NEW ISSUES — BOOK-ENTRY ONLY

In the opinion of Hale and Dorr, Bond Counsel with respect to the Bonds, under existing statutes and court decisions and assuming continued compliance with the Internal Revenue Code of 1986, as amended, interest on the Bonds (including any original issue discount properly allocable to the holder thereof) is excludable from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, although interest on the Bonds will be taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed upon certain corporations. In the opinion of Bond Counsel with respect to the Bonds, under existing statutes, the Bonds and the interest thereon (including any original issue discount properly allocable to the holder thereof) are exempt from taxes imposed by the Commonwealth, although the Bonds and said interest may be included in the measure of estate and inheritance taxes and of certain corporation excise and franchise taxes. See "TAX EXEMPTION" herein.

In the opinion of Nutter, McClennen & Fish, Bond Counsel with respect to the Notes, under existing law and assuming continued compliance with the Internal Revenue Code of 1986, as amended, interest on the Notes is excluded from gross income for federal income tax purposes and will not be an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, although interest on the Notes will be taken into account in computing certain federal taxes imposed upon corporations. In the opinion of Bond Counsel with respect to the Notes, the Notes and the interest thereon are exempt from taxes imposed by existing Massachusetts laws, although the Notes and said interest may be included in the measure of Massachusetts estate and inheritance taxes and of certain Massachusetts corporate excise and franchise taxes. See "TAX EXEMPTION" herein.

THE COMMONWEALTH OF MASSACHUSETTS

$200,000,000
General Obligation Bonds
Consolidated Loan of 1994, Series C

$240,000,000
General Obligation Notes
1994 Series A

The Bonds and the Notes will each be issued by means of a book-entry-only system evidencing ownership and transfer of the Bonds and the Notes on the records of The Depository Trust Company ("DTC") and its participants. Details of payment of the Bonds and Notes are more fully described in this Official Statement. The Bonds will bear interest from November 1, 1994 and interest will be payable on May 1, 1995 and semiannually thereafter on November 1 and May 1 calculated on the basis of a 360-day year of twelve 30-day months. The Bonds are subject to redemption prior to maturity, as more fully described herein. Interest on the Notes will be payable at maturity from their dated date calculated on the basis of actual days and a 365-day year (205/365). The Notes are not subject to redemption prior to maturity.

The Bonds and the Notes will each constitute general obligations of The Commonwealth of Massachusetts (the "Commonwealth") and the full faith and credit of the Commonwealth are pledged to the payment of the principal of and interest on the Bonds and the Notes. However, for information regarding certain statutory limits on state tax revenue growth and on expenditures for debt service and regarding dedicated state income tax revenues, see "THE BONDS — Security for the Bonds," "THE NOTES — Security for the Notes" and "Appendix A — Commonwealth Information Statement" under the headings "COMMONWEALTH REVENUES — Limitations on Tax Revenues," "COMMONWEALTH PROGRAMS AND SERVICES — Debt Service" and "COMMONWEALTH BOND AND NOTE LIABILITIES".

The Bonds are offered when, as and if issued and received by the original purchasers, and subject to the unqualified approving opinion as to legality of Hale and Dorr, Boston, Massachusetts, Bond Counsel. Certain legal matters will be passed upon for the Commonwealth by Palmer & Dodge, Boston, Massachusetts, Disclosure Counsel. The Bonds are expected to be available for delivery at DTC in New York, New York, on or about November 29, 1994.

The Notes are offered when, as and if issued and received by the original purchasers, and subject to the unqualified approving opinion as to legality of Nutter, McClennen & Fish, Boston, Massachusetts, Bond Counsel. Certain legal matters will be passed upon for the Commonwealth by Palmer & Dodge, Boston, Massachusetts, Disclosure Counsel. The Notes are expected to be available for delivery at DTC in New York, New York, on or about November 22, 1994.

November 16, 1994

THE COMMONWEALTH OF MASSACHUSETTS

$200,000,000
General Obligation Bonds
Consolidated Loan of 1994, Series C

Dated: November 1, 1994 **Due: November 1, as shown below**

Maturity	Amount	Interest Rate	Price or Yield
1995	$5,495,000	5½%	NRO
1996	5,750,000	5½	5.00%
1997	6,050,000	5½	5.25
1998	6,375,000	5½	5.50
1999	6,730,000	5¾	100
2000	7,120,000	5.90	100
2001*	7,535,000	6	100
2002*	7,985,000	6.10	100
2003*	8,465,000	6.20	100
2004*	8,985,000	6.30	100
2005*	9,550,000	6.30	6.40
2006*	10,155,000	6.40	6.50
2007*	10,810,000	6½	6.60
2008*	11,520,000	6.60	6.70
2009*	12,285,000	6.70	6.80
2010*	13,115,000	6¾	6.85
2011*	14,005,000	6¾	6.90
2012*	14,965,000	6¾	NRO
2013*	15,995,000	7	NRO
2014*	17,110,000	7	NRO

*Insured by Financial Guaranty Insurance Company. See "THE BONDS--Bond Insurance".

(accrued interest, if any, to be added)

$240,000,000
General Obligation Notes
1994 Series A

Dated: November 22, 1994 **Due: June 15, 1995**

Interest Rate: 5.00%

FOR NEW HAMPSHIRE RESIDENTS: THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

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

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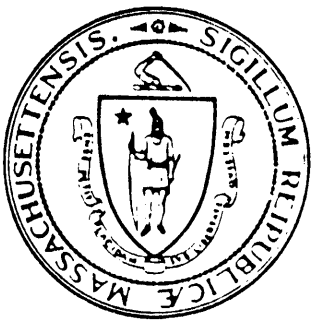
THE COMMONWEALTH OF MASSACHUSETTS



CONSTITUTIONAL OFFICERS

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

LEGISLATIVE OFFICERS

William M. Bulger . . . . . President of the Senate
Charles F. Flaherty . . . . . Speaker of the House

OFFICIAL STATEMENT

THE COMMONWEALTH OF MASSACHUSETTS

$200,000,000
General Obligation Bonds
Consolidated Loan of 1994, Series C

$240,000,000
General Obligation Notes
1994 Series A

INTRODUCTION

This Official Statement (including the cover pages and Appendices A through E attached hereto) provides certain information in connection with the issuance by The Commonwealth of Massachusetts (the "Commonwealth") of (i) $200,000,000 aggregate principal amount of its General Obligation Bonds, Consolidated Loan of 1994, Series C (the "Bonds"), and (ii) $240,000,000 aggregate principal amount of its General Obligation Notes, 1994 Series A (the "Notes"). The Bonds and the Notes will each be general obligations of the Commonwealth, and the full faith and credit of the Commonwealth are pledged to the payment of the principal of and interest on the Bonds and the Notes. However, for information regarding certain statutory limits on state tax revenue growth and expenditures for debt service and regarding dedicated state income tax revenues, see "THE BONDS -- Security for the Bonds", "THE NOTES -- Security for the Notes" and "Appendix A - Commonwealth Information Statement" under the headings "COMMONWEALTH REVENUES -- Limitations on Tax Revenues", "COMMONWEALTH PROGRAMS AND SERVICES -- Debt Service" and "COMMONWEALTH BOND AND NOTE LIABILITIES".

The Bonds are being issued to finance certain authorized capital projects of the Commonwealth. See "THE BONDS - Application of Proceeds".

The Notes are being issued by the Commonwealth pursuant to Chapter 161A of the Massachusetts General Laws ("Chapter 161A") to reimburse the Commonwealth for payments made to the Massachusetts Bay Transportation Authority (the "Authority" or "MBTA") on account of the MBTA's net cost of service. See "THE NOTES -- Financing of the MBTA".

Purpose and Content of Official Statement

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

Attached hereto as Appendix A is the Commonwealth Information Statement, dated November 16 , 1994, (the "Commonwealth Information Statement"), which contains certain fiscal, budgetary, financial, and other general information concerning the Commonwealth as of its date. Exhibit A to the Commonwealth Information Statement contains certain economic information concerning the Commonwealth. Exhibits B and C to the Commonwealth Information Statement contain the financial statements of the Commonwealth for the fiscal year ending June 30, 1993, prepared on a statutory basis and a GAAP basis, respectively. Appendix B attached hereto contains the proposed form of legal opinion of Bond Counsel with respect to the Bonds. Appendix C attached hereto contains the proposed form of legal opinion of Bond Counsel with respect to the Notes. Appendix D attached hereto contains a specimen of the municipal bond new issue insurance policy to be issued with respect to the Bonds maturing in the years 2001 through 2014 (the "Insured Bonds").

THE BONDS

General

The Bonds will be dated November 1, 1994 and will initially bear interest from such date payable semiannually on May 1 and November 1 of each year, commencing May 1, 1995 (each an "Interest Payment Date"), until the principal amount is paid. The Bonds will mature on November 1 in the years and in the aggregate principal amounts, and shall bear interest at the rates per annum (calculated on the basis of a 360-day year of twelve 30-day months), as set forth on the inside cover page of this Official Statement. The Commonwealth will act as its own paying agent with respect to the Bonds.

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

Redemption

The Bonds maturing on or prior to November 1, 2004 are not subject to redemption prior to their stated maturity dates.

Optional Redemption. The Bonds maturing on or after November 1, 2005 are subject to redemption prior to their stated maturity dates on or after November 1, 2004, at the option of the Commonwealth from any monies legally available therefor, in whole or in part at any time, by lot, at the redemption prices (expressed as percentages of the principal amount thereof), plus accrued interest to the redemption date, as follows:

Redemption Dates	Redemption Prices
November 1, 2004 through October 31, 2005, inclusive	101%
November 1, 2005 through October 31, 2006, inclusive	100½
November 1, 2006 and thereafter	100

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

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

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

Application of Proceeds of the Bonds

The Bonds are being issued pursuant to the provisions of Section 49 of Chapter 29 of the Massachusetts General Laws and bond authorizations enacted by the Legislature. The net proceeds of the sale of the Bonds will be applied by the State Treasurer to the various purposes for which issuance of bonds have been authorized by the Legislature. Any accrued interest payable upon original delivery of the Bonds will be credited ratably to the funds from which debt service on the Bonds is paid and will be used to pay interest on the Bonds.

The purposes for which the Bonds will be issued have been authorized by the Legislature under various bond authorizations and are included within the current five-year capital spending plan established by the Governor (the "Capital Spending Plan"). The Capital Spending Plan, which is an administrative guideline and is subject to amendment by the Governor at any time, sets forth capital spending allocations over the next five fiscal years and establishes annual capital spending limits. The proceeds of the Bonds are to be applied in fiscal year 1995 to certain projects included within the categories of capital expenditures contained in the Capital Spending Plan. See "Appendix A - Commonwealth Information Statement" under the headings "COMMONWEALTH BUDGET, FINANCIAL MANAGEMENT AND CONTROLS -- Overview of Capital Spending Process and Controls; *Five-Year Capital Spending Plan*" and "COMMONWEALTH BOND AND NOTE LIABILITIES -- Authorized But Unissued Debt".

Security for the Bonds

The Bonds will be general obligations of the Commonwealth to which its full faith and credit will be pledged for the payment of principal and interest when due. However, it should be noted that Chapter 62F of the Massachusetts General Laws imposes a state tax revenue growth limit and does not exclude principal and interest payments on Commonwealth debt obligations from the scope of the limit. It should be noted further that Chapter 29, Section 60B, of the Massachusetts General Laws imposes an annual limitation on the percentage of total appropriations that may be expended for payment of interest and principal on general obligation debt of the Commonwealth. These statutes are both subject to amendment or repeal by the Legislature. Currently, actual tax revenue growth and annual general obligation debt service are both below the statutory limits. See "Appendix A - Commonwealth Information Statement" under the headings "COMMONWEALTH REVENUES -- Limitations on Tax Revenues" and "COMMONWEALTH PROGRAMS AND SERVICES -- Debt Service". In addition, the Commonwealth has pledged up to 15% of the Commonwealth's income tax receipts to secure approximately $1.24 billion of the Commonwealth's outstanding Fiscal Recovery Bonds, the debt service on which amounts to approximately $279 million per year in fiscal 1995 through 1997, and $130 million in fiscal 1998, at which time the Fiscal Recovery Bonds will be paid. See "Appendix A - Commonwealth Information Statement" under the heading "COMMONWEALTH BOND AND NOTE LIABILITIES -- General Obligation Debt; *Dedicated Income Tax Debt*".

The Commonwealth has waived its sovereign immunity and consented to be sued on contractual obligations, including the Bonds, and all claims with respect thereto. However, the property of the Commonwealth is not subject to attachment or levy to pay a judgment and the satisfaction of any judgment generally requires legislative appropriation. Enforcement of a claim for payment of principal of or interest on the Bonds also may 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 the Commonwealth. Under Massachusetts law, the Bonds have all of the qualities and incidents of negotiable instruments under the Uniform Commercial Code.

Bond Insurance

The Underwriter of the Bonds has contracted with Financial Guaranty Insurance Company ("Financial Guaranty") for the issuance of a municipal bond new issue insurance policy to secure the Insured Bonds. The issuance of such policy is not a condition to the issuance and delivery of the Bonds by the Commonwealth to the Underwriters. The following information has been furnished by Financial Guaranty for use in this Official Statement. Reference is made to Appendix D for a specimen of Financial Guaranty's policy.

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

The Policy is non-cancellable and the premium will be fully paid at the time of delivery of the Insured Bonds. The Policy covers failure to pay principal of the Insured Bonds on their respective stated maturity dates, and not on any other date on which the Insured Bonds may have been accelerated, and covers the failure to pay an installment of interest on the stated date for its payment.

This Official Statement contains a section regarding the ratings assigned to the Insured Bonds and references should be made to such section for a discussion of such ratings and the basis for their assignment to the Insured Bonds. Reference should be made to the description of the Commonwealth and the Bonds for a discussion of the ratings, if any, assigned to such entity's outstanding parity debt that is not secured by credit enhancement and the circumstances, if any, under which the Commonwealth is required to provide additional or substitute credit enhancement, and related matters.

The Policy is not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

Financial Guaranty is a wholly-owned subsidiary of FGIC Corporation (the "Corporation"), a Delaware holding company. The Corporation is a subsidiary of General Electric Capital Corporation ("GE Capital"). Neither the Corporation nor GE Capital is obligated to pay the debts of or the claims against Financial Guaranty. Financial Guaranty is a monoline financial guaranty insurer domiciled in the State of New York and subject to regulation by the State of New York Insurance Department. As of September 30, 1994, the total capital and surplus of Financial Guaranty was approximately $871,000,000. Financial Guaranty prepares financial statements on the basis of both statutory accounting principles and generally accepted accounting principles. Copies of such financial statements may be obtained by writing to Financial Guaranty at 115 Broadway, New York, New York 10006, Attention: Communications Department (telephone number: (212) 312-3000) or to the New York State Insurance Department

at 160 West Broadway, 18th Floor, New York, New York 10013, Attention: Property Companies Bureau (telephone number: (212) 602-0389).

THE NOTES

Details of the Notes

The Notes will be dated November 22, 1994 and will be due and payable as to both principal and interest on June 15, 1995. The Notes will not be redeemable prior to maturity and will bear interest, calculated on the basis of actual days and a 365-day year (205/365), at such rate per annum as is specified on the inside cover page hereof. A book-entry system will be employed, evidencing ownership of the Notes in principal amounts of $5,000 or integral multiples thereof, with transfers of ownership effected on the records of The Depository Trust Company, New York, New York ("DTC") and its participants pursuant to rules and procedures established by DTC and its participants. See "BOOK-ENTRY-ONLY SYSTEM".

Application of Proceeds of the Notes

The proceeds of the Notes, exclusive of accrued interest and premium (if any) received upon the delivery thereof, will be deposited in the General Fund of the Commonwealth to reimburse it for funds expended (in anticipation of the issuance of the Notes) by the State Treasurer to make payments to the MBTA on account of the MBTA's net cost of service. The MBTA used the proceeds of such payments to finance its current expenses (including the payment of notes of the MBTA when due). See "Financing of MBTA". Upon said deposit, the proceeds of the Notes will be expended from the General Fund for current expenses of the Commonwealth (including the payment of notes of the Commonwealth when due).

Security for the Notes

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

In addition, the Commonwealth has pledged up to 15% of the Commonwealth's income tax receipts to secure approximately $1.24 billion of the Commonwealth's Fiscal Recovery Bonds, the debt service on which amounts to approximately $279 million per year in fiscal 1994 through fiscal 1997, and $130 million in fiscal 1998, at which time the Fiscal Recovery Bonds will be paid. See "Appendix A - Commonwealth Information Statement" under the heading "COMMONWEALTH BOND AND NOTE LIABILITIES -- General Obligation Debt; *Dedicated Income Tax Debt*".

