiencies.

The following table shows the sources of capital funds for fiscal 2012 and the estimated sources of funds for the next five fiscal years.

Capital Investment Plan – Sources of Funds (in millions)

Fiscal Year	Bond Cap(1)	Federal	Third Party	Other(2)	Accelerated Bridge Program	Energy Efficiency	Total (3)
2012	1,898	598	416	189	264	50	3,416
2013	1,875	690	188	29	489	60	3,330
2014	2,000	720	83	37	627	75	3,541
2015	2,125	720	37	48	475	100	3,505
2016	2,250	745	15	56	360	100	3,527
5-year total	**10,148**	**3,474**	**738**	**359**	**2,215**	**385**	

SOURCE: Executive Office for Administration and Finance.
(1) Fiscal 2012 includes $1.75 billion in bonds issued under the bond cap and $148 million in unused capacity from the prior fiscal year.
(2) Includes: Project financed, pay-as-you-go and ARRA projects.
(3) Totals may not add due to rounding.

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LEGAL MATTERS

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

Programs and Services

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

Rosie D., et al. v. The Governor, United States District Court, Western Division. In a memorandum of decision dated January 26, 2006, the District Court ruled in favor of a class of Medicaid-recipient children that the Commonwealth fails to provide the home- and community-based services required under the Early and Periodic Screening, Diagnosis and Treatment ("EPSDT") provisions of the Medicaid Act. In February 2007, the District Court adopted the defendants' proposed remedial plan, with some modifications, and, in July 2007, entered judgment in accordance with that plan, as modified. The Commonwealth did not appeal from that judgment and has begun implementation of its remedial plan. The plan originally contemplated full implementation by June 30, 2009, but, on the Commonwealth's motion, the court modified the judgment to extend the date for full implementation to November 30, 2009. In January 2009, the Court allowed plaintiffs' motion for $7 million in legal fees. The cost of implementation is likely to exceed $20 million annually beginning in fiscal 2009. Although in fiscal 2009 the Commonwealth paid the plaintiffs' attorneys approximately $7.1 million in court-approved fees, plaintiffs are entitled to submit additional petitions for recovery of attorneys' fees incurred post-judgment (*e.g.*, for monitoring activity), through the end of the remedial plan implementation period (July, 2012). In late May 2010, plaintiffs moved the court for payment of approximately $1.48 million in attorneys' fees for monitoring the implementation of the judgment during the period from January 1, 2007, through June 30, 2009. Defendants' counsel filed an objection to approximately $250,000 of the fees requested. The court issued an order reducing defendants' attorney fees by $50,000. MassHealth estimates that its implementation of program changes in compliance with the Remedy Order will increase its costs, including administrative costs, by approximately $215 million annually. On March 20, 2012, the Court entered an order extending the monitoring period through December 31, 2012, and left open the possibility that the monitoring period could be extended further, depending upon when, and whether, the defendants are able to demonstrate to the court that they have fully complied with all tasks set forth in the judgment.

Harper et al. v. Massachusetts Department of Transitional Assistance, United States District Court. This lawsuit was filed by four individuals seeking to represent a class of indigent disabled individuals who apply for or receive subsistence-level cash and/or food stamp benefits from the Massachusetts Department of Transitional Assistance (DTA). Plaintiffs allege that the way DTA administers its programs has the effect of preventing persons with disabilities from having equal access to DTA's benefits and services, and therefore violates the Americans with Disabilities Act and the Rehabilitation Act of 1973. Plaintiffs seek systemic changes to the DTA's policies and procedures as well as to information and telephone systems. As the result of an August 2010 court order, the case is currently stayed while the parties engage in mediation. Although the existence and scope of liability are contested by DTA, the cost of implementing the changes demanded by the plaintiffs could cost millions of dollars.