The Commonwealth has waived its sovereign immunity and consented to be sued on contractual obligations, including the Notes 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 the Notes also may 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 the Commonwealth.

Financing of the MBTA

The MBTA was created in 1964 by Chapter 161A of the General Laws and is a body politic and corporate and a political subdivision of the Commonwealth. The territorial area of the MBTA consists of 78 cities and towns in the greater Boston metropolitan area. The MBTA finances and operates mass transportation facilities within this territory and to a limited extent outside its territory and is authorized to enter into agreements for providing mass transportation service by private companies, including railroads. The affairs of the MBTA are managed by a board of seven directors. The Secretary of the Executive Office of Transportation and Construction serves as Chairman of the board of directors. The other six directors are appointed by the Governor of the Commonwealth to serve terms coterminous with that of the Governor. The directors have the power to appoint and employ a general manager. Chapter 161A also provides for an Advisory Board, consisting of a representative of each of the cities and towns constituting the MBTA, which has certain specified powers, including the power to approve the MBTA's budget or subject it to itemized reductions and to approve the appointment of a general manager.

Section 12 of Chapter 161A directs the State Treasurer to pay to the MBTA annually the net cost of service (current expenses, including debt service and lease obligations, minus current income) incurred by the MBTA in providing its mass transportation services. If the MBTA at any time lacks sufficient cash to make the payments required of it in the course of its duties, Section 13 of Chapter 161A provides that it may require the Commonwealth to pay it an amount not exceeding its estimated net cost of service for the year to date. If at any time the MBTA lacks funds to pay any bond or note issued or assumed by it (other than a Commonwealth guaranteed bond anticipation note), Section 13 also provides that the MBTA shall requisition the required amount from the Commonwealth. In order to make the payments required by Sections 12 and 13, the State Treasurer is authorized by Section 12 to issue general obligation temporary notes of the Commonwealth in an amount sufficient to make such payments and to pay interest on the notes and costs of the issue. Because of the provision in Proposition 2 1/2 limiting the amount which can be assessed on account of the MBTA's operations on the cities and towns in the territory of the MBTA, the making by the Commonwealth of a payment required by Section 12 or 13, and the ability of the State Treasurer to issue notes of the Commonwealth therefor, may, to the extent any such payment or payments would exceed the amount that could be assessed on the cities and towns, be subject to legislative appropriation of the necessary funds. No further such legislative appropriation is needed with respect to the Notes or the application of their proceeds.

Since the MBTA regularly incurs a net cost of service, it is necessary to meet its accruing net cost of service during the year. It has been the general practice of the MBTA to obtain such funds by its own temporary borrowing or advances from the State Treasurer on account of the current year's net cost of service during the year and then, in the following year, to requisition from the Commonwealth reimbursement of the balance of its net cost of service not already advanced.

LITIGATION

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

There are pending in courts within the Commonwealth various suits in which the Commonwealth is a defendant. In the opinion of the Attorney General, no litigation is pending or, to his knowledge, threatened which is likely to result, either individually or in the aggregate, in final judgments against the Commonwealth that would

affect materially its financial condition. For a description of certain litigation affecting the Commonwealth, see "Appendix A - Commonwealth Information Statement" under the heading "LITIGATION".

BOOK-ENTRY-ONLY SYSTEM

The Depository Trust Company, New York, New York ("DTC"), will act as securities depository for the Bonds and the Notes. The Bonds will initially be issued exclusively in book-entry form and one fully registered Bond for each maturity set forth on the inside cover page hereof, each in the aggregate principal amount of such maturity, will be deposited with DTC. The Notes will initially be issued by a book-entry system, evidencing ownership of the Notes in principal amounts as described above, with no physical distribution of Notes made to the public.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC holds securities that its participants (the "DTC Participants") deposit with DTC. DTC also facilitates the settlement among DTC Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in accounts of the DTC Participants, thereby eliminating the need for physical movement of securities certificates. DTC Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is owned by a number of the DTC Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc. and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as banks, securities brokers and dealers, and trust companies that clear through or maintain a custodial relationship with a DTC Participant, either directly or indirectly (the "Indirect Participants"). The rules applicable to DTC and the DTC Participants are on file with the Securities and Exchange Commission.

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

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

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

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

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

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

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

DTC may discontinue providing its services as securities depository with respect to the Bonds or Notes at any time by giving reasonable notice to the Commonwealth. Under such circumstances, unless a substitute depository is retained by the Commonwealth, Bonds or Notes will be delivered and registered as designated by the Beneficial Owners. The Beneficial Owner, upon registration of Bonds or Notes held in the Beneficial Owner's name, will become the Bondholder or Noteholder.

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

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

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

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

RATINGS

Fitch Investors Service, Inc., Moody's Investors Service, Inc. and Standard & Poor's Ratings Group will assign their municipal bond ratings of "AAA", "Aaa" and "AAA", respectively, to the Insured Bonds with the understanding that upon delivery of such Bonds, a policy insuring the payment when due of the principal of and interest on the Insured Bonds will be issued by Financial Guaranty.

The Bonds, other than the Insured Bonds, have been assigned ratings by Fitch Investors Service, Inc., Moody's Investors Service, Inc. and Standard & Poor's Ratings Group. The rating assigned by Fitch Investors Service, Inc. for the Bonds is "A+". The rating assigned by Moody's Investors Service, Inc. for the Bonds is "A1". The rating assigned by Standard & Poor's Ratings Group for the Bonds is "A+".

The Notes have been assigned ratings by Fitch Investors Service, Inc., Moody's Investors Service, Inc. and Standard & Poor's Ratings Group. The rating assigned by Fitch Investors Service, Inc. is "F-1" for the Notes. The rating assigned by Moody's Investors Service, Inc. is "MIG1" for the Notes. The rating assigned by Standard & Poor's Ratings Group is "SP-1" for the Notes.

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

TAX EXEMPTION

The Bonds

Bond Counsel with respect to the Bonds, Hale and Dorr, is of the opinion that, under existing statutes and court decisions, except as described below, interest on the Bonds is excludable from gross income for federal income tax purposes and is not an item of tax preference for the purpose of the federal alternative minimum tax imposed on individuals and corporations, but is includable in adjusted current earnings of corporate holders of the Bonds and therefore will be taken into account in the computation of the alternative minimum tax applicable to certain corporations. The Internal Revenue Code of 1986, as amended (the "Code"), imposes certain requirements and restrictions on the use, expenditure, and investment of proceeds of state and local governmental obligations, including the Bonds, and a requirement for payment to the federal government (called a "rebate") of certain proceeds derived from the investment thereof. Failure to comply with the Code's requirements subsequent to the issuance of the Bonds could cause interest on the Bonds to become subject to federal income taxation, retroactive to the date of their issuance. On or before delivery of the Bonds to the original purchasers, the Commonwealth will covenant that it will take all lawful action necessary to comply with those provisions of the Code that, except for such compliance, would affect adversely the excludability of interest on the Bonds from gross income for federal income tax purposes. Bond Counsel's opinion with respect to the federal income tax treatment of interest on the Bonds is conditioned upon such compliance.

Bond Counsel has not opined as to other federal tax consequences of holding the Bonds. However, prospective purchasers of such Bonds should be aware that (i) section 265 of the Code denies a deduction for interest on indebtedness incurred or continued to purchase or carry the Bonds or, in the case of a financial institution, that portion of a holder's interest expense allocated to such Bonds, (ii) with respect to insurance companies subject to the tax imposed by section 831 of the Code, section 832(b)(5)(B)(i) reduces the deduction for loss reserves by 15% of the sum of certain items, including interest on the Bonds, (iii) for taxable years beginning before January 1, 1996,

interest on the Bonds earned by some corporations could be subject to the environmental tax imposed by section 59A of the Code, (iv) interest on the Bonds earned by certain foreign corporations doing business in the United States could be subject to a branch profits tax imposed by section 884 of the Code, (v) passive investment income, including interest on the Bonds, may be subject to federal income taxation under section 1375 of the Code for S corporations that have Subchapter C earnings and profits at the close of the taxable year if greater than 25% of the gross receipts of such S corporation is passive investment income and (vi) section 86 of the Code requires recipients of certain Social Security and Railroad Retirement benefits to take into account, in determining gross income, receipts or accruals of interest on the Bonds.

In the opinion of Bond Counsel, under existing statutes, the Bonds and the interest thereon are exempt from taxes imposed by the Commonwealth, although the Bonds and said interest may be included in the measure of estate and inheritance taxes and of certain corporation excise and franchise taxes. Bond Counsel has not opined as to the taxability of the Bonds or interest thereon under the laws of jurisdictions other than the Commonwealth.

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

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

The Notes

Bond Counsel with respect to the Notes, Nutter, McClennen & Fish is of the opinion that, under existing law, except as hereinafter described, the interest on the Notes will be excluded from gross income for federal income tax purposes and will not be an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. Interest on the Notes will be taken into account, however, in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes).

The Internal Revenue Code of 1986, as amended (the "Code"), establishes certain requirements regarding the use, expenditure and investment of the proceeds of the Notes and the payment of rebate to the United States, which must be continuously satisfied subsequent to the issuance of the Notes in order for interest on the Notes to be or remain excluded from gross income for federal income tax purposes. Failure to comply with these requirements may cause inclusion of interest on the Notes in gross income for federal income tax purposes retroactive to the date of issuance of the Notes. The Commonwealth will covenant to take all lawful action necessary to comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Notes in order that interest on the Notes be or continue to be excluded from gross income for federal income tax purposes. Bond Counsel's opinion with respect to federal tax consequences is conditioned upon such compliance.

Bond Counsel has not opined as to other federal tax consequences of holding the Notes. However, prospective purchasers of such Notes should be aware that (i) section 265 of the Code denies a deduction for interest on indebtedness incurred or continued to purchase or carry the Notes or, in the case of a financial institution, that portion of a holder's interest expense allocated to such Notes, (ii) with respect to insurance companies subject to the tax imposed by section 831 of the Code, section 832(b)(5)(B)(i) reduces the deduction for loss reserves by 15% of the sum of certain items, including interest on the Notes, (iii) for taxable years beginning before January 1, 1996, interest on the Notes earned by some corporations could be subject to the environmental tax imposed by section 59A of the Code, (iv) interest on the Notes earned by certain foreign corporations doing business in the United States

could be subject to a branch profits tax imposed by section 884 of the Code, (v) passive investment income, including interest on the Notes, may be subject to federal income taxation under section 1375 of the Code for S corporations that have Subchapter C earnings and profits at the close of the taxable year if greater than 25% of the gross receipts of such S corporation is passive investment income and (vi) section 86 of the Code requires recipients of certain Social Security and Railroad Retirement benefits to take into account, in determining gross income, receipts or accruals of interest on the Notes.

Bond Counsel is further of opinion that the Notes and the interest thereon are exempt from taxes imposed by existing Massachusetts laws, although the Notes and said interest may be included in the measure of Massachusetts estate and inheritance taxes and of certain Massachusetts corporate excise and franchise taxes. Bond Counsel has not opined as to the taxability of the Notes or interest thereon under the laws of jurisdictions other than the Commonwealth.

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

OPINIONS OF COUNSEL

The unqualified approving opinion as to the legality of the Bonds will be rendered by Hale and Dorr of Boston, Massachusetts, Bond Counsel to the State Treasurer. The proposed form of the opinion of Bond Counsel relating to the Bonds is attached as Appendix B. The unqualified approving opinion as to the legality of the Notes will be rendered by Nutter, McClennen & Fish, of Boston, Massachusetts, Bond Counsel to the State Treasurer. The proposed form of the opinion of Bond Counsel with respect to the Notes is attached to this Official Statement as Appendix C. Certain legal matters will be passed upon for the State Treasurer by Palmer & Dodge of Boston, Massachusetts, as Disclosure Counsel to the State Treasurer.

COMPETITIVE SALE OF BONDS

After competitive bidding on November 16, 1994, the Bonds were awarded to Merrill Lynch & Co., Merrill Lynch, Pierce, Fenner & Smith Incorporated (the "Underwriter"). The Underwriter has supplied the information as to the public offering yields or prices of the Bonds set forth on the inside cover hereof. If all of the Bonds are resold to the public at such yields or prices, the Underwriter has informed the Commonwealth that it anticipates the total Underwriter compensation, net of amounts to be applied to costs of issuance of the Bonds, to be $549,000. The Underwriter may change the public offering yields or prices from time to time.

COMPETITIVE SALE OF NOTES

After competitive bidding on November 16, 1994, the Notes were awarded by the Commonwealth in the amounts, to the purchasers and at aggregate purchase prices and were initially offered to the public at prices resulting in reoffering yields as follows:

Amount	Purchaser	Purchase Price	Reoffering Yield
$50,000,000	CS First Boston Corporation	$50,217,000.00	4.15%
50,000,000	Goldman, Sachs & Co.	50,213,986.30	4.18
50,000,000	Merrill Lynch & Co.	50,214,000.00	4.15
50,000,000	Smith Barney Inc.	50,222,000.00	4.18
40,000,000	Bear, Stearns & Co. Inc.	40,170,000.00	4.15

MISCELLANEOUS

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

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

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

CONTINUING DISCLOSURE

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

AVAILABILITY OF OTHER INFORMATION

Questions regarding this Official Statement or requests for additional financial information concerning the Commonwealth should be directed to Kenneth Olshansky, Deputy Treasurer, Office of the Treasurer and Receiver-General, One Ashburton Place, Twelfth Floor, Boston, Massachusetts 02108, telephone (617) 367-3900, or Lowell Richards, Director of Debt Finance, Executive Office for Administration and Finance, State House, Room 373, Boston, Massachusetts 02133, telephone (617) 727-2040. Questions regarding legal matters relating to this Official Statement and the Bonds should be directed to Olivia A. O'Neill, Esq., Hale and Dorr, 60 State Street, Boston, Massachusetts 02109, telephone (617) 526-6000. Questions regarding legal matters relating to this Official Statement and the Notes should be directed to Dianne Hobbs, Esq., Nutter, McClennen & Fish, One International Place, Boston, Massachusetts 02110, telephone (617) 439-2311.