Kristy Didonato, et al. v. Department of Transitional Assistance, et al. (*Didonato I* and *Didonato II*), Massachusetts Housing Court Western Division. These are consolidated class actions challenging DTA's practices and procedures relating to emergency shelter placements and, more specifically, its practices and procedures relating to the placement of families in shelters that are located more than 20 miles from their home communities. In October, 2006, the Housing Court allowed the plaintiffs' motion for partial summary judgment on the systemic notice and hearing claims in *Didonato I* and *II*. Following the court's decision, DTA worked with plaintiffs' counsel to implement the court's partial summary judgment decision and also initiated settlement discussions to resolve the remaining claims in the consolidated complaints. Plaintiffs moved to amend their complaint to include a demand that the Commonwealth adopt a policy requiring that motel placements be used to avoid placing families with school-age children in shelters that are more than 20 miles from their home communities. The court allowed the motion to amend over the defendants' objection. If the Commonwealth is compelled to facilitate a motel placement before placing a family with school-age children in a shelter more than 20 miles from their home community, the program costs related to implementing such a requirement potentially could exceed $20 million. On July 1, 2009, the emergency shelter program was transferred from DTA to another state agency, the Department of Housing and Community Development. The merits of plaintiffs' suit are likely to be argued to the court in the second half of 2012.

Finch, et al. v. Health Insurance Connector Authority, et al., Supreme Judicial Court. Plaintiffs challenged provisions in the Massachusetts annual operating budget that adopted federal rules making most non-citizens ineligible for the Commonwealth Care program—which is run by the Commonwealth Health Insurance Connector Authority —unless they lawfully resided in the United States for at least five years. On January 5, 2012, the Supreme Judicial Court held that these provisions violate the equal protection provisions of the Massachusetts Constitution. This decision is likely to add several tens of million dollars in costs in fiscal 2012 and more than $150 million in annual costs in fiscal 2013.

Connor B., ex rel. Vigurs, et al. v. Patrick, et al., United States District Court, Western Division. This is a class action in which plaintiffs allege that the Commonwealth's foster care system violates foster children's constitutional and statutory rights to be protected from harm while in state custody; to not be deprived unnecessarily of child-parent and sibling relationships; to safe, stable foster care placements and timely adoption planning and recruitment; to payments to foster care providers that cover the actual costs of providing food, clothing, shelter, and other essential items; and to adequate educational, mental health, medical, and dental services. Plaintiffs further allege that children are abused and neglected while in the Commonwealth's foster care system at a rate higher than the national average; that children in foster care are moved from one placement to another with unusual frequency; that many children never achieve permanency in their placements; and that hundreds of children "age out" of foster care inadequately prepared to live independently as adults. Plaintiffs claim that the system's alleged failures are attributable to an insufficient number of social workers, all carrying excessive caseloads; a dearth of appropriate foster care placements and ancillary services; and insufficient supports (including financial reimbursement) to foster care providers. The Court denied the defendants' motion to dismiss the lawsuit and, in late February 2011, granted the plaintiff's motion for class certification. The case is now well into the discovery phase. If plaintiffs succeed in achieving all of the declaratory and injunctive relief they seek, the Commonwealth could be required to expend tens of millions of dollars in increased foster care reimbursement payments, personnel costs, and services.

Administrative proceeding regarding challenge to MassHealth's payment system for acute hospital outpatient services. A total of 60 petitioners have filed claims for administrative hearings before the MassHealth Board of Hearings (BOH), challenging MassHealth's former Ambulatory Payment Group (APG) payment system for acute hospital outpatient services. The petitioners generally claim that there were errors in the payment system that resulted in incorrect payments to the petitioners, and that MassHealth's efforts to correct those errors through a "parallel system" were ineffective and continued to result in incorrect payments from October, 1997 through December, 2003. While a number of these petitioners had entered into settlements regarding payments for services provided from October, 1997 through December, 2000, the administrative appeals of all 60 petitioners involve payments for the period 2001 through 2003, and for some of those petitioners the appeals involve payments for the entire time period. Five of the 60 petitioners had filed complaints in Superior Court in 2005. The Superior Court actions were stayed in 2007 and remanded to BOH. The current BOH hearing began on November 6, 2008. The parties have agreed to a global settlement totaling $29 million that is expected to dispose of all of the above-described claims and result in the dismissal of all of the above-described actions.

Medicaid Audits and Regulatory Reviews

In re: Centers for Medicare and Medicaid Services regulations (Uncompensated Care Pool/Health Safety Net Trust Fund). The federal Health Care Financing Administration (now CMS) asserted in June, 2000 that the portion of the Medicaid program funded by the Commonwealth's Health Safety Net Trust Fund (formerly the Uncompensated Care Pool) might violate federal regulations regarding permissible taxes on health care providers.