THE COMMONWEALTH OF MASSACHUSETTS

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

By /s/ Alan R. Morse, Jr.
Alan R. Morse, Jr.
Undersecretary for Administration and Finance

November 16, 1994

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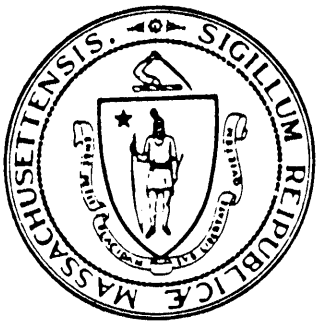
APPENDIX A

THE

COMMONWEALTH

OF

MASSACHUSETTS



INFORMATION STATEMENT

Dated November 16, 1994

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THE COMMONWEALTH OF MASSACHUSETTS

INFORMATION STATEMENT

November 16, 1994

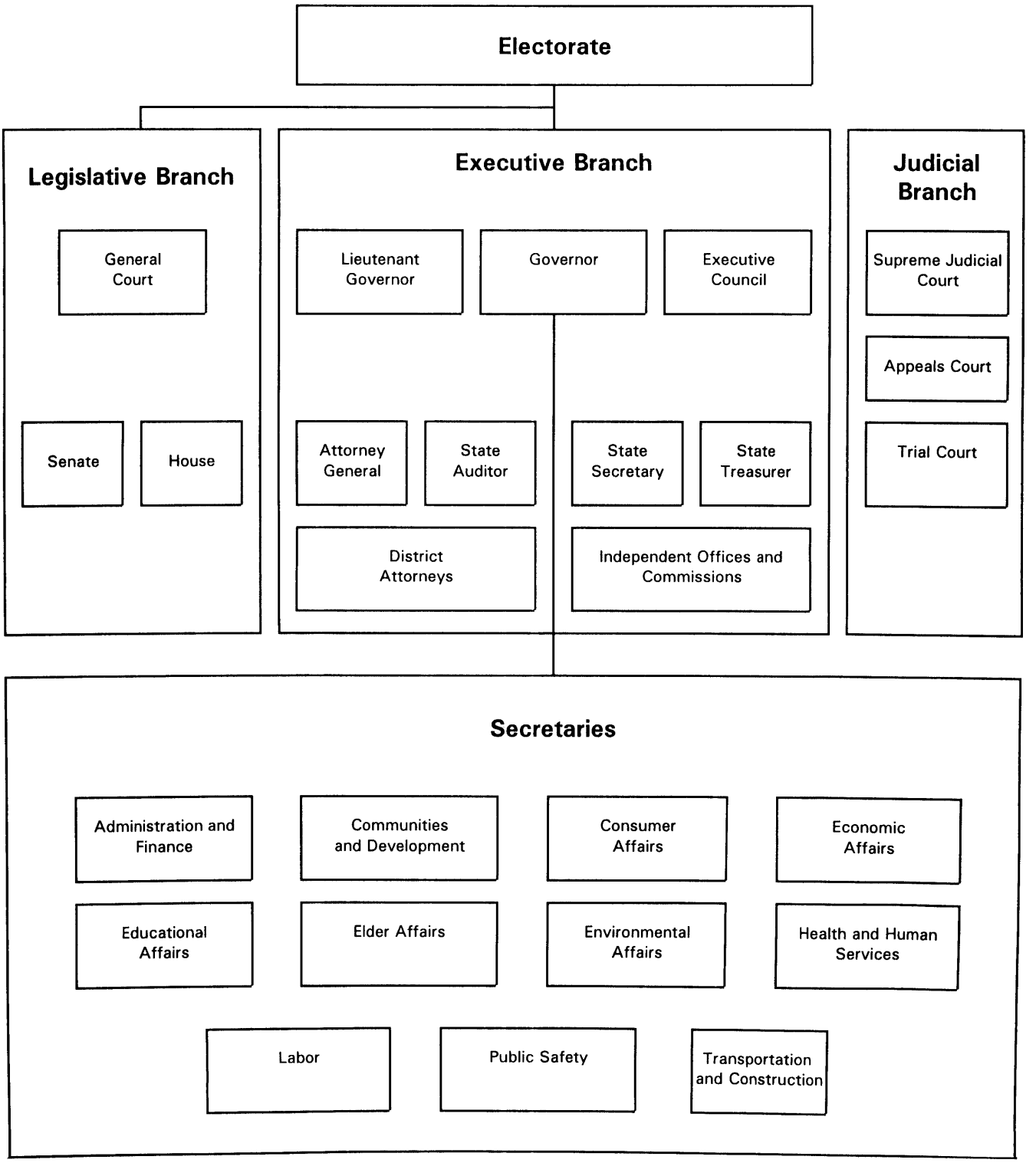
This Information Statement, together with the Exhibits attached hereto, is furnished by The Commonwealth of Massachusetts (the "Commonwealth"). It contains certain fiscal, financial and economic information concerning the Commonwealth and its ability to meet its obligations. The Commonwealth Information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

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

Exhibit A to this Information Statement sets forth certain economic, demographic and statistical information concerning the Commonwealth. Exhibits B and C contain the Commonwealth's fiscal 1993 combined financial statements (statutory basis) and fiscal 1993 general purpose financial statements (GAAP basis), respectively.

THE GOVERNMENT

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



Executive Branch

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 (the "State Treasurer"), the Secretary of the Commonwealth, the Attorney General and the State Auditor. All are elected to four-year terms. The next election for these officers will be held in November 1998.

The Executive, or 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 eleven Executive Offices. Cabinet secretaries serve at the pleasure of the Governor. All agencies are grouped under one of the eleven Executive Offices for administrative purposes.

Approximately 76.6% of the Commonwealth's fiscal 1995 program expenditures in the budgeted operating funds is allocated to the Executive Offices. Listed below are the eleven Executive Offices, showing for each the name of its secretary and the percentage of the Commonwealth's fiscal 1995 program expenditures in the budgeted operating funds attributable thereto:

Executive Offices

Executive Office	Secretary	Approximate Percentage of Total Expenditures Supervised
Administration and Finance (1)	Charles D. Baker	5.7%
Communities and Development	Mary L. Padula	0.8
Consumer Affairs and Business Regulation	Priscilla H. Douglas	0.2
Economic Affairs	Gloria C. Larson	0.2
Educational Affairs	Piedad F. Robertson	16.6
Elder Affairs	Franklin P. Ollivierre	0.8
Environmental Affairs	Trudy Coxe	1.0
Health and Human Services (1)	Gerald Whitburn	42.4
Labor	Christine E. Morris	0.1
Public Safety	Kathleen O'Toole	4.8
Transportation and Construction	James J. Kerasiotes	4.0

SOURCE: Executive Office for Administration and Finance.

(1) Charles D. Baker was appointed Secretary for Administration and Finance on November 10, 1994. He formerly served as Secretary of Health and Human Services. Gerald Whitburn will become Secretary of Health and Human Services as of January 1, 1995. He currently serves as Secretary of Health and Social Services for the State of Wisconsin.

Approximately 3.4% of the Commonwealth's fiscal 1995 expenditures in the budgeted operating funds are for the costs and expenses of the constitutional officers (other than the State Treasurer), the Legislature, the Judiciary, 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. The State Treasurer's budget contains approximately 19.3% of fiscal 1995 expenditures, including 5.3% for a portion of Commonwealth aid to cities, towns and regional school districts ("Local Aid"), 7.6% for debt service, 5.8% for pension costs, and 0.6% for other programs within the State Treasurer's office, including Lottery administration. See "COMMONWEALTH PROGRAMS AND SERVICES -- Local Aid", "-- Debt Service" and " -- Pensions". The remaining 0.7% of fiscal

1995 expenditures is reserved for contingencies.

The Governor's chief fiscal officer is the Secretary for 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.

All accounting policies and practices, publication of official financial reports and oversight of fiscal management functions are the responsibility of the Comptroller. The Comptroller also administers the annual state single audit and operates 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 preliminary and 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 for Administration and Finance and includes the State Treasurer, the Attorney General, the State Auditor, the Chief Administrative Justice of the Trial Court and two persons with relevant experience appointed by the Governor for three-year staggered terms. The Commonwealth has retained the independent public accounting firm of Deloitte & Touche to audit the Commonwealth's general purpose financial statements and to conduct the state single audit. See "COMMONWEALTH BUDGET, FINANCIAL MANAGEMENT AND CONTROLS".

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, including all cash receipts and state employee and teacher pension funds (other than pension reserves); (iii) the disbursement of Commonwealth moneys and oversight of reconciliation of the state's accounts; and (iv) the issuance of all short and long-term debt obligations of the Commonwealth, including notes, commercial paper and long term bonds.

In addition to these responsibilities, the State Treasurer serves as Chairman of the Massachusetts Lottery Commission, the State Retirement Board, the Pension Reserve Investment Management Board, the Massachusetts Convention Center Authority, the Emergency Finance Board and the Massachusetts Water Pollution Abatement Trust. The State Treasurer also serves as a member of numerous other state boards and commissions.

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 Office of 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, FINANCIAL MANAGEMENT AND 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 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 Secretary. The Secretary of the Commonwealth is responsible for collection and storage of public records and archives, securities regulation, state elections and custody of the seal of the Commonwealth.

Legislative Branch

The General Court (the "General Court" or the "Legislature") is the bicameral legislative body of the Commonwealth, consisting of a Senate of 40 members and a House of Representatives of 160 members. Members of both the Senate and the House are elected to two-year terms in even-numbered years. The General Court meets every year, and sessions often extend throughout the year.

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

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 important questions of law to the Governor, the General Court and the Governor's Council. Judges of the Supreme Judicial Court, the Appeals Court and the Trial Court are appointed by the Governor, with the advice and consent of the Governor's Council, to serve until the mandatory retirement age of 70 years.

Independent Authorities and Agencies

Within the Commonwealth 31 independent authorities and agencies have been established by the Legislature, the budgets of which are not included in the Commonwealth's annual budget. The Commonwealth does, however, appropriate funds in the budget for subsidies, operating assistance and debt service payments, and is liable for the outstanding debt of certain of these authorities and agencies, such as the Massachusetts Bay Transportation Authority (the "MBTA"), the Boston Metropolitan District, the Woods Hole, Martha's Vineyard and Nantucket Steamship Authority (the "Steamship Authority"), certain regional transit authorities ("RTA's"), the Massachusetts Convention Center Authority (the "MCCA") and the Massachusetts Government Land Bank (the "Land Bank"). The Commonwealth guarantees debt issued by four higher education building authorities and various local housing authorities, and may be called upon to provide capital reserve funding for the Massachusetts Housing Finance Agency (the "MHFA") and the Massachusetts Home Mortgage Finance Agency. See "COMMONWEALTH BOND AND NOTE LIABILITIES". Other independent authorities and agencies which issue their own debt for quasi-governmental purposes include the Massachusetts Educational Financing Authority, the Massachusetts Health and Educational Facilities Authority ("HEFA"), the Massachusetts Industrial Finance Agency, the Massachusetts Port Authority, the Massachusetts Turnpike Authority, the Massachusetts Water Pollution Abatement Trust (see "OTHER COMMONWEALTH LIABILITIES - Water Pollution Abatement Trust") and the Massachusetts Water Resources Authority (the "MWRA").

Local Government

Below the level of state government are 14 county governments responsible for various functions, principally the operation of houses of correction and registries of probate and deeds. Each county government assesses its constituent cities and towns for the costs of its services.

All territory in the Commonwealth is in one of the 14 counties and in one of the 351 incorporated cities and towns which exercise the functions of local government. Cities and towns or regional school districts established by them provide elementary and secondary education. Cities are governed by several variations of the mayor-and-council or manager-and-council form. Most towns place executive power in a board of three or five selectmen elected to one or three-year terms and retain legislative powers in the voters themselves, who assemble

in periodic open or representative town meetings. Various local and regional districts exist for schools, parks, water and wastewater administration and certain other governmental functions.

Municipal revenues consist of property taxes, Local Aid, local receipts (including motor vehicle excise taxes, local option taxes, fines, licenses and permits, charges for local services, and investment income), and other available funds (including general and dedicated reserve funds). Following the enactment in 1980 of the tax limitation initiative petition commonly known as Proposition 2 1/2, most local governments have been forced to rely on other revenues, principally Local Aid, to support local programs and services. See "COMMONWEALTH PROGRAMS AND SERVICES -- Local Aid".

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 have 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 approved by the voters do not constitute constitutional amendments and may be subsequently amended or repealed by the Legislature. In recent years ballots at statewide general elections typically have presented a variety of initiative petitions, frequently including petitions relating to tax and fiscal policy. A number of these have been approved and become law. See particularly "COMMONWEALTH REVENUES -- State Taxes; *Income Tax", "-- Other Taxes"* and "-- Limitations on Tax Revenues" and "COMMONWEALTH PROGRAMS AND SERVICES -- Local Aid".

COMMONWEALTH BUDGET, FINANCIAL MANAGEMENT AND CONTROLS

Operating Fund Structure

Budgeted Operating Funds. 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. The General Fund and those special revenue funds which 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. They do not include the capital projects funds of the Commonwealth, into which the proceeds of Commonwealth bonds are deposited. See "Overview of Capital Spending Process and Controls; *Capital Projects Fund Structure*". The three principal budgeted operating funds are the General Fund, the Highway Fund and the Local Aid Fund. Expenditures from these three funds generally account for approximately 98% of total expenditures of the budgeted operating funds.

Stabilization Fund. State finance law provides for a Stabilization Fund relating to the use of fiscal year-end surpluses. A limitation equal to 0.5% of total tax revenues is imposed on the amount of any aggregate surplus in the Commonwealth's three principal budgeted operating funds which may be carried forward as a beginning balance for the next fiscal year. Any amount in excess of that limitation is reserved in the Stabilization Fund, from which funds can be appropriated (i) to make up any difference between actual state revenues and allowable state revenues in any fiscal year in which actual revenues fall below the allowable amount, (ii) to replace state and local losses of federal funds or (iii) for any event, as determined by the Legislature, which threatens the health, safety or welfare of the people or the fiscal stability of the Commonwealth or any of its political subdivisions. Up to 5% of total state tax revenues may be accumulated in the Stabilization Fund. Amounts in excess of that figure at the end of any fiscal year are to be applied to the reduction of personal income taxes.

Overview of Budgetary Process

Generally, funds for the Commonwealth's programs and services must be appropriated by the Legislature.

The process of preparing a budget at the administrative level begins early in the fiscal year preceding the fiscal year for which the budget will take effect. The legislative budgetary process begins in January (or, in the case of a newly elected Governor, not later than March) with the Governor's submission to the Legislature of a budget recommendation for the fiscal year commencing in the coming 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 fiscal year, including those already authorized by law, and of all taxes, revenues, loans and other means by which such expenditures shall be defrayed. By statute, the Legislature and the Governor must approve a balanced budget for each fiscal year, and no supplementary appropriation bill may be approved by the Governor if it will 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. 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. After Senate action, generally a legislative conference committee develops a compromise budget for consideration by both branches 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 a specific line-item. The Legislature may override the Governor's veto or specific line-item vetoes by a two-thirds vote of both the House and Senate. The annual budget legislation, as finally enacted, is known as the General Appropriation Act.

In the event that a General Appropriation Act is not approved by the Legislature and the Governor prior to the beginning of a fiscal year on July 1, the Legislature and the Governor may approve a temporary budget under which funds for the Commonwealth's programs and services would be appropriated based upon the level of appropriations from the prior fiscal year budget. Temporary budgets have been utilized frequently in the Commonwealth pending final approval of the General Appropriation Act by the Legislature and the Governor.

During the course of the fiscal year, the Office of the Comptroller monitors budgetary accounts and notifies the Secretary for Administration and Finance and the House and Senate Committees on Ways and Means whenever the appropriation to any account has been depleted. Whenever the Governor believes that existing appropriations are insufficient to provide for projected expenditures under authorized programs, the Governor may seek supplemental appropriations for particular programs or spending items. Supplemental appropriations have been commonplace in recent years for various purposes, including, in particular, Medicaid and certain other public assistance programs.

Various procedures required by state finance law are used by the Commonwealth to monitor revenues and expenditures during the fiscal year. For example, quarterly revenue estimates are required to be made by the Secretary for Administration and Finance, and the Office of the Comptroller publishes a quarterly report of planned and actual revenues. See "COMMONWEALTH REVENUES -- Tax Revenue Forecasting". In addition, each department head is required to notify the Secretary for Administration and Finance and the House and Senate Committees on Ways and Means of any anticipated decrease in estimated revenues for his or her department from the federal government or other sources or whenever 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 administrative control. The Secretary for 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 for 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.

From time to time, the Governor's use of the Section 9C power to withhold allotments has been challenged by litigation. In May 1990 the Massachusetts Supreme Judicial Court invalidated a withholding of local school aid funds, ruling that Section 9C extended only to appropriations of funds to state agencies under the control of the Governor.

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 independent audit functions, respectively. The Comptroller conducts the expenditure control function. The Secretary for Administration and Finance is the Governor's chief fiscal officer and provides overall coordination of fiscal activities.

In addition, the Commonwealth's Finance Advisory Board is obligated by law to survey periodically the debt instruments of the Commonwealth and report on the Commonwealth's financial structure, including debt and financial marketing plans. The Board consists of the State Treasurer and four members appointed by the Governor.

Cash Management Practices of State Treasurer

The State Treasurer's office 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 in accordance with 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 monies.

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

The State Treasurer is required to prepare and submit quarterly to the House and Senate Committees on Ways and Means official cash flow projections for the current fiscal year. 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. Regular meetings comparing estimated to actual revenues and expenditures are held among the Office of the State Treasurer, the Office of the Comptroller, the Department of Revenue and the Executive Office for Administration and Finance.

The State Treasurer's office, in conjunction with the Executive Office for Administration and Finance, is also required to develop quarterly and annual cash management plans to address any gap identified by the cash flow projections and variance reports.

Fiscal Control, Accounting and Reporting Practices of Comptroller

The Comptroller is responsible for oversight of fiscal management functions, establishment of all accounting policies and practices and publication of official financial reports. The Office of the Comptroller maintains the Massachusetts Management Accounting and Reporting System ("MMARS"), the centralized state accounting system that is used by all state agencies and departments except for 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. During fiscal 1992 the Commonwealth added a billing and accounts receivable subsystem to its statewide accounting system in order to automate the billing, collection and management of its non-tax revenues.