Since 1993, MassHealth has sought federal waivers for the Commonwealth's assessment on acute care hospitals and surcharge payers, respectively, which fund the Uncompensated Care Pool and its successor, the Health Safety Net Trust Fund. The Commonwealth believes that the assessments are within the federal law pertaining to health care-related taxes. Under federal regulations, if the Commonwealth were ultimately determined to have imposed an impermissible health care-related tax, the federal government could seek retroactive repayment of federal Medicaid reimbursements. By the end of pool fiscal year 2012 the Commonwealth will have collected an estimated $5.157 billion in acute hospital assessments since 1990 and an estimated $2.037 billion in surcharge payments since 1998.

In re: Disallowance of 2005 MassHealth acute hospital supplemental payments. In March, 2006, CMS deferred payment of claims for federal financial participation ("FFP") totaling almost $52.5 million. This amount represents the federal share of the portion of MassHealth supplemental payments to Boston Medical Center ("BMC"), Cambridge Health Alliance ("CHA") and UMass Memorial Health Care, Inc. ("UMMHC") hospitals attributable to dates of service on or before fiscal 2003. CMS released $16.4 million in FFP for payments to BMC and CHA and is holding $27 million in FFP for payments to UMMHC. EOHHS returned $9 million in FFP based on its own update of projected payment limits. In February, 2011, CMS sent EOHHS a Notice of Disallowance of $25,543,963 in FFP for payments to UMMHC. EOHHS filed a Request for Reconsideration with the U.S. Department of Health and Human Services ("HHS") on March 31, 2011. On April 17, 2012, the Commonwealth received notice that HHS affirmed $17.4 million of the UMMHC disallowance and reversed the remainder, allowing $8.1 million in FFP. The deadline for further appeal to the Departmental Appeals Board is June 16, 2012 (60 days from receipt of reconsideration decision).

Boston Medical Center Corp., et al. v. Secretary of the Executive Office of Health and Human Services, Supreme Judicial Court. The remaining plaintiffs are the Boston Medical Center, the BMC HealthNet Plan (a managed care organization serving Medicaid patients) and three other disproportionate share hospitals. They allege that the Commonwealth was obligated to set higher Medicaid reimbursement rates for services plaintiffs have already provided to Medicaid clients. Plaintiffs asserted claims totaling $192.6 million. BMC and BMC HealthNet Plan seek $120.9 million for rate year 2009. The three other remaining plaintiffs seek a total of $71.7 million for the six-year period ending in rate year 2009. The Superior Court dismissed all claims in two related suits. Plaintiffs appealed and the two cases were consolidated. Three additional hospitals had asserted further claims totaling another $44 million, so that the total prior exposure for these cases was $236.6 million, but they decided not to appeal from the Superior Court's decision. Briefing is complete and oral argument took place before the Supreme Judicial Court on May 7, 2012.

Taxes

Feeney, et al. v. Dell, Inc. v. Commissioner of Revenue, Middlesex Superior Court. The plaintiffs, a putative class of Massachusetts consumers who purchased Dell computers between 1995 and 2006, brought suit against Dell seeking a declaration that Dell wrongfully collected (and remitted to the Commissioner) sales tax upon service contracts that were purchased at the same time consumers purchased personal computers from Dell. The Supreme Judicial Court ruled that Dell could not be liable under Chapter 93A (and therefore be forced to pay treble damages) for collecting taxes that it believed, in good faith, were due; the Court, however, let the declaratory action go forward. Dell filed a third-party complaint against the Commissioner of Revenue, seeking a declaration that the sales taxes it collected (and paid) on service contracts were wrongfully collected and should be paid back. The Commissioner successfully moved to stay Dell's third-party action until Dell has fully prosecuted the abatement petition it had filed with the Appellate Tax Board, seeking return of the same sales taxes. Dell recently filed a petition with the ATB for additional abatements related to its payment of sales taxes. At present, Dell's abatement requests remain pending before the ATB, with no trial date yet scheduled. The total amount Dell claims exceeds $54 million, including its claim for interest.

On November 3, 2011, the Superior Court denied Dell's renewed motion to dismiss. After the Appeals Court granted Dell's request to consider an interlocutory appeal from that ruling, the Supreme Judicial Court granted the parties' petition for direct appellate review; the case has been fully briefed and is awaiting oral argument before the SJC.

DIRECTV, Inc. v. Commonwealth of Massachusetts Department of Revenue, Suffolk Superior Court. Satellite-television providers DIRECTV and Dish Network claim that the excise tax on the sale of direct broadcast satellite services to subscribers or customers in the Commonwealth (enacted by Mass. St. 2009, c. 27, sec. 61 and 150) violates the Commerce Clause of the United States Constitution and the equal protection clauses of the United States and Massachusetts Constitution. Were the providers to prevail, the potential refund of taxes collected under the statute may exceed $10 million for each tax year, and a corresponding amount of annual revenue would be unavailable for collection in future tax years. The Commonwealth served a motion to dismiss the complaint for failure to exhaust administrative remedies, which the Court denied. Extensive discovery has been completed, and the parties are presently briefing cross-motions for summary judgment. A hearing on the summary judgment cross motions is scheduled for July 19, 2012.

Potential suit asserting a sales/use tax abatement claim. This matter involves a tax abatement claim in the amount of $21.8 million filed as a result of a class action suit against the taxpayer. This matter has not been filed with the Appellate Tax Board.

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

Other Revenues

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

(a) (2004 NPM Adjustment) This matter arises under the Tobacco Master Settlement Agreement ("MSA") entered into in 1998, that settled litigation and claims by Massachusetts and 51 other states or dependencies (collectively the "States"), against the major tobacco manufacturers. Under the MSA, payments made by the Original Participating Manufacturers ("OPMs") and Subsequent Participating Manufacturers (collectively the Participating Manufacturers or "PMs") are subject to a number of adjustments. One such adjustment is the Non-Participating Manufacturer ("NPM") Adjustment, which can be triggered if the OPMs suffer a specified market share loss as compared to the OPMs' market share during the base year 1997. Under the MSA, a nationally recognized economic firm selected jointly by the States and the OPMs must make a determination that "the disadvantages experienced" by the PMs as a result of complying with the MSA were "a significant factor contributing to the Market Share Loss" for a given year. Even if such a determination is made, the States can still avoid the NPM adjustment if it is determined that the States "diligently enforced" their individual NPM Escrow Statutes. The Significant Factor Determination (SFD) proceeding for a 2004 NPM Adjustment commenced in May, 2006. Because the OPMs did suffer the requisite market share loss in 2004, they are seeking to reduce, by approximately $1.1 billion, the MSA payments they made to the States for 2004 sales. In February, 2007, the economic firm found that the disadvantages experienced by the OPMs as a result of the MSA were a significant factor in the OPMs' 2004 market-share loss. Immediately following the firm's determination, the OPMs requested that the Independent Auditor issue an adjustment to their April, 2007 annual MSA payment in the amount of $1.1 billion, which would have reduced the initial 2007 pay-out to Massachusetts by approximately $45 million to $50 million. The Independent Auditor notified the parties that it would not make the adjustment until a fact finder resolved whether the States had diligently enforced their escrow statutes during 2004. Philip Morris paid its entire April, 2007 annual MSA payment, but R. J. Reynolds and Lorillard withheld their portion of the NPM Adjustment, which reduced the initial 2007 payout to Massachusetts by approximately $30 million. Consistent with the procedures outlined above, the States can avoid the 2004 NPM Adjustment if it is determined that the States diligently enforced their individual NPM Escrow Statutes. If the Commonwealth does not prevail, future MSA payments to Massachusetts would be reduced by an amount yet to be determined, but not exceeding the full amount of the state's 2004 MSA payment, depending upon the outcome of similar NPM proceedings against other states.

The PMs' claim to an NPM Adjustment for calendar year 2003 is no longer being pressed against the Commonwealth. On November 3, 2011, the manufacturers advised the arbitrators that Massachusetts was one of 14 states and territories whose claims of "diligence" were no longer being contested. Since the December 5, 2011 deadline for any state to challenge the claim of another state has passed, Massachusetts's claim to its allocable share of the 2003 NPM Adjustment is no longer in dispute. Massachusetts can expect to receive approximately $30 million withheld by certain manufacturers from the payment due April 15, 2006. Due to certain reallocation provisions of the MSA and orders entered by the arbitration panel, Massachusetts cannot expect to receive this money before FY 2014, after resolution of the contested states' claims by the arbitration panel. Those hearings will begin in May, 2012 and are not expected to be concluded before the end of calendar year 2012.