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

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

In prior fiscal years, when the Commonwealth experienced cash shortfalls, the Comptroller, in consultation with the State Treasurer and the Executive Office for Administration and Finance, developed a procedure for prioritizing payments based upon state finance law and sound fiscal management practices. Under the current procedure, 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 maintains internal control policies and procedures in accordance with state finance law that state agencies are required to follow. Violations of state finance law or regulation, or other internal control weaknesses, must be reported to the State Auditor, who is authorized, among other things, to investigate and recommend corrective action.

Statutory Basis of Accounting. The Commonwealth adopts its budget and maintains its financial information on the basis of state finance law (the "statutory basis" or the "statutory basis of accounting"). The emphasis is on accountability and budgetary control over appropriations.

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 federal reimbursements receivable with respect to expenditures already made. Expenditures are measured on a modified cash basis with actual cash disbursements as confirmed by the State Treasurer, except that encumbrances for goods or services received on or before the end of a fiscal year are recognized as accounts payable and included in expenditures.

For the majority of Commonwealth programs and services, the measurement of expenditures under the statutory basis of accounting is equivalent to such measurement on a GAAP basis. However, for certain federally-mandated entitlement programs, such as Medicaid, expenditures are recognized to the extent of disbursements on appropriations made through June 30 of each fiscal year. The approximate net effect of this statutory practice is to charge in each fiscal year the Medicaid bills of the last two or three months of the preceding fiscal year and the first nine or ten months of the current fiscal year.

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

Under GAAP, revenues are reported in the period in which they become both measurable and available. Revenues are "available" when they are expected to be collected within the current period or soon enough thereafter to be used to pay liabilities of the current period. Significant revenues susceptible to accrual include income, sales and use, corporation and other taxes, federal grants and reimbursements, local government assessments for operations of the MBTA and reimbursements for the use of materials and services. Tax accruals, which represent the estimated amounts due to the Commonwealth on previous filings, over and under withholdings, estimated payments on income earned and tax refunds and abatements payable, are all recorded as adjustments to statutory basis tax revenues. Expenditures/expenses are recorded in the period in which the related fund liability is incurred. Principal and interest on long-term debt obligations are recorded as fund liabilities when due. Major expenditure accruals are recorded for the cost of Medicaid claims that have been incurred but not paid, net cost of service payments due to the MBTA, claims and judgments and compensated absences such as vacation pay earned by state employees. See "FINANCIAL RESULTS -- Selected Financial Data -- GAAP Basis" and "EXHIBIT C - 1993

General Purpose Financial Statements -- GAAP Basis".

Financial Reports. The Commonwealth's fiscal year ends on June 30 of each year. Throughout the year, the Comptroller prepares interim financial statements, and, in September, following the end of each fiscal year, the Comptroller issues the Preliminary Financial Report. These interim and preliminary financials are prepared on the statutory basis of accounting and are not audited, but they are considered authoritative. In the following January, the Comptroller publishes the Commonwealth's audited annual report. For fiscal 1986 through 1989 this report included audited financial statements on both the statutory basis of accounting and on the GAAP basis. Since fiscal 1990, these financial statements have been issued as two separate financial reports, one utilizing the statutory basis of accounting (the "Statutory Basis Financial Report") and the Comprehensive Annual Financial Report ("CAFR"), which is on a GAAP basis. The general purpose financial statements from these two reports of the Commonwealth for fiscal 1993 are attached hereto as Exhibits B and C, respectively. For fiscal 1990 through 1993 the independent auditor's opinions were unqualified. Copies of these financial reports are available at the address provided under "CONTINUING DISCLOSURE".

The Comptroller retains an independent certified public accounting firm to render certain opinions on its financial statements and on 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. A separate report is issued on all programs not involving federal funding.

The CAFRs for fiscal 1990 through fiscal 1993, from which certain information contained in this Information Statement has been derived, were each awarded the Certificate of Achievement for Excellence in Financial Reporting by the Government Finance Officers Association of the United States and Canada (the "GFOA"). The Certificate of Achievement is the highest form of recognition for excellence in state and local government financial reporting. In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report, the basic contents of which conform to program standards. Such report must satisfy both GAAP and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only.

Overview of Capital Spending Process and Controls

Capital Projects Fund Structure. Capital projects funds ("Capital Projects Funds") are used to account for financial activity related to the acquisition of major capital assets. Line item capital appropriations are authorized from Capital Projects Funds. This capital spending is financed principally from proceeds of Commonwealth bonds and bond anticipation notes, federal reimbursements and transfers from other governmental funds. The issuance of bonds and bond anticipation notes requires that both houses of the Legislature approve, by a two-thirds vote, a separate bond authorization to incur debt for a specific purpose. See "COMMONWEALTH BOND AND NOTE LIABILITIES -- Overview". Pursuant to state finance law, the Governor, through the Secretary for Administration and Finance, has discretion over the allotment and, therefore, the actual expenditure of funds authorized by capital appropriations.

Five-Year Capital Spending Plan. In August 1991, the administration announced the development of a five-year capital spending plan (the "Five-Year Capital Spending Plan"). The Five-Year Capital Spending Plan, which is an administrative guideline and subject to amendment by the Governor at any time, sets forth capital spending allocations for the next five fiscal years and establishes capital spending limits. The Governor has also introduced a set of capital spending controls. See "*Capital Spending Controls*".

The policy objective of the Five-Year Capital Spending Plan is to limit the debt burden of the Commonwealth by controlling the relationship between current capital spending and the issuance of bonds by the Commonwealth. Capital appropriations enacted by the Legislature are typically matched with bond authorizations. The Governor, by utilizing his discretion over the allotment of funds for capital appropriations, may control the rate at which capital appropriations are expended, and therefore control the amount of bonds issued to finance such expenditures.

The following table, entitled "Summary of Five-Year Capital Spending Plan and Plan of Finance", sets forth current estimates of capital spending of the Commonwealth, including the MBTA, as well as the sources of funding for such capital spending, including federal aid, for fiscal years 1994 through 1998. Total capital spending for fiscal years 1994 through 1998 to be financed from Commonwealth debt is forecast at approximately $4.4 billion, which is significantly below legislatively authorized capital spending levels. In addition, the Five-Year Capital Spending Plan also forecasts total MBTA capital expenditures of $1.394 billion for fiscal years 1994 through 1998, which spending will be financed through the issuance of bonds by the MBTA and assumes that the projected level of Commonwealth capital spending will leverage additional federal aid of $6.815 billion for this period. The anticipated levels of federal aid rely on certain assumptions concerning the level of federal participation in the funding of the third harbor tunnel and central artery projects and for state highways and bridge repair. The Legislature recently enacted and the Governor signed into law legislation providing for approximately $2.4 billion of transportation related expenditures to be funded from federal aid and Commonwealth debt. These expenditures are included in the following table. The Executive Office for Administration and Finance is currently reviewing the Five-Year Capital Spending Plan in order to include expected fiscal 1999 spending and, if necessary, to make other revisions as well.

Summary of Five-Year Capital Spending Plan and Plan of Finance[1]
(in millions)

	1994	1995	1996	1997	1998	Total
Uses of Funds						
Information Technology	$ 21	$ 25	$ 20	$ 21	$ 17	$ 104
Infrastructure(2)	101	128	218	217	237	901
Environmental Affairs						
Commonwealth Expenditures	119	114	73	61	48	415
Open Space Acquisition	35	35	40	45	45	200
Subtotal	154	149	113	106	93	615
Housing	44	58	70	77	78	327
Transportation						
Commonwealth Expenditures	417	453	363	348	302	1,883
MBTA	200	394	316	255	229	1,394
Federal Highway/MBTA Aid	1,392	1,620	1,431	1,337	1,035	6,815
Subtotal	2,009	2,467	2,110	1,940	1,566	10,092
Economic Development	30 (3)	0	108	117	118	373
Miscellaneous Capital Projects	13	38	12	8	7	78
Total	$2,372 (4)	$2,865 (4)	$2,651	$2,486	$2,116	$12,490
Sources of Funds						
Federal Aid	$1,392	$1,620	$1,431	$1,337	$1,035	$6,815
Commonwealth Debt(5)	700	1,031 (6)	904	894	852	4,381
MBTA Bonds	200	394	316	255	229	1,394
Total	$2,292 (4)	$3,045 (4)	$2,651	$2,486	$2,116	$12,590

SOURCE: Executive Office for Administration and Finance.

(1) Totals may not add due to rounding.
(2) Includes hospital consolidation, prison, courts, and higher education construction and miscellaneous other projects.
(3) Does not include $67.0 million in fiscal 1994 spent on transportation projects related to economic development.
(4) The difference between the total uses of funds and total sources of funds primarily relates to the timing of issuance of Commonwealth debt.
(5) Includes general obligation bonds and special obligation bonds.
(6) Includes expected issuance of approximately $180 million of general obligation bonds for certain expenditures unrelated to fiscal 1995.

The Commonwealth anticipates that a substantial portion of the state financed share of the Five-Year Capital Spending Plan will be financed from the proceeds of general obligation debt. Due to the size and complexity of the Commonwealth's capital program, and other factors, the timing and amount of actual capital expenditures and debt issuances over the period will likely vary somewhat from the annual spending amounts contained in the Five-Year Capital Spending Plan.

The Legislature is currently considering a bill that provides for construction of a 650,000 square foot

assembly and convention facility, including a 70,000 seat capacity indoor stadium, in Boston. The current version of the legislation provides for the facility to be constructed, owned and operated by the MCCA and authorizes the issuance of up to $700 million of bonds of the MCCA to finance construction. The legislation also provides for the issuance of up to $200 million of additional bonds of the MCCA to finance interest during construction. All such bonds would be fully payable from contract assistance payments to be made by the Commonwealth. See "COMMONWEALTH BOND AND NOTE LIABILITIES -- Commonwealth Supported Debt; *Massachusetts Convention Center Authority*." The legislation further authorizes the issuance of up to $100 million of general obligation bonds of the Commonwealth to finance the construction or rehabilitation of other civic, convention center and exhibition hall facilities throughout the Commonwealth. The Executive Office for Administration and Finance is considering what modifications, if any, may be necessary to the current Five-Year Capital Spending Plan in order to accommodate these projects.

Capital Spending and Controls. In conjunction with the development of the Five-Year Capital Spending Plan, the Governor has directed the implementation of a number of accounting procedures and fiscal controls to limit agency capital spending to the levels established by the Five-Year Capital Spending Plan. Since July 1, 1991, all agency capital spending has been tracked against the Five-Year Capital Spending Plan on both a cash and an encumbrance accounting basis on MMARS, the Comptroller's statewide accounting system, and federal reimbursements have been budgeted and monitored against anticipated receipts.

The Governor is pursuing additional measures to limit the practice of shifting operating agency personnel costs and other operating expenditures to Capital Projects Funds. Implementation of this full-cost budgeting approach to relate the effect of capital spending more precisely to the operating budget should provide further incentive for agency managers to control capital spending.

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's office conducts both financial compliance and performance audits in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States. In addition, and in conjunction with the independent public accounting firm of Deloitte & Touche, 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 2 1/2, the statewide tax limitation passed by initiative petition in 1980, unless expressly exempted from those provisions, and the State Auditor's financial analysis is used to establish the amount of reimbursement due. See "COMMONWEALTH PROGRAMS AND SERVICES -- Local Aid; *Proposition 2 1/2*".

FINANCIAL RESULTS

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, FINANCIAL MANAGEMENT AND CONTROLS -- Fiscal Control, Accounting and Reporting Practices of the Comptroller; *Financial Reports*". The fiscal 1993 statutory basis financial statements, as presented in the Statutory Basis Financial Report, are set forth in Exhibit B. The fiscal 1993 GAAP basis financial statements, as presented in the Comprehensive Annual Financial Report, are set forth in Exhibit C.

Selected Financial Data - Statutory Basis

The revenues and expenditures of the budgeted operating funds presented in the following table are derived from the Commonwealth's audited statutory basis financial statements for fiscal 1990 through 1993, unaudited preliminary financial information for fiscal 1994 presented in the Preliminary Financial Report issued on September 15, 1994 by the office of the Comptroller and unaudited estimates for fiscal 1995 prepared by the Executive Office for Administration and Finance. The financial information presented includes all budgeted operating funds of the Commonwealth. When the status of a fund has changed during this period, prior years have been restated to conform to the fiscal 1995 budget.

The Commonwealth currently has 34 active budgeted funds. During a fiscal year there are numerous transactions among these budgeted funds, which from the fund accounting perspective create offsetting inflows and outflows.

In conducting the budget process, the Executive Office for Administration and Finance excludes those interfund transactions that by their nature have no impact on the combined fund balance of the budgeted funds. The following table isolates this interfund activity from the budgeted sources and uses to align more clearly forecasts prepared during the budget process to the detailed fund accounting of the Commonwealth's annual financial statements. The table also isolates the assessments on municipalities collected by the Commonwealth and paid to the MBTA and RTA's. This activity is recorded in the Commonwealth's financial statements as part of the General Fund, but it is not appropriated or included in the budget process.

More detailed information with respect to each of fiscal years 1990 through 1995 is provided in the discussion following the table. Unless otherwise indicated, the financial information discussed for such fiscal years in this Information Statement is based upon the financial information contained in this table.

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

	Fiscal 1990	Fiscal 1991	Fiscal 1992	Fiscal 1993	Preliminary (unaudited) Fiscal 1994	Estimated Fiscal 1995
Beginning Fund Balances						
Reserved or Designated	$124.9	$174.5	$119.8	$236.2	$110.4	$78.0
Stabilization Fund (1)	--	--	59.2	230.4	309.5	377.0
Undesignated	(444.2)	(1,278.9)	58.1	82.8	142.6	125.7
Total	(319.3)	(1,104.4)	237.1	549.4	562.5	580.7
Revenues and Other Sources						
Taxes	8,517.7	8,994.9	9,483.6	9,929.9	10,606.7	11,234.0
Federal Reimbursements (2)	1,717.5	2,777.1	2,393.5	2,674.1	2,914.5	2,973.2
Departmental and Other Revenues	1,131.7	1,204.9	1,187.3	1,327.1	1,174.5	1,273.5
Interfund Transfers from Non-budgeted Funds and Other Sources (3)	641.3	656.6	663.9	778.5	855.5	883.4
Budgeted Revenues and Other Sources	**12,008.2**	**13,633.5**	**13,728.3**	**14,709.6**	**15,551.2**	**16,364.1**
Mass Transit Assessments from Municipalities	123.9	130.2	130.9	137.4	140.4	144.3
Interfund Transfers among Budgeted Funds and Other Sources	91.1	149.7	366.9	358.7	283.2	225.8
Total Revenues and Other Sources	12,223.2	13,913.4	14,226.1	15,205.7	15,974.8	16,734.2
Expenditures and Uses						
Programs and Services	11,770.2	11,944.5	11,757.4	12,683.6	13,420.8	14,178.8(4)
Debt Service	770.9	942.3	898.3	1,139.5	1,154.9	1,249.4
Pensions	671.9	703.9	751.5	868.2	908.9	993.3
Interfund Transfers to Non-budgeted Funds and Other Uses	46.7	64.0	8.8	5.1	48.4	60.0
Budgeted Expenditures and Other Uses	**13,259.7**	**13,654.7**	**13,416.0**	**14,696.4**	**15,533.0**	**16,481.5**
Payment of Municipal Mass Transit Assessments to the MBTA and RTA's	123.9	130.2	130.9	137.4	140.4	144.3
Interfund Transfers among Budgeted Funds and Other Uses	91.1	149.7	366.9	358.7	283.2	225.8
Total Expenditures and Other Uses	13,474.7	13,934.6	13,913.8	15,192.6	15,956.6	16,851.6
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	(1,251.5)	(21.2)	312.3	13.1	18.2	(117.4)
Prior Year Deficit Financing	466.4	1,362.7	--	--	--	--
Ending Fund Balances						
Reserved or Designated	174.5	119.8	236.2	110.4	78.0	16.8
Stabilization Fund (1)	--	59.2	230.4	309.5	377.0	388.0
Undesignated	(1,278.9)	58.1	82.8	142.6	125.7	58.5
Total	$(1,104.4)	$237.1	$549.4	$562.5	$580.7	$463.3

SOURCE: Fiscal 1990-1993 and Preliminary (unaudited) Fiscal 1994, Office of the Comptroller. Estimated Fiscal 1995, Executive Office for Administration and Finance.

(1) Stabilization Fund balances are not expendable without subsequent specific legislative authorization.