(b) (2005 NPM Adjustment) The SFD proceeding for a 2005 NPM Adjustment commenced in May, 2007. Because the OPMs did suffer the requisite market share loss in 2005, they are seeking to reduce, by approximately $709 million, the MSA payments they made to the states for 2005 sales. In February, 2008, the economic firm again found that the disadvantages experienced by the OPMs as a result of the MSA were a significant factor in the OPMs' 2005 market-share loss. Immediately following the firm's determination, the OPMs requested that the Independent Auditor issue an adjustment to their April, 2008 annual MSA payment in the amount of $709 million, which would have reduced the initial 2008 pay-out to Massachusetts by approximately $28 million to $30 million. The Independent Auditor notified the parties that it would not make the adjustment until a fact finder resolved whether the states had diligently enforced their escrow statutes during 2005. Philip Morris paid its entire April, 2008 annual MSA payment, but R. J. Reynolds and Lorillard withheld their portion of the NPM Adjustment, which reduced the initial 2008 payout to Massachusetts by approximately $21 million. Consistent with the procedures outlined above, the States can avoid the 2005 NPM Adjustment if it is determined that the States diligently enforced their individual NPM Escrow Statutes. If the Commonwealth does not prevail, future MSA payments to Massachusetts would be reduced by an amount yet to be determined, but not exceeding the full amount of the state's 2005 MSA payment, depending upon the outcome of similar NPM proceedings against other states.

(c) (2006 NPM Adjustment) The SFD proceeding for a 2006 NPM Adjustment commenced in May 2008. Because the OPMs did suffer the requisite market share loss in 2006, they are seeking to reduce, by approximately $611 million, the MSA payments they made to the states for 2006 sales. In March 2009, the economic firm again found that the disadvantages experienced by the OPMs as a result of the MSA were a significant factor in the OPMs' 2006 market-share loss. Philip Morris paid its entire April 2009 annual MSA payment, but R. J. Reynolds and Lorillard withheld their portion of the NPM Adjustment, which reduced the initial 2009 payout to Massachusetts by approximately $22 million. Consistent with the procedures outlined above, the States can avoid the 2006 NPM Adjustment if it is determined that the States diligently enforced their individual NPM Escrow Statutes. If the Commonwealth does not prevail, future MSA payments to Massachusetts would be reduced by an amount yet to be determined, but not exceeding the full amount of the state's 2006 MSA payment, depending upon the outcome of similar NPM proceedings against other states.

In January 2009, Massachusetts and other settling states entered into an agreement on arbitration with the OPMs. Broadly stated, the agreement on arbitration provides for a national arbitration proceeding to resolve the ongoing NPM adjustment disputes. As consideration for the state's assent to this agreement, the OPMs agreed, among other things, to release the funds withheld from their April 2008 MSA payments in connection with the 2005 NPM adjustment dispute. Notwithstanding this release of funds, the OPMs continue to contest the states' diligent enforcement of their escrow statutes. Nevertheless, as a result of this agreement, on February 26, 2009, the Independent Auditor released $21,836,647 in withheld 2005 MSA payments to the Commonwealth.

Grand River Enterprises Six Nations, Ltd. v. William Pryor, et al., United States District Court, New York. This is an action brought by Grand River Enterprises Six Nations Ltd. ("GRE") against the Attorneys General of 31 states, including Massachusetts, seeking to enjoin those states from enforcing the escrow statutes enacted pursuant to the tobacco Master Settlement Agreement ("MSA"). GRE, a Canadian cigarette manufacturer located on a native American reservation, is not participating in the MSA and, as such, its sales are subject to each settling state's escrow requirements. GRE claims in this litigation that the settling states' escrow statutes violate Section 1 of the Sherman Antitrust Act, are preempted by the Federal Cigarette Labeling and Advertising Act, and violate the dormant commerce clause of the United States Constitution. GRE is seeking a final judgment that the MSA is illegal, and such a decision could negatively affect the billions of dollars in future payments to the settling states anticipated under the MSA. Discovery is complete. The court has granted the states' summary judgment motion on all counts, prompting the plaintiff to file a motion for reconsideration and a notice of appeal with the United States Court of Appeals for the Second Circuit.