(2) Includes $513 million for fiscal 1991, $198.6 million for fiscal 1992, $236.3 million for fiscal 1993, and $219.0 million for fiscal 1994 in federal reimbursements resulting from claims for reimbursement of certain uncompensated care for Massachusetts hospitals. See "Fiscal Years 1990 Through 1994" and "1995 FISCAL YEAR".

(3) Interfund transfers represent accounting transfers which reallocate resources among funds. Fund deficit support transfers of $234.8 million in fiscal 1991 have been eliminated to facilitate comparative analysis. See "COMMONWEALTH REVENUES--Federal and

Other Non-Tax Revenues".

(4) Includes $102.7 million currently reserved for contingencies.

Annual budgeted revenues increased by approximately 13.5% in fiscal 1991, 0.7% in fiscal 1992, and 7.1% in fiscal 1993. Annual budgeted revenues increased from fiscal 1993 to fiscal 1994 by approximately 5.7% and are projected to increase by approximately 5.2% in fiscal 1995. Annual budgeted expenditures increased at an annual rate of approximately 3.0% in fiscal 1991, decreased from fiscal 1991 to fiscal 1992 by approximately 1.7% and increased by approximately 9.5% in fiscal 1993 and increased by approximately 5.7% in fiscal 1994. Annual budgeted expenditures are estimated to increase by approximately 6.1% in fiscal 1995. Ending fund balances in the budgeted operating funds for fiscal 1990 were negative $1.104 billion. For fiscal 1991, these funds attained positive ending balances of $237.1 million, of which $59.2 million was reserved in the Commonwealth's Stabilization Fund pursuant to state finance law. Fiscal 1992 ended with positive fund balances of $549.4 million, including $230.4 million in the Stabilization Fund. Fiscal 1993 ended with positive fund balances of $562.5 million, including $309.5 million in the Stabilization Fund. Fiscal 1994 ended with fund balances of $580.7 million, including $377.0 million in the Stabilization Fund. Fiscal 1995 is estimated to end with fund balances of $463.3 million, including $388.0 in the Stabilization Fund. See "Fiscal Years 1990 Through 1994" and "1995 FISCAL YEAR".

Selected Financial Data - GAAP Basis

The following table provides financial results on a GAAP basis for fiscal years 1990 through 1993 for all budgeted operating funds of the Commonwealth. The fiscal 1994 financial results on a GAAP basis will not be available until the audited financial statements for fiscal 1994 are published in January, 1995.

In its fiscal 1993 CAFR, the Commonwealth has adopted the guidance of the Governmental Accounting Standards Board (GASB) Statement No. 15 "Governmental College and University Accounting and Financial Reporting Models" and discretely presented the University and College Fund Type. In prior years, the financial activity of institutions of higher education was blended into Governmental, Proprietary, and Fiduciary Fund Types. The reason for the change is to provide a more focused basis for future measurements of financial performance, to provided comparability with other states who prepare CAFRs, and to demonstrate accountability for the Commonwealth's institutions of higher education. In order to accomplish the transition to discrete presentation, fiscal 1992 amounts have been restated. A complete discussion of this restatement is included in footnote 16 to the 1993 General Purpose Financial Statements - GAAP Basis included as Exhibit C hereto.

Budgeted Operating Funds Operations - GAAP Basis(1)
(in millions)

	Fiscal 1990	Fiscal 1991	Fiscal 1992	Fiscal 1993
Fund equity (deficit) at beginning of year	$(946.2)	$(1,895.5)	$(761.2)	$(317.4)(3)
Revenues and Sources				
Taxes	8,259.6	9,131.1	9,471.0	10,015.8
Federal Grants and Reimbursements	1,649.7	2,808.8	2,415.9	2,627.0
Department and Other Revenues	1,249.0	1,359.1	1,441.1	1,522.4
Interfund Transfers and Other Sources	807.0	800.7	817.5	1,015.7
Total	11,965.3	14,099.7	14,145.5	15,181.0
Expenditures and Uses				
Programs and Services	11,193.2	11,892.5	11,348.8	11,636.5
Debt Service	770.9	942.3	751.5	1,139.5
Pensions	671.9	706.5	898.3	893.5
Interfund Transfers and Other Uses (2)	745.0	786.8	767.3	1,378.2
Total	13,381.0	14,328.1	13,765.9	15,047.7
Excess (Deficiency) of Revenues and Other Sources over Expenditures and Other Uses	(1,415.7)	(228.4)	379.6	133.3
Prior Year Deficit Financing	466.4	1,362.7	--	--
Fund Equity (Deficit) at End of Year	$(1,895.5)	$(761.2)	$(381.6)	$(184.1)

SOURCE: Office of the Comptroller.

(1) Fiscal 1994 information will not be available until publication of the Commonwealth's audited financial statements for fiscal 1994.
(2) A fund deficit support transfer of $234.8 million in fiscal 1991 has been eliminated to facilitate comparative analysis. See "COMMONWEALTH REVENUES -- Federal and Other Non-Tax Revenues".
(3) As restated to reflect discrete presentation of the University and College Fund. This fund balance is increased $64.2 million due to certain liabilities related to accrued salaries and fringe benefits being transferred to the University and College Fund.

Using a modified accrual basis of accounting, the GAAP financial statements have provided a picture of the financial condition of the budgeted operating funds that is different from that reported on the statutory basis. See "Selected Financial Data - Statutory Basis". As evidenced in the trend line of fund balance (deficit) over time, there is a correlation between the GAAP basis measurement and the statutory basis measurement. While the difference in fund balance may vary in a given fiscal year, both bottom lines trend in the same direction. For a description of the differences between statutory basis and GAAP basis accounting, see "COMMONWEALTH BUDGET, FINANCIAL MANAGEMENT AND CONTROLS -- Fiscal Control, Accounting and Reporting Practices of the Comptroller; *GAAP Basis of Accounting*".

Fiscal Years 1990 Through 1994

1990 Fiscal Year. Budgeted expenditures for fiscal 1990 were approximately $13.260 billion. Budgeted revenues and other sources for fiscal 1990 were approximately $12.008 billion. The fiscal 1990 operating loss equalled approximately $1.252 billion and the deficit at the end of the fiscal year equalled $1.104 billion. The fiscal 1990 deficit was financed, in arrears in the following year, from the proceeds of the $1.416 billion of Fiscal Recovery Bonds issued under legislation enacted in July 1990. See "COMMONWEALTH BOND AND NOTE LIABILITIES -- General Obligation Debt; *Dedicated Income Tax Debt*". Retroactive application of the proceeds of such financing would have resulted in a fiscal 1990 positive closing balance of $258.3 million, on an adjusted basis. In order to conserve cash at the end of the fiscal year, the Commonwealth deferred until fiscal 1991 the disbursement of approximately $1.26 billion of Local Aid due in fiscal 1990.

In July 1989 the Governor vetoed certain provisions included in the budget legislation for fiscal 1990,

including approximately $273.0 million of appropriations. One of these vetoes occasioned a default by the Commonwealth on a payment of $2.5 million due September 1, 1989 on a general obligation basis to the Massachusetts Community Development Finance Corporation, to which the full faith and credit of the Commonwealth had been pledged. After the enactment of a supplemental appropriation in the amount of $2.5 million to meet such payment, the payment was made on September 17, 1990.

1991 Fiscal Year. Budgeted expenditures for fiscal 1991 were approximately $13.659 billion. Budgeted revenues and other sources for fiscal 1991 were $13.634 billion. The fiscal 1991 operating loss equalled approximately $21.2 million. Application of the adjusted fiscal 1990 fund balance of $258.3 million resulted in a final fiscal 1991 budgetary surplus of $237.1 million. State finance law required that approximately $59.2 million of the fiscal year-end balance be credited to the Stabilization Fund. Amounts credited to the Stabilization Fund are not generally available to defray current year expenses without subsequent specific legislative authorization. See "COMMONWEALTH BUDGET, FINANCIAL MANAGEMENT AND CONTROLS -- Commonwealth Fund Structure".

Upon taking office in January 1991, the new Governor undertook a comprehensive review of the Commonwealth's budget. Based on projected spending of $14.105 billion, it was then estimated that $850.0 million in budget balancing measures would be needed prior to the close of fiscal 1991. At that time, estimated tax revenues were revised to $8.845 billion, $903.0 million less than was estimated at the time the fiscal 1991 budget was adopted. The Governor proposed a series of legislative and administrative actions, including withholding of allotments under Section 9C, designed to eliminate the projected deficit. To address the projected deficit, a number of legislative measures were enacted, including a state employee furlough program, and the Governor took certain other administrative actions not requiring legislative approval. It is estimated that spending reductions achieved through savings initiatives and withholding of allotments totalled $484.3 million for fiscal 1991.

In addition to reducing spending to close the projected budget deficit, the new administration, in May 1991, filed an amendment to its Medicaid state plan which enabled it to claim 50% federal reimbursement on uncompensated care payments provided to certain hospitals in the Commonwealth. As a result, in fiscal 1991, the Commonwealth obtained additional non-tax revenues in the form of federal reimbursements equal to approximately $513.0 million on account of uncompensated care payments. This reimbursement claim was based upon then recent amendments to federal law contained in the Omnibus Budget Reconciliation Act of 1990 and, consequently, on relatively undeveloped federal laws, regulations and guidelines. At the request of the federal Health Care Financing Administration, the Office of Inspector General of the United States Department of Health and Human Services commenced a review of the reimbursement claim, but cancelled it in April, 1992 on the basis of initial audit work, which disclosed nothing that would cause it to believe the claim was not in compliance.

After disbursement in full of the semi-annual Local Aid distribution of $1.018 billion due on June 28, 1991, retirement of all the Commonwealth's outstanding commercial paper and repayment of certain other short-term borrowings, as of June 30, 1991, the end of fiscal 1991, the Commonwealth had a cash balance of $182.3 million. The fiscal 1991 year-end cash position compared favorably to the Commonwealth's cash position at the end of the prior fiscal year, when the Commonwealth's cash shortfall would have exceeded $1.1 billion had the distribution of Local Aid not been postponed.

1992 Fiscal Year. Budgeted revenues and other sources for fiscal 1992 were $13.728 billion, including tax revenues of $9.484 billion. Budgeted revenues and other sources increased by approximately 0.7% from fiscal 1991 to fiscal 1992, while tax revenues increased by 5.4% for the same period.

Budgeted expenditures were approximately $13.420 billion in fiscal 1992, which is $238.7 million, or 1.7%, lower than fiscal 1991 budgeted expenditures. Final fiscal 1992 budgeted expenditures were approximately $300 million higher than the initial July 1991 estimates of budgeted expenditures. While certain expenditures were less than originally estimated, spending for certain human services programs, in particular, was higher than initially estimated, including an increase of $268.7 million for the Medicaid program and $50.0 million for mental retardation consent decree requirements. Fiscal 1992 budgeted expenditures for Medicaid were $2.818 billion, or 1.9% higher than fiscal 1991. This increase compares favorably with the 19.0% average annual growth rate of Medicaid expenditures for fiscal years 1988 through 1991. See "COMMONWEALTH PROGRAMS AND SERVICES -- Medicaid and Group Health Insurance".

Appropriations for the General Relief and Group Health Insurance programs were among the appropriations reduced by the Governor prior to signing the fiscal 1992 budget. The Legislature overrode the Governor's $376.0 million reduction of the Group Health Insurance appropriation, in essence rejecting the Governor's proposal to increase the state employee and retiree share of health insurance costs from 10% to 25%. The General Relief program was abolished and replaced by Emergency Aid to the Elderly, Disabled and Children ("EAEDC"). The replacement of General Relief with EAEDC is estimated to have reduced expenditures in fiscal 1992 by $55.1 million, or 29.1%, from spending levels in fiscal 1991 for the General Relief program. See "COMMONWEALTH PROGRAMS AND SERVICES -- Medicaid and Group Health Insurance" and "-- Public Assistance".

Overall, the budgeted operating funds ended fiscal 1992 with an excess of revenues and other sources over expenditures and other uses of $312.3 million and with positive fund balances of $549.4 million, when such excess is added to the fund balances of $237.1 million carried forward from fiscal 1991. Total fiscal 1992 spending authority continued into fiscal 1993 was $231.0 million.

After payment in full of the quarterly Local Aid distribution of $514.0 million due on June 30, 1992, retirement of the Commonwealth's outstanding commercial paper (except for approximately $50 million of bond anticipation notes) and certain other short-term borrowings, as of June 30, 1992, the Commonwealth showed a year-end cash position of approximately $731.0 million. The fiscal 1992 ending balance compares favorably with the cash balance of $182.3 million at the end of fiscal 1991.

1993 Fiscal Year. The budgeted operating funds of the Commonwealth ended fiscal 1993 with a surplus of revenues and other sources over expenditures and other uses of $13.1 million and aggregate ending fund balances in the budgeted operating funds of the Commonwealth of approximately $562.5 million. Budgeted revenues and other sources for fiscal 1993 totalled approximately $14.710 billion, including tax revenues of $9.930 billion. Total revenues and other sources increased by approximately 6.9% from fiscal 1992 to fiscal 1993, while tax revenues increased by 4.7% for the same period. In July, 1992, tax revenues had been estimated to be approximately $9.685 billion for fiscal 1993. This amount was subsequently revised during fiscal 1993 to $9.940 billion.

Commonwealth budgeted expenditures and other uses in fiscal 1993 totalled approximately $14.696 billion, which is $1.280 billion or approximately 9.6% higher than fiscal 1992 expenditures and other uses. Fiscal 1993 budgeted expenditures were $23 million lower than the initial July 1992 estimates of fiscal 1993 budgeted expenditures.

As of June 30, 1993, after payment of all Local Aid and retirement of short-term debt, the Commonwealth showed a year-end cash position of approximately $622.2 million, as compared to a projected position of $485.1 million.

1994 Fiscal Year. The Commonwealth is in the process of closing its fiscal 1994 financial records. Financial information for fiscal 1994 is unaudited and provided by the office of the Comptroller based upon the Preliminary Financial Report of the Commonwealth for fiscal 1994 issued by the Comptroller on September 15, 1994. Audited financial information is expected to be published in January, 1995.

Fiscal 1994 tax revenue collections were approximately $10.607 billion, $87 million below the Department of Revenue's fiscal year 1994 tax revenue estimate of $10.694 billion and $677 million above fiscal 1993 tax revenues of $9.930 billion. Budgeted revenues and other sources, including non-tax revenues, collected in fiscal 1994 were approximately $15.551 billion. Budgeted expenditures and other uses of funds in fiscal 1994 were approximately $15.533 billion.

As of June 30, 1994, the Commonwealth showed a year-end cash position of approximately $757 million, as compared to a projected position of $599 million.

In June, 1993, the Legislature adopted and the Governor signed into law comprehensive education reform legislation. This legislation required an increase in expenditures for education purposes above fiscal 1993 base spending of $1.288 billion of approximately $175 million in fiscal 1994. The Executive Office for Administration and Finance expects the annual increases in expenditures above the fiscal 1993 base spending of $1.288 billion to be approximately $396 million in fiscal 1995, $632 million in fiscal 1996 and $875 million in fiscal 1997.

Additional annual increases are also expected in later fiscal years. The fiscal 1995 budget as signed by the Governor includes $396 million in appropriations to satisfy this legislation.

1995 FISCAL YEAR

On July 10, 1994, the Governor signed into law the fiscal 1995 budget, which, together with authorizations contained in the final fiscal 1994 appropriations bill and expected supplemental appropriations relating to welfare and certain other programs, as described below, currently provides for approximately $16.482 billion in fiscal 1995 expenditures. The Governor exercised his authority to veto and reduce individual line items and reduced total expenditures by approximately $298.2 million and vetoed certain other law changes contained in the fiscal 1995 budget.

Included in the approximately $298.2 million of vetoes noted above, the Governor vetoed approximately $296.9 million in appropriations for the Executive Office of Human Services and the Department of Public Welfare, representing four months of funding for the Commonwealth's welfare programs. The Governor plans to refile his proposal to eliminate the cash grant portion of the Aid to Families With Dependent Children (AFDC) program and create an Employment Support program, as well as request budgetary authorization to fund welfare expenditures for the last four months of fiscal 1995 under a reformed welfare system. The fiscal 1995 expenditure estimate of $16.482 billion assumes a full year of funding for the Commonwealth welfare programs.

Budgeted revenues and other sources to be collected in fiscal 1995 are estimated by the Executive Office for Administration and Finance to be approximately $16.364 billion. This amount includes estimated fiscal 1995 tax revenues of $11.234 billion, which is approximately $627 million higher than fiscal 1994 tax revenues of $10.607 billion.

In recent months, the rate of growth in certain tax revenue categories, including, in particular, the income tax, has slowed. Fiscal 1994 tax revenues were approximately $87 million below the Department of Revenue's tax revenue estimate of $10.694 billion. On September 26, 1994, as required by law, the Secretary for Administration and Finance revised the fiscal 1995 tax revenue estimate to $11.234 billion, a reduction of approximately $75 million from the most recent estimate, which represented the $11.328 billion consensus tax revenue estimate jointly endorsed in May, 1994 by the Secretary for Administration and Finance and the Chairmen of the House and Senate Ways and Means Committees in connection with preparation of the fiscal 1995 budget, less $19.3 million of tax cuts signed by the Governor in the fiscal 1995 budget. The Executive Office for Administration and Finance expects to offset this reduction through a combination of spending reductions and certain expected increases in non-tax revenues in order to maintain a balanced budget for fiscal 1995.

The fiscal 1995 budget is based on numerous spending and revenue estimates, the achievement of which cannot be assured. To date, the House has overridden $296.9 million of the Governor's vetoes relating to certain welfare programs contained in the fiscal 1995 budget as well as certain law changes which may have a financial impact on the Commonwealth. The Senate initially voted to sustain the Governor's veto. However, a motion to reconsider this vote is pending and could be considered at any time before the end of the current legislative session. The override of other vetoes has not yet been considered by the Legislature and it is possible that the Legislature may vote to override such vetoes later in fiscal 1995. The $16.482 billion of fiscal 1995 expenditures includes a reserve against certain contingencies currently in the amount of $102.7 million. On October 7, 1994, the Governor filed a supplemental appropriation recommendation aggregating approximately $44.5 million, which expenditures are included in the $102.7 million contingency reserve for fiscal 1995 expenditures. Additional supplemental appropriations may be required for fiscal 1995, although the actual amount of supplemental appropriations will not be determined until after review of agency spending plans, which is expected to be completed in the fall.

On November, 8, 1994, the voters in the statewide general election approved an initiative petition that would slightly increase the portion of gasoline tax revenue credited to the Highway Fund, one of the Commonwealth's three major budgetary funds, prohibit the transfer of money from the Highway Fund to other funds for non-highway purposes and not permit including the Highway Fund balance in the computation of the "consolidated net surplus" for purposes of state finance laws. The initiative petition also provides that no more than 15% of gasoline tax revenues may be used for mass transportation purposes, such as expenditures related to the MBTA. The Executive Office of Administration and Finance is analyzing the effect, if any, this initiative petition,

which will become law on December 8, 1994, may have on the fiscal 1995 budget and on other fiscal matters generally, although it currently does not expect it to have any materially adverse impact. This law is not a constitutional amendment and is subject to amendment or repeal by the Legislature, which may also, notwithstanding the terms of the initiative petition, appropriate moneys from the Highway Fund in such amounts and for such purposes as it determines, subject only to a constitutional restriction that such moneys be used for highway or mass transportation purposes. See "THE GOVERNMENT -- Initiative Petitions".

Cash Flow

The most recent cash flow projection prepared by the office of the State Treasurer estimates the fiscal 1995 year-end cash position to be approximately $675 million. This projection is based on the fiscal 1995 budget as originally signed by the Governor and supplemental appropriations enacted to date. The cash flow projection reflects actual results through July, 1994 and current revenue and spending estimates. The ending balance included in the cash flow forecast and the estimated ending balance for the Commonwealth's operating budget will differ due to timing differences and the effect of certain non-budget items. In addition, events occurring subsequent to the preparation of this cash flow projection may cause the actual cash flow of the Commonwealth to vary from the projected cash flow. The current cash flow projection assumes that the Commonwealth will issue approximately $800 million of long-term general obligation during the remainder of fiscal 1995 to finance capital projects and that no more than approximately $105 million of short-term operating borrowings under the commercial paper program will be outstanding at any time during the remainder of fiscal 1995. The Commonwealth's practice is to use available cash for capital expenditures pending the issuance of long-term bonds and, in the event the amount of long-term debt is reduced or its issuance delayed due to market conditions or other circumstances, additional amounts of commercial paper may be outstanding from time to time. See "COMMONWEALTH BOND AND NOTE LIABILITIES -- General Obligation Debt; *Commonwealth General Obligation Notes*".

COMMONWEALTH REVENUES

In order to fund its programs and services, the Commonwealth collects a variety of taxes and receives revenues from other non-tax sources, including the federal government and various fees, fines, court revenues, assessments, reimbursements, interest earnings and transfers from its non-budgeted funds. In fiscal 1994, approximately 68.2% of the Commonwealth's annual budgeted revenues were derived from state taxes. In addition, the federal government provided approximately 18.7% of such revenues, with the remaining 13.1% provided from departmental revenues and transfers from non-budgeted funds.

Distribution of Revenues

The following table sets forth the Commonwealth's actual revenues in its budgeted operating funds for fiscal 1990 through 1993, its preliminary (unaudited) revenues for fiscal 1994 and estimated revenues for fiscal 1995.

Commonwealth Revenues -- Budgeted Operating Funds
(in millions)

	Fiscal 1990	Fiscal 1991(7)	Fiscal 1992(7)	Fiscal 1993(7)	Preliminary (unaudited) Fiscal 1994	Estimated Fiscal 1995
Tax Revenues:						
Alcoholic Beverages	$ 70.8	$ 66.2	$ 63.5	$ 60.6	$ 60.2	$ 60.0
Banks						
Commercial	64.5	27.4	17.6(9)	74.7	136.9	145.0
Savings	46.2	20.6	42.5	78.2	63.0	70.0
Cigarettes (1)	150.8	144.4	139.9	190.2	237.3	240.0
Corporations	698.4	612.2	643.8	737.4	782.3	836.0
Deeds (2)	36.2	30.1	32.2	34.0	39.4	42.0
Income	4,465.2(5)	5,045.1(5)	5,337.0	5,374.9	5,689.8	6,093.0
Inheritance and Estate	276.4	249.5	260.2	267.3	277.5	255.0
Insurance (3)	273.0	267.8	284.8	280.5	290.2	299.0
Motor Fuel	301.9	464.2	541.1	557.2	562.6	575.0
Public Utilities	62.0	59.3	52.9	69.1	81.8	78.0
Racing	31.7	27.5	26.1	15.7	14.2	13.0
Room Occupancy	56.6	56.0	55.9	59.3	62.8	67.0
Sales						
Regular	1,370.5	1,392.1	1,443.6	1,548.1	1,664.3	1,772.0
Meals	295.9	291.7	296.3	303.2	323.4	347.0
Motor Vehicles	290.0	225.6	238.7	272.9	314.5	335.0
Sub-Total--Sales	1,956.4	1,909.4	1,978.6	2,124.2	2,302.2	2,454.0
Miscellaneous	27.6	15.2	7.5	6.6	6.5	7.0
Total	8,517.7	8,994.9	9,483.6	9,929.9	10,606.7	11,234.0
Non-Tax Revenues:						
Federal Reimbursements	1,717.5(6)	2,777.1(8)	2,393.5(8)	2,674.1(8)	2,914.5(8)	2,973.2(8)
Departmental and Other Revenues	1,131.7	1,204.9	1,187.3	1,327.1	1,174.5	1,273.5
Interfund Transfers from Non-budgeted Funds and Other Sources (4)	641.3	656.6	663.9	778.5	855.5	883.4
Budgeted Non-Tax Revenues and Other Sources	3,490.5	4,638.6	4,244.7	4,779.7	4,944.5	5,130.1
Budgeted Revenues and Other Sources	12,008.2	13,633.5	13,728.3	14,709.6	15,551.2	16,364.1
Mass Transit Assessments from Municipalities	123.9	130.2	130.9	137.4	140.4	144.3
Interfund Transfers among Budgeted Funds and Other Sources (4)	91.1	149.7	366.9	358.7	283.2	225.8
Total Revenues and Other Sources	$12,223.2	$13,913.4	$14,226.1	$15,205.7	$15,974.8	$16,734.2

SOURCE: Fiscal 1990-1993, Preliminary (unaudited) fiscal 1994, Office of the Comptroller. Estimated Fiscal 1995, Executive Office for Administration and Finance.

(1) As a result of legislation enacted by voter initiative petition, this excise tax was increased effective January 1, 1993. See "State Taxes; *Other Taxes*."

(2) At the end of the 1992 legislative session, the Legislature overrode the Governor's veto of legislation that doubled the deeds excise tax. The increased revenues are applied directly to county purposes and are not counted as Commonwealth revenues. See "State Taxes; *Other Taxes*".

(3) Includes $7.6 million in 1990, $7.2 million in 1991, $6.6 million in 1992, $8.0 million in 1993, and $8.7 million in 1994, respectively, in fees collected by the Division of Insurance relating to high-risk insurance.

(4) Interfund transfers represent accounting transfers which reallocate resources among funds. Fund deficit support transfers of $234.8 million for fiscal 1991 have been eliminated to facilitate comparative analysis. Includes transfers between the Stabilization Fund and the budgeted operating funds. Transfers to the Stabilization Fund were $59.2 million, $170.0 million, $76.9 million, and $59.5 million in fiscal 1991, 1992, 1993, and 1994, respectively. See "Federal and Other Non-Tax Revenues" below.

(5) Excludes $444.5 million collected in fiscal 1990 and $298.3 million collected in fiscal 1991 attributed to the temporary increase in the income tax dedicated to the Commonwealth Liability Reduction Fund and the Medical Assistance Liability Fund.

(6) Excludes $244 million of revenues attributable to federal reimbursements for expenditures from the Medical Assistance Liability Fund;

such revenues were dedicated to such fund.

(7) Includes the impact of tax law changes under Chapters 121 of the Acts of 1990, as amended. The total fiscal 1991 impact of the changes is an estimated increase in tax revenues in the amount of $1.020 billion, while the fiscal 1992 and 1993 impacts of the changes are estimated at $1.329 billion and $1.318 billion, respectively.

(8) Includes $513 million for fiscal 1991, $198.6 million for fiscal 1992, $236.3 million for fiscal 1993, $219 million in fiscal 1994 and an estimated $233.0 million in fiscal 1995 in federal reimbursements resulting from claims for reimbursement of certain uncompensated care for Massachusetts hospitals. See "FINANCIAL RESULTS -- Fiscal Years 1990 Through 1994" and "1995 FISCAL YEAR".

(9) Reflects settlement of certain litigation, see "State Taxes; *Business Corporations Tax*".

State Taxes

The major components of state taxes are the income tax, which accounted for approximately 54% of total projected tax revenues in fiscal 1994, the sales and use tax, which accounted for approximately 22%, and the business corporations tax, which accounted for approximately 7%. Other tax and excise sources accounted for the remaining 17% of total fiscal 1994 tax revenues.

Income Tax. The Commonwealth assesses personal income taxes at flat rates, according to classes of income, after specified deductions and exemptions. A rate of 5.95% is applied to income from employment, professions, trades, businesses, partnerships, rents, royalties, taxable pensions and annuities and interest from Massachusetts banks; and a rate of 12% is applied to other interest (although interest on obligations of the United States and of the Commonwealth and its political subdivisions is exempt), dividends and net capital gains (after a 50% deduction for long-term capital gains).

Under Chapter 151 of the Acts of 1990 up to 15% of state income tax revenue is pledged to the payment of debt service on approximately $1.045 billion of outstanding Fiscal Recovery Bonds issued pursuant to Chapter 151. See "COMMONWEALTH BOND AND NOTE LIABILITIES -- General Obligation Debt; *Dedicated Income Tax Debt*".

Partially as a result of income tax rate increases, state income tax revenues increased from fiscal 1990 to $5.045 billion (excluding $298.3 million collected pursuant to certain 1989 tax legislation) in fiscal 1991. These figures represent an increase of approximately 13.0%. State income tax revenues in fiscal 1992 were $5.337 billion, which represents an increase from fiscal 1991 of approximately 5.8%. Income tax revenues in fiscal 1993 were $5.375 billion, an increase of approximately 0.7% from fiscal 1992. Income tax revenues for fiscal 1994 were approximately $5.690 billion, an increase of 5.9% from fiscal 1993. Income tax revenues for fiscal 1995 are currently expected to be approximately $6.093 billion, an increase of 7.1% from fiscal 1994. As a result of a slowing rate of growth in certain tax revenue categories, including, in particular, the income tax, the Secretary of Administration and Finance recently reduced the total fiscal 1995 tax revenue estimate by $75 million. See "1995 FISCAL YEAR".

A citizens' group, known as the Tax Equity Alliance of Massachusetts, proposed a change in the Massachusetts individual income tax law that would have resulted in the creation of a graduated income tax structure, if a proposed amendment to the Massachusetts Constitution allowing income tax rates to be graduated had been approved at the 1994 state-wide election. Both the constitutional amendment authorizing graduated income tax rates and the related initiative petition were rejected and the proposed changes will not occur.

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

Annual sales and use tax revenues declined from $1.956 billion in fiscal 1990 to $1.909 billion for fiscal 1991. Sales and use tax revenues increased to $1.979 billion in fiscal 1992 to $2.124 billion in fiscal 1993 and to $2.302 billion in fiscal 1994. Sales and use tax revenues are estimated to increase to $2.454 billion in fiscal 1995.

Business Corporations Tax. Business corporations doing business in the Commonwealth, other than banks, trust companies, insurance companies, railroads, public utilities and safe deposit companies, are subject to an excise that has a property measure and an income measure. The value of Massachusetts tangible property (not taxed locally) or net worth allocated to the Commonwealth is taxed at $2.60 per $1,000 of value. The net income allocated to Massachusetts, which is based on gross income for federal taxes, is taxed at 9.5%. The minimum tax is $456. Both rates and the minimum tax include a 14% surtax. Annual revenues from the business corporations tax have declined significantly in recent years, from the high of $887.1 million in fiscal 1989 to $612.2 million in fiscal 1991. Business corporation tax revenues were $643.8 million in fiscal 1992, representing an increase of $31.6 million, or 5.1%, from fiscal 1991. For fiscal 1992, the excise tax on commercial and savings banks yielded $60.2 million, representing an increase of approximately 25.2% over fiscal 1991. Due to the settlement by the Department of Revenue of a case pending before the Appellate Tax Board, the Commonwealth paid a taxpayer commercial bank $37.0 million, thus reducing revenues from the commercial and savings bank excise tax in fiscal 1992 from $97.1 million to $60.2 million. For fiscal 1993, revenues from the business corporations tax increased to $737.4 million, or approximately 14.5% above fiscal 1992 and tax revenues from banks increased to $152.9 million or 154.4% above fiscal 1992. Fiscal 1994 tax revenues from corporations and banks were approximately $782.3 million and $199.9 million, respectively or approximately 6.1% and 30.7% above the respective fiscal 1993 amounts. Fiscal 1995 tax revenues from corporations and banks are estimated to be $836.0 million and $215.0 million, respectively.

Other Taxes. Other tax revenues of the Commonwealth are currently projected to total $1.636 billion in fiscal 1995, an increase of 0.2% over fiscal 1994. Other tax revenues are derived by the Commonwealth from motor fuels excise taxes, cigarette and alcoholic beverage excise taxes, estate and deed excises and other tax sources. The Commonwealth is authorized to issue special obligation highway bonds secured by a pledge of all or a portion of the Highway Fund, including revenues derived from all or a portion of the motor fuels excise tax. The Commonwealth issued $103,770,000 of special obligation bonds in June, 1992 secured by a pledge of 2 cents of the 21-cent motor fuel excise tax imposed on gasoline and $300,000,000 of special obligation bonds in June, 1994 secured by a pledge of an additional 4.86 cents of such excise tax and certain other monies. The portion of the motor fuel excise tax currently pledged to all special obligation bonds is estimated to be approximately $168.7 million in fiscal 1995. Additional special obligation bonds may also be issued in the future secured by all or additional portions of the motor fuels excise tax. See "COMMONWEALTH BOND AND NOTE LIABILITIES -- Special Obligation Debt".

On November 3, 1992, legislation was enacted by voter initiative petition which imposed, as of January 1, 1993, a new excise tax of 1.25 cents per cigarette (25 cents per pack of 20 cigarettes) and 25% of the wholesale price of smokeless tobacco. Under the legislation, the revenues raised by this excise tax shall be credited to a new Health Protection Fund and expended, subject to appropriation by the Legislature, to pay for health programs and education relating to tobacco use. Total revenues deposited in the Health Protection Fund in fiscal 1993 and fiscal 1994 were $59.5 million and $116.4 million, respectively, and are estimated to be $117.7 million in fiscal 1995.