Sandra Murphy, et al. v. Massachusetts Turnpike Authority, Supreme Judicial Court. Plaintiffs filed suit against the Turnpike Authority on behalf of a purported class consisting of all toll payers within the Metropolitan Highway System ("MHS"). Plaintiffs claim that the prior use of toll money collected in some parts of the MHS to fund operations, maintenance, and debt service for the Central Artery and related, non-toll parts of the MHS violates the tax provisions of the Massachusetts Constitution and the so-called dormant commerce clause of the United States Constitution. Plaintiffs allege that from July, 2006 through June, 2009 the Authority charged toll payers $440 million more than the costs of the MHS toll roads during that period. The Superior Court dismissed all claims and plaintiffs appealed. The case was argued to the Supreme Judicial Court on March 6, 2012. It remains under advisement.

Environment

Wellesley College v. Commonwealth, Suffolk Superior Court. Wellesley College has threatened to seek contribution from the Commonwealth for costs related to the clean-up of environmental contamination on the Wellesley College campus and adjacent areas including Lake Waban. In September, 2001, the Court entered judgment incorporating a partial settlement between the parties, under which the College will fund a clean-up of hazardous materials at the campus and the northern shoreline of Lake Waban that is expected to cost approximately $40 million. The judgment has since been amended by agreement of the parties and with approval of the court. Under the terms of the partial settlement and judgment, the Commonwealth has reimbursed the college approximately $1.1 million (approximately 2.5% of total clean-up costs) from an escrow account after the Department of Environmental Protection ("DEP") determined that a portion of the Lake Waban shoreline clean-up was properly performed. Other issues that may lead to counterclaims by the College against the Commonwealth or its agencies include (1) groundwater contamination, estimated to cost $2 million or more depending on future decisions by DEP on appropriate clean-up; and (2) clean-up of Lake Waban itself, for which DEP has now approved a temporary solution, reviewable every five years. (If a full clean-up of the lake is required in the future, it could cost up to $100 million.); and (3) lower Waban Brook, which still has contaminated sediments that must be addressed by DEP in some manner.

In re Massachusetts Military Reservation (pre-litigation). The Commonwealth, through the Executive Office of Energy and Environmental Affairs, the Department of Environmental Protection and the Attorney General's office, were engaged in discussions with federal Natural Resource Trustees, including the United States Army and Air Force, the Department of the Interior and the National Oceanic and Atmospheric Administration, and private contractors regarding natural resource damages at the Massachusetts Military Reservation on Cape Cod. Federal Trustees and private contractors claim that the Commonwealth and others are liable for natural resource damages due to widespread contamination primarily from past military activities at the Reservation and are responsible for response actions and related clean-up activities. The assessment process for natural resource damages is set out in federal regulations and has not been completed. While no recent comprehensive estimate of natural resource damages and response actions is available, it is expected that the damages and response actions may cost at least tens of millions of dollars.

Boston Harbor Clean-Up. The Commonwealth is engaged in various lawsuits in the United States District Court concerning environmental and related laws, including an action brought by the federal Environmental Protection Agency alleging violations of the Clean Water Act and seeking to reduce the pollution in Boston Harbor, *e.g.*, *United States v. Metropolitan District Commission*; *Conservation Law Foundation v. Metropolitan District Commission*. The Massachusetts Water Resources Authority (MWRA), successor in liability to the Metropolitan District Commission, has assumed primary responsibility for developing and implementing a court-approved plan and timetable for the construction of the treatment facilities necessary to achieve compliance with the federal requirements. Under the Clean Water Act, the Commonwealth may be liable for any cost of complying with any judgment in these or any other Clean Water Act cases to the extent that the MWRA or a municipality is prevented by state law from raising revenues necessary to comply with such a judgment. The total cost of construction of the wastewater facilities required under the federal district court's order, not including combined sewer overflow (CSO) costs, has been approximately $3.8 billion. The MWRA has also spent approximately $784 million in developing and implementing the CSO plan and its projects. Thus, the cost of construction of water treatment facilities required under the court's order has now amounted to approximately $4.58 billion. Going forward, the MWRA anticipates spending an additional $78 million on remaining design and construction work on CSO projects. These figures do not include routine ongoing costs, such as maintenance expenses and capital spending for plant and system retrofits, and replacements.

Other

Perini Corp., Kiewit Constr. Corp., Jay Cashman, Inc. d/b/a Perino-Kiewit-Cashman Joint Venture v. Commonwealth. In several related cases and potential litigation, plaintiffs make claims for alleged increased costs arising from differing site conditions and other causes of delay on the Central Artery/Ted Williams Tunnel project. Plaintiffs have asserted claims in excess of $150 million. These claims are at various stages of resolution, including claims pending before the Superior Court, the Appeals Court and the Central Artery Tunnel Project Dispute Review Board ("DRB") panel. The DRB has issued decisions on some of the claims, awarding plaintiffs approximately $69.8 million on claims of approximately $105.3 million. The majority of those decisions are now the subject of further court proceedings. Plaintiffs also still have approximately $52 million in claims pending before the DRB, the Project Director and possibly the courts.

In early May 2012, the Appeals Court will hear oral arguments as to whether the DRB was authorized to issue binding arbitral decisions on numerous claims, or whether it was only authorized to issue non-binding recommendations that were subject to revision by the Project Director.

OPEIU, Local 6 and the Massachusetts Trial Court, American Arbitration Association. The union representing the Trial Court's clerical and professional employees has taken two grievances to arbitration concerning the non-payment of negotiated wage increases for the second and third years of a collective bargaining agreement effective from July 1, 2007 to June 30, 2010. On May 7, 2010, the arbitrator issued an award requiring the Trial Court to pay the wage increases, which now total approximately $40 million. On October 18, 2010, the union filed a petition in Superior Court to enforce the arbitration award. The union has also filed an unfair labor practice charge with the Division of Labor Relations alleging that the Commonwealth's failure to comply with the arbitration award violates G.L. c. 150E. The Trial Court and the union subsequently settled this matter. Under the terms of the settlement agreement, the Trial Court will use operating funds for the 2011 fiscal year to place the subject employees at the correct pay level effective as of the pay period that begins March 13, 2011. The Governor has included certain funds for OPEIU, Local 6 employees' wages in a supplemental budget, including retroactive payments from July 1, 2010 to March 12, 2011. The remainder of the retroactive wage payments will be paid out in increments from the Trial Court's budget by fiscal year 2015. The Superior Court lawsuit is currently stayed by agreement of the parties and will be withdrawn upon passage of the supplemental budget. The charge before the Division of Labor Relations will be withdrawn by the union upon the parties' negotiation of a successor collective bargaining agreement.

In April, 2011, the Governor signed a supplemental budget containing a $30 million appropriation to the Trial Court that will be applied toward the arbitration award. OPEIU, Local 6 has since agreed to dismiss the Superior Court action.

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

Plaintiffs voluntarily dismissed the suit against the former Commissioner of the Department of Correction, Harold W. Clarke. The remaining defendants moved to dismiss the complaint on the grounds of lack of personal jurisdiction, absolute prosecutorial immunity, qualified immunity, and failure to state a claim upon which relief may be granted. The court dismissed the case against William Lochrie, an employee of the Department of Correction Office of Investigative Services, for lack of personal jurisdiction. The court denied the motions to dismiss of the remaining defendants with respect to personal jurisdiction and absolute immunity. The court has yet to rule on the remaining issues raised in defendants' motions to dismiss. Defendants filed a notice of interlocutory appeal to the Ninth Circuit Court of Appeals on the issues of personal jurisdiction and absolute immunity. The appeal has been docketed and remains pending.

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MISCELLANEOUS

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

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

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

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

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

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CONTINUING DISCLOSURE

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

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

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

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AVAILABILITY OF OTHER FINANCIAL INFORMATION

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

THE COMMONWEALTH OF MASSACHUSETTS

By *<u>/s/ Steven Grossman</u>*
Steven Grossman
Treasurer and Receiver-General

By *<u>/s/ Jay Gonzalez</u>*
Jay Gonzalez
Secretary of Administration and Finance

May 8, 2012

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