In addition, in January 1993, the Legislature overrode the Governor's veto of a 100% increase in the deeds excise tax. The increased revenues from this excise tax will be retained by county governments and applied to certain county costs. The availability of these revenues will reduce Commonwealth expenditures for county purposes by an equal amount.

Estate Tax Revisions. The fiscal 1993 budget included legislation which gradually phases out the current Massachusetts estate tax and replaces it with a "sponge tax" in 1997. The "sponge tax" is based on the maximum amount of the credit for state taxes allowed for federal estate tax purposes. The estate tax is phased out by means of annual increases in the basic exemption from the current $200,000 level. The exemption is increased to $300,000 for 1993, $400,000 for 1994, $500,000 for 1995 and $600,000 for 1996. In addition, the legislation includes a full marital deduction starting July 1, 1994. Currently the marital deduction is limited to 50% of the Massachusetts adjusted gross estate. The static fiscal impact of the phase out of the estate tax was estimated to be approximately $24.8 million in fiscal 1994 and is estimated to be approximately $72.5 million in fiscal 1995.

Tax Revenue Forecasting

Under state law, on or before September 25 and March 15 of each year, the Secretary for 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 current and 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 May 15 of each year, the Secretary is required to develop jointly with the House and Senate Committees on Ways and Means a consensus tax revenue forecast for the following fiscal year. The Department of Revenue employs sophisticated economic modeling techniques and ongoing monitoring of tax revenue receipts and current taxpayer behavior to provide the Secretary with information on tax revenue trends.

In the past several years tax revenue forecasting has been complicated by uncertainty about the national and state economies, federal and state tax law changes and decisions in certain state court cases affecting tax collections. In addition, certain tax revenues are difficult to predict with accuracy because of the variety of direct and indirect economic and non-economic factors affecting receipts. During each of the fiscal years 1990 and 1991, the official tax revenue forecasts made at the beginning of the year proved to be substantially more optimistic than the actual results. In July 1989 the Governor and Legislature approved a budget for fiscal 1990 based on 7% tax revenue growth; actual tax revenues decreased 3.4%. The fiscal 1991 budget was based on projected tax revenue growth of less than 1%, before taking into account revenues expected to be generated by the 1990 tax legislation. Once these additional revenues were added, the projection was for tax revenues of $9.748 billion in fiscal 1991, reflecting projected growth of 14.4%. However, during the remainder of calendar year 1990, actual receipts lagged projections, resulting in reductions of the fiscal 1991 tax revenue estimates. Fiscal 1991 tax revenues were $8.995 billion, which represents growth over fiscal 1990 of only 5.6%. See "FINANCIAL RESULTS -- Fiscal Years 1990 Through 1994".

The fiscal 1992 budget initially was based on the joint tax revenue estimate of $8.292 billion, a 7.8% decrease from fiscal 1991. Actual fiscal 1992 tax revenues were $9.484 billion, a 5.4% increase over fiscal 1991. The fiscal 1993 budget initially was based on a joint tax revenue estimate of $9.685 billion, an increase of $201.1 million, or 2.1%, from tax revenues for fiscal 1992. The actual fiscal 1993 tax revenues were $9.930 billion, a 4.7% increase over fiscal 1992. See "FINANCIAL RESULTS -- Fiscal Years 1990 Through 1994".

In May, 1993, the chairpersons of the House and Senate Ways and Means Committee and the Secretary for Administration and Finance jointly endorsed an estimate of tax revenues for fiscal 1994 of $10.540 billion, an increase of $610 million, or 6.1%, from then expected tax revenues for fiscal 1993. The fiscal 1994 budget was based upon this tax revenue estimate. Actual fiscal 1994 tax revenues were $10.607 billion, a 6.8% increase over fiscal 1993. See "FINANCIAL RESULTS--Fiscal Years 1990 through 1994."

In May, 1994, the chairpersons of the House and Senate Ways and Means Committee and the Secretary for Administration and Finance jointly endorsed an estimate of tax revenues for fiscal 1994 of $11.328 billion, an increase of $634 million, or 5.9%, from then expected tax revenues for fiscal 1994 of $10.694 billion. The fiscal 1995 budget was based upon this tax revenue estimate, less $19.3 million of tax cuts signed by the Governor in the fiscal 1995 budget. On September 26, 1994, as required by law, the Secretary for Administration and Finance revised the fiscal 1995 tax revenue estimate to $11.234 billion, a reduction of approximately $75 million from the most recent estimate.

Federal and Other Non-Tax Revenues

Revenues from the federal government are received through reimbursements for the federal share of federally mandated programs such as Medicaid and Aid to Families with Dependent Children ("AFDC"). The amount of federal reimbursements received by the Commonwealth is determined by the amounts of state expenditures for such programs. In fiscal 1991, federal reimbursements increased by 61.7% to $2.777 billion from $1.718 billion in fiscal 1990, owing mainly to the $513.0 million reimbursement of uncompensated care payments. See "FINANCIAL RESULTS -- Fiscal Years 1990 Through 1994". Federal reimbursements in fiscal 1992 decreased by $383 million to approximately $2.394 billion, reflecting a decrease of $349 million in uncompensated care payments. In fiscal 1993, federal reimbursements increased to $2.674 billion as a result of increased spending for certain entitlement programs. Federal reimbursements for fiscal 1994 increased to $2.915 billion and are estimated to increase to $2.973 billion in fiscal 1995.

Departmental and other non-tax revenues are derived from licenses, registrations and fees generated through

cash transactions and reimbursement and assessments for services. Annual revenues from these sources increased 6.4% from $1.132 billion in fiscal 1990 to $1.205 billion in fiscal 1991, decreased 1.5% to $1.187 billion in fiscal 1992 increased 11.8% in fiscal 1993 to $1.327 billion and decreased 11.5% to $1.175 billion in fiscal 1994. Annual revenues from these sources are estimated to increase to approximately $1.274 billion in fiscal 1995.

The increase in departmental and other non-tax revenues from fiscal 1992 to fiscal 1993 resulted from certain initiatives, including $110.0 million resulting from changes in the state's abandoned property law, and $17.0 million from the acceleration of certain motor vehicle registrations. Commencing in fiscal 1990, the Commonwealth, through the Office of the Comptroller and other organizations, has initiated numerous projects to improve the management and collection of federal and departmental revenues.

The decrease in fiscal 1994 was due to several factors including: the change in fiscal 1993 to biennial car registration at the Registry of Motor Vehicles; one-time receipt in fiscal 1993 of certain abandoned property revenues; and the one-time payment in fiscal 1993 to the Commonwealth of $80 million from the Massachusetts Water Resources Authority. These revenue declines were partially offset by an increase in higher education tuition revenues due primarily to shifting higher education revenues and expenditures from off-budget to on-budget accounts in fiscal 1994. The expected increase in fiscal 1995 is due to various factors including primarily: the biennial car registration mentioned above, which is expected to increase revenue by approximately $20 million in fiscal 1995; certain abandoned property initiatives that are expected to result in approximately $15 million of additional revenues; additional Medicaid recoveries expected to amount to approximately $24 million and increased child support collections in the amount of approximately $11 million.

Interfund transfers and other sources from non-budgeted funds are estimated to total $883.4 million in fiscal 1995, an increase of 3.3% compared to fiscal 1994. For the budgeted operating funds, interfund transfers include transfers of profits from the State Lottery and Arts Lottery Funds and reimbursements for the budgeted costs of the State Lottery Commission, which accounted for $568.6 million, $547.6 million, $558.0 million, $594.8 million and $663.4 million in fiscal 1990 through 1994, respectively. The increase in interfund transfers from non-budgeted funds between fiscal 1993 and fiscal 1994 is primarily due to projected increases in lottery revenues.

In fiscal 1991, special laws authorized transfers among the General, Highway and Local Aid Funds to eliminate certain deficit fund balances. Transfers in respect of such deficits were $234.8 million for fiscal 1991. These fund deficit transfers have been eliminated from the tables contained in this Information Statement to facilitate comparative analysis. Legislation included within the fiscal 1993 budget prohibits, beginning with fiscal 1992, the transfer of operating funds from the Highway Fund to the General Fund.

Limitations on Tax Revenues

In Massachusetts efforts to limit and reduce levels of taxation have been under way for several years. Limits were established on state tax revenues by legislation enacted on October 25, 1986 and by an initiative petition approved by the voters on November 4, 1986. The two measures are inconsistent in several respects.

Chapter 62F, which was added to the General Laws by initiative petition 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. 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. Unlike Chapter 29B, as described below, the initiative petition did 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".

The legislation enacted in October 1986, which added Chapter 29B to the General Laws, also establishes an allowable state revenue growth factor by reference to total wages and salaries in the Commonwealth. However, rather than utilizing a three-year average wage and salary growth rate, as used by Chapter 62F, Chapter 29B utilizes an allowable state revenue growth factor equal to one-third of the positive percentage gain in Massachusetts wages and salaries, as reported by the federal government, during the three calendar years immediately preceding the end of a given fiscal year. Additionally, unlike Chapter 62F, Chapter 29B allows for an increase in maximum state tax revenues to fund an increase in local aid and excludes from its definition of state tax revenues (i) income derived from local option taxes and excises, and (ii) revenues needed to fund debt service costs.

Tax revenues in fiscal 1990 through fiscal 1994 were lower than the limit set by either Chapter 62F or Chapter 29B. The Executive Office for Administration and Finance currently estimates that state tax revenues in fiscal 1995 will not reach the limit imposed by either of these statutes. See also "1995 FISCAL YEAR".

COMMONWEALTH PROGRAMS AND SERVICES

From fiscal 1990 to fiscal 1991 budgeted expenditures of the Commonwealth increased approximately 3.0% to $13.655 million. For fiscal 1992, budgeted expenditures were $13.420 billion, representing a decline of 1.7% from the level of budgeted expenditures in fiscal 1991. Fiscal 1993 budgeted expenditures were $14.696 billion, an increase of 9.6% from fiscal 1992. Fiscal 1994 budgeted expenditures were $15.533 billion, an increase of 5.7% from fiscal 1993. See "FINANCIAL RESULTS -- Fiscal Years 1990 Through 1994". It is estimated that fiscal 1995 budgeted expenditures will be $16.482 billion, an increase of 6.1% over fiscal 1994 levels. See "1995 FISCAL YEAR".

Commonwealth expenditures since fiscal 1990 largely reflect significant growth in several programs and services provided by the Commonwealth. The following table identifies certain major spending categories of the Commonwealth and sets forth the budgeted expenditures for each fiscal year within each category.

Commonwealth Expenditures - Budgeted Operating Funds
(in millions)

Expenditure Category	Fiscal 1990	Fiscal 1991	Fiscal 1992	Fiscal 1993	Preliminary (unaudited) Fiscal 1994	Estimated Fiscal 1995
Direct Local Aid (1)	$2,936.9	$2,608.3	$2,358.9	$2,546.5	$2,726.9	$2,979.3
Medicaid	2,120.6(2)	2,765.3(3)	2,817.7(4)	3,151.4(4)	3,315.2(5)	3,418.5
Group Health Insurance	433.4	446.0	466.1	491.2	496.2	515.0
Public Assistance	1,000.9	1,092.3	1,065.0	1,074.9	1,106.7	1,158.7(6)
Debt Service (7)	770.9	942.3	898.3	1,139.5	1,154.9	1,249.4
Pensions	671.9	703.9	751.5	868.2	908.9	993.3
Higher Education	701.9	608.6	534.0	544.9(8)	672.6	707.0
MBTA and RTA's	354.5	406.1	449.6	499.0	522.3	522.3
Other Program Expenditures	4,222.0	4,017.9(9)	4,066.1(9)	4,375.7	4,580.9	4,878.0
Interfund Transfers to Non-budgeted Funds(10)	46.7	64.0	8.8	5.1	48.4	60.0
Budgeted Expenditures and Other Uses	**13,259.7**	**13,654.7**(11)	**13,416.0**(11)	**14,696.4**	**15,533.0**	**16,481.5**(12)
Payment of Municipal Mass Transit Assessments to the MBTA and RTA's	123.9	130.2	130.9	137.4	140.4	144.3
Interfund Transfers among Budgeted Funds and Other Uses(10)	91.1	149.7	366.9	358.7	283.2	225.8
Total Expenditures and Other Uses	$13,474.7	$13,934.6	$13,913.8	$15,192.6	$15,956.6	$16,851.6

SOURCE: Fiscal 1990-1993, Preliminary (unaudited) Fiscal 1994, Office of the Comptroller. Estimated Fiscal 1995, Executive Office for Administration and Finance.

(1) Aid reported to cities, towns and regional school districts by the Department of Revenue on its official communication, the so-called "cherry sheet", excluding certain pension funds, and including $80.5 million in Commonwealth support to county jails, which is no longer included on the cherry sheet.

(2) Fiscal 1990 Medicaid expenditures do not include $488.0 million in retroactive rate adjustments and spending related to services rendered in prior fiscal years which were funded in the non-budgeted Medical Assistance Liability Fund.

(3) Includes $194.2 million for retroactive rate settlements, including $126.0 million raised through Fiscal Recovery Bonds issued in 1991 to resolve the deficit for fiscal year 1990.

(4) Includes expenditures of $50.0 million in fiscal 1992 for retroactive rate adjustments and settlements.

(5) Includes approximately $22.3 million of expenditures previously off-budget and classified as administrative expenses.

(6) Includes approximately $33.3 million not previously classified as public assistance.

(7) Excludes debt service on notes issued under 1990 tax legislation to fund the fiscal 1989 deficit and certain Medicaid-related expenses. See "FINANCIAL RESULTS--Fiscal Years 1990 Through 1994". Reflects reduction of fiscal 1992 debt service by $261.0 million as a result of the issuance of refunding bonds during fiscal 1992.

(8) Reflects the transfer of $89.4 million in related tuition revenue and spending to an off-budget trust fund. See "Higher Education".

(9) Fiscal 1991 and fiscal 1992 expenditures have been restated to reflect surpluses in the Intragovernmental Service Fund of $3.8 million in each year.

(10) Interfund transfers represent accounting transfers which reallocate resources among funds. Interfund deficit support transfers for fiscal 1991 of $234.8 million have been eliminated to facilitate comparative analysis. Includes interfund transfers between the Stabilization Fund and the budgeted operating funds. Transfers to the Stabilization Fund were $59.2 million, $170.0 million, $76.9 million and $59.5 million in fiscal 1991, 1992, 1993, and 1994, respectively.

(11) Reflects the transfer of approximately $89.4 million in related tuition revenue and spending from an off-budget trust fund to budgeted accounts.

(12) Includes $102.7 million currently reserved for contingencies.

Local Aid

Proposition 2 1/2. In November 1980, voters in the Commonwealth approved a statewide tax limitation initiative petition, commonly known as Proposition 2 1/2, 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 2 1/2 is not a provision of the state constitution and accordingly is subject to amendment or repeal by the Legislature. Proposition 2 1/2, as amended to date, limits the property taxes that may be levied by any city or town in any fiscal year to the lesser of (i) 2.5% of the full and fair cash valuation of the real estate and personal property therein, and (ii) 2.5% over the previous year's levy limit plus any growth in the tax base from certain new construction and parcel subdivisions. Proposition 2 1/2 also limits any increase in the charges and fees assessed by certain governmental entities, including county governments, on cities and towns to the sum of (i) 2.5% of the total charges and fees imposed in the preceding fiscal year, and (ii) any increase in charges for services customarily provided locally or services obtained by the city or town at its option. The law contains certain override provisions and, in addition, permits debt service on specific bonds and notes and expenditures for identified capital projects to be excluded from the limits by a majority vote at a general or special election. At the time Proposition 2 1/2 was enacted, many cities and towns had property tax levels in excess of the limit and were therefore required to roll back property taxes with a concurrent loss of revenues. Between fiscal 1981 and fiscal 1993, the aggregate property tax levy grew from $3.347 billion to $5.249 billion, representing an increase of approximately 56.8%. By contrast, according to federal Bureau of Labor Statistics, the consumer price index for all urban consumers in Boston grew during the same period by approximately 80%.

Many communities have responded to the limitation imposed by Proposition 2 1/2 through statutorily permitted overrides and exclusions. Override activity peaked in fiscal 1991, when 182 communities attempted votes on one of the three types of referenda questions (override of levy limit, exclusion of debt service, or exclusion of capital expenditures) and 100 passed at least one question, adding $58.5 million to their levy limits. In fiscal 1992, 67 of 143 communities had successful votes totalling $31.0 million. In fiscal 1993, 83 communities attempted a vote; two-thirds of them (56) passed questions aggregating $16.4 million. Although Proposition 2 1/2 will continue to constrain local property tax revenues, significant capacity exists for overrides in nearly all cities and towns.

Commonwealth Financial Support for Local Governments. During the 1980s, the Commonwealth increased payments to its cities, towns and regional school districts ("Local Aid") to mitigate the impact of Proposition 2 1/2 on local programs and services. In fiscal 1995, approximately 32.1% of the Commonwealth's budget is estimated to be allocated to Local Aid. 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 nonappropriated funds. As a result of the education reform law enacted in June, 1993, a large portion of general revenue sharing funds are earmarked for public education and are distributed through a formula designed to provide more aid to the Commonwealth's poorer communities. The education reform law also anticipates significant increases in these earmarked funds over the next several years, subject to appropriation. Another component of general revenue sharing, the Lottery and Additional Assistance programs, provides unrestricted funds for municipal use. There are also several specific programs funded through direct local aid, such as highway construction, school building construction, and police education incentives. In addition to direct Local Aid, the Commonwealth has provided substantial indirect aid to local governments, including, for example, payments for MBTA assistance and debt service, pensions for teachers, pension cost-of-living allowances for municipal retirees, housing subsidies and the costs of courts and district attorneys that formerly had been paid by the counties.

Direct Local Aid decreased from $2.937 billion in fiscal 1990 to $2.360 billion in fiscal 1992, increased to $2.547 billion in fiscal 1993 and increased to $2.727 billion in fiscal 1994. It is estimated that fiscal 1995 expenditures for direct Local Aid will be $2.979 billion, which is an increase of approximately 9.2% above the fiscal 1994 level. The additional amount of indirect Local Aid provided over and above direct Local Aid was approximately $2.069 billion in fiscal 1994. It is estimated that in fiscal 1995 approximately $2.318 billion of indirect Local Aid will also be paid.

Initiative Law. A statute adopted by voter initiative petition at the November 1990 statewide election regulates the distribution of Local Aid to cities and towns. This statute requires that, subject to annual

appropriation, no less than 40% of collections from personal income taxes, sales and use taxes, corporate excise taxes and lottery fund proceeds be distributed to cities and towns. Under the law, the Local Aid distribution to each city or town would equal no less than 100% of the total Local Aid received for fiscal 1989. Distributions in excess of fiscal 1989 levels would be based on new formulas that would replace the current Local Aid distribution formulas. By its terms, the new formula would have called for a substantial increase in direct Local Aid in fiscal 1992, and would call for such an increase in fiscal 1993 and in subsequent years. However, Local Aid payments expressly remain subject to annual appropriation, and fiscal 1992, fiscal 1993, and fiscal 1994 appropriations for Local Aid did not meet, and fiscal 1995 appropriations for Local Aid do not meet, the levels set forth in the initiative law.

Medicaid and Group Health Insurance

Medicaid. The Medicaid program provides health care to low-income children and families, the disabled and the elderly. The program, which is administered by the Division of Medical Assistance (an agency within the Executive Office of Health and Human Services), is 50% funded by federal reimbursements.

Since fiscal 1991, the Division of Medical Assistance has been able to reduce the average annual rate of growth in Medicaid spending to approximately 4.6%, down from average annual growth of 17% between fiscal 1987 and fiscal 1991. This decrease in the rate of growth is due to a number of savings and cost control initiatives that the Division of Medical Assistance continues to implement and refine, including managed care, utilization review and third party liability.

In fiscal 1992, Medicaid accounted for more than half of the Commonwealth's appropriations for health care. It was the largest item in the Commonwealth's budget and has been one of the fastest growing budget items. During fiscal years 1990, 1991, 1992, and 1993 Medicaid expenditures were $2.121 billion, $2.765 billion (including $194 million paid in respect of retroactive provider settlements), $2.818 billion and $3.151 billion, respectively, representing an average annual increase of 14.1%. The increase from fiscal 1992 to fiscal 1993 resulted mainly from the one-time start-up costs of a new managed care program for Medicaid recipients. See "COMMONWEALTH PROGRAMS AND SERVICES -- Table of Commonwealth Expenditures-Budgeted Operating Funds". Expenditures for fiscal 1994 were $3.315 billion, an increase of 5.2% over fiscal 1993 expenditures. The Executive Office for Administration and Finance estimates that fiscal 1995 Medicaid expenditures will be approximately $3.419 billion, an increase of 3.1% over fiscal 1994 expenditures. For fiscal 1995, no supplemental Medicaid appropriations are currently expected to be necessary.

Substantial Medicaid expenditures in recent years have been provided through supplemental appropriations because program requirements have consistently exceeded initial appropriations. In addition, substantial amounts have been required to cover retroactive settlement of provider payments. In fiscal 1990, in addition to current expenditures, the Commonwealth financed, through the issuance of notes, payments of $356.0 million to hospitals and nursing homes for rate settlements dating back as far as 1980 and $132.0 million for program expenses incurred in fiscal 1989. These payments were made through the Medical Assistance Liability Fund established to fund certain Medicaid liabilities for prior years and were not included in the fiscal 1990 expenditure of $2.121 billion stated in the preceding paragraph. In fiscal 1991, expenditures of $194.2 million were made to fund prior year provider settlements. See "FINANCIAL RESULTS -- Fiscal Years 1990 Through 1994". Medicaid expenditures for fiscal 1992 of $2.818 billion included $50.0 million for prior year provider settlements. Fiscal 1994 and fiscal 1995 Medicaid expenditures include approximately $123.0 million in final retroactive rate settlements funded through the final fiscal 1994 supplemental budget to pay pre-1992 liabilities to hospitals and nursing homes.

No supplemental appropriations were required in fiscal 1994 to fund expenditures related to fiscal 1994 services.

Nursing home services currently account for more than 35% of the Medicaid budget. The Division of Medical Assistance has strengthened the admissions criteria to ensure that those not needing this care use less costly community services, rather than being inappropriately placed in nursing homes. This measure, along with certain other projects, has limited the average annual increase in long-term care costs to approximately 3% between fiscal 1992 and fiscal 1994 on a date of service basis, as compared to approximately 16% average annual increases for the previous two fiscal years. Medicaid costs in the long-term care area increased from $1.158 million in fiscal

1990 to approximately $1.499 billion in fiscal 1994. The largest portion of these costs is for nursing home care. The nursing home population is also very dependent on Medicaid: 65% of all nursing home costs in the Commonwealth are paid by Medicaid as compared to the national average of 43%. The annual cost per beneficiary in a nursing home is approximately $30,000. Over 35,000 elderly and disabled citizens were cared for in nursing homes through Medicaid in fiscal 1992 and 1993 and over 35,000 such citizens are expected to receive such care in fiscal 1994. The elderly population in the Commonwealth and the elderly Medicaid caseload both continue to grow. The future burdens of long-term care on Medicaid expenditures are expected to continue to be high.

The substantial reduction in recent rate of growth percentages has been achieved in spite of increasing caseloads. For the period of fiscal 1992 through fiscal 1994, the Division of Medical Assistance has been able to maintain a constant cost per recipient and thereby reduced the overall rate of growth. The actual rate of growth in the Medicaid program for these years is attributable to an increased number of clients, not increased per recipient costs. The total Medicaid caseload for fiscal 1995 is expected to reach approximately 664,000 recipients (approximately 11.0% of the most recently estimated population of the Commonwealth), as compared to approximately 523,000 recipients in fiscal 1990.

To further stem the considerable annual cost increases in the Medicaid program, the Administration has commenced the implementation of a managed care program, which is in addition to major rate control initiatives implemented since fiscal 1991. A waiver of federal regulations granting recipients freedom of choice of provider recently was approved by federal authorities. This waiver enables the program to assign certain recipients to primary care clinicians who will function as gatekeepers to specialty and inpatient care and to enroll recipients in need of mental health or substance abuse services in a capitated managed system of care. Selective contracts with certain service providers will also be executed in an effort to obtain services in a more cost-effective fashion. In addition, nursing home prescreening and community service planning for long-term care will be concentrated in 27 Home Care Corporations to provide a single entry point and coordinated nursing home diversion services for elderly Medicaid recipients. Other savings initiatives include the repricing and buy-in of Medicare services for Medicaid recipients and restrictions, both financial and clinical, on nursing home eligibility.

Group Health Insurance. The Group Insurance Commission provides individual and family health insurance coverage for Commonwealth employees and retirees. Coverage is provided through an indemnity plan, currently administered by the John Hancock Mutual Life Insurance Company, and through 10 health maintenance organizations. The Commonwealth currently pays approximately 85% of the costs for active employees and 90% of the costs for employees who retired on or before July 1, 1994. The Commonwealth will pay approximately 85% of the costs for employees who retire after July 1, 1994. For several years group health insurance expenditures were the fastest growing expense item in the Commonwealth's budget, although recent increases have been more moderate. These costs rose at an average annual rate of 4.3% from $433.4 million in fiscal 1990 to $491.2 million in fiscal 1993. Group health insurance expenditures in fiscal 1994 were $496.2 million, representing an increase of 1.0%. Fiscal 1995 expenditures for group health insurance are estimated to be $515.0 million, an increase of 3.8% from expenditures for fiscal 1994. The reduced rate of increase in these expenses in recent years is attributable, in part, to more aggressive rate negotiations with providers, reductions in the state work force, increased management of the Commonwealth's indemnity plan, and changes in benefits and copayments approved by the Group Insurance Commission.

In fiscal 1995, legislation was enacted to enable any willing pharmacy to provide services and be compensated at the same rate offered to any pharmacy within an established health care network. The Group Insurance Commission believes that this legislation may decrease network utilization and cause the elimination or reduction of volume concessions and price discounts. The Group Insurance Commission had already established network contracts for fiscal 1995 and, therefore, will not incur higher costs in fiscal 1995 as a result of this legislation. The Group Insurance Commission is working with pharmacies to determine the fiscal 1996 impact of this legislation.

Public Assistance

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

Public Assistance Program Expenditures
(in millions)

Category of Public Assistance	Fiscal 1990	Fiscal 1991	Fiscal 1992	Fiscal 1993	Preliminary (unaudited) Fiscal 1994	Estimated Fiscal 1995(4)
AFDC (1)	$700.3	$758.1	$772.2	$809.9	$821.9	$844.9
EAEDC (formerly General Relief) (2)	161.9	189.6	131.5	89.9	101.3	109.3
SSI (3)	138.7	144.6	161.3	175.1	183.5	204.5
Total	$1,000.9	$1,092.3	$1,065.0	$1,074.9	$1,106.7	$1,158.7

SOURCE: Fiscal 1990-1993, Preliminary (unaudited) Fiscal 1994, Office of the Comptroller. Estimated Fiscal 1995, Executive Office for Administration and Finance.

(1) Includes expenditures for Emergency Assistance, a component of AFDC designed to prevent homelessness and to shelter income-eligible families when they become homeless.
(2) Includes outpatient medical services to EAEDC recipients.
(3) Include benefits for blind recipients, which are administered by the Massachusetts Commission for the Blind.
(4) Includes approximately $33.3 million not previously classified as public assistance.

AFDC is currently 50% funded by federal reimbursements. Increasing caseloads since fiscal 1990, plus legislatively-mandated annual cost-of-living adjustments through fiscal 1989, have caused AFDC expenditures to rise at an average annual rate of approximately 5.0% from $700.3 million in fiscal 1990 to $809.9 million in fiscal 1993. AFDC expenditures for fiscal 1994 were $821.9 million, representing an increase of 1.5% over fiscal 1993. AFDC expenditures for fiscal 1995 are projected to be $844.9 million, a 2.8% increase over fiscal 1994. The Governor has proposed replacing AFDC cash grants with an employment support program that will provide day care, health care and employment services, which were not previously classified as Public Assistance. See also "1995 FISCAL YEAR".

EAEDC (formerly General Relief) is funded entirely from state funds. Rising caseloads since fiscal 1990, plus annual cost-of-living adjustments through fiscal 1989, caused expenditures to rise approximately 17.1%, from $161.9 million in fiscal 1990 to $189.6 million in fiscal 1991. EAEDC expenditures for fiscal 1992 were $131.5 million, a 30.6% decrease from expenditures for General Relief in fiscal 1991. Fiscal 1993 EAEDC expenditures were $89.9 million, a 31.6% decrease from fiscal 1992 expenditures. Fiscal 1994 EAEDC expenditures were $101.3 million, a 12.7% increase from fiscal 1994 expenditures. Fiscal 1995 EAEDC expenditures are projected to be $109.3 million, a 7.9% increase from fiscal 1994. This projection is based upon current caseload projections which are subject to change during the fiscal year. See "*Controls and Reforms*" and "LITIGATION".

SSI payments are funded entirely by the federal government up to $446 per individual recipient per month and entirely by the Commonwealth above that amount. SSI payment levels in the Commonwealth for aged, disabled and blind individual recipients range from $560 to $596 per month. These levels include a Commonwealth supplement over and above federally approved assistance standards. Expenditures for SSI have risen at an average annual rate of 7.2% from $138.7 million in fiscal 1990 to $183.5 million in fiscal 1994. SSI expenditures for fiscal 1995 are projected to be $204.5 million, an increase of 11.4% from fiscal 1994. This projection is based upon current caseload projections which are subject to change during the fiscal year.

Controls and Reforms. In an attempt to control all human services expenditures, the Department of Public Welfare in recent years has instituted tighter procedures and management controls. Stricter standards have been established to determine eligibility for AFDC Emergency Assistance and EAEDC, including implementation of new disability criteria for EAEDC benefits. Litigation regarding the administration of the EAEDC program was resolved during fiscal 1994. The Department of Public Welfare also has instituted automated systems to redetermine eligibility for benefits and has taken steps to reduce welfare fraud. In addition, the Department of Revenue has improved its collection of child support payments, although actual collections have declined recently due to the lagging economy and rising unemployment.

Actions by the federal government in administering reimbursements to states for human services programs could affect the future receipt of federal reimbursements by the Commonwealth. These actions include placing limitations on the periods for which reimbursements may be claimed and possible imposition of sanctions if the rates of technical and substantive errors in the programs exceed permitted levels or if certain program controls are not in place. The Commonwealth has, in recent years, through improved management procedures and controls, lowered its error rates for the AFDC and food stamp programs, and the Department of Public Welfare reports that the Commonwealth is now below the target error rate level for each program. The Department of Public Welfare believes that its error rates are among the lowest in the country.

Debt Service

During the 1980s, Commonwealth financed capital expenditures grew substantially. Capital spending by the Commonwealth in the Capital Projects Funds rose from approximately $600.0 million in fiscal 1987 to $971.0 million in fiscal 1989. In November 1988, the Executive Office for Administration and Finance established an administrative limit on state financed capital spending in the Capital Projects Funds of $925.0 million per fiscal year. Capital expenditures were $936.0 million, $847.0 million, $694.1 million, $575.9 million and $760.9 million in fiscal 1990, fiscal 1991, fiscal 1992, fiscal 1993 and fiscal 1994, respectively. Commonwealth financed capital expenditures are projected to increase to approximately $846.4 million in fiscal 1995. See "COMMONWEALTH BUDGET, FINANCIAL MANAGEMENT AND CONTROLS -- Overview of Capital Spending Process and Controls; *Five-Year Capital Spending Plan*".

The growth of capital expenditures during the 1980s accounts for the significant rise in annual debt service expenditures since fiscal 1989. Payments for debt service on Commonwealth general obligation bonds and notes increased approximately 22.2%, from $770.9 million in fiscal 1990 to $942.3 million in fiscal 1991. Debt service payments in fiscal 1992 were $898.3 million, representing a 4.7% decrease from fiscal 1991, which resulted from a $261.0 million one-time reduction achieved through the issuance of refunding bonds in September and October 1991. Debt service expenditures for fiscal 1993 and fiscal 1994 were $1.140 billion and $1.155 billion, respectively, and are projected to be $1.249 billion for fiscal 1995. The fiscal 1993 and fiscal 1994 debt service expenditures reflect savings of $62.9 million and $57.3 million, respectively, achieved through the issuance of refunding bonds in October, 1992 and March, May and August, 1993. See "COMMONWEALTH BOND AND NOTE LIABILITIES". The amounts noted represent debt service payments on Commonwealth debt (including the Fiscal Recovery Bonds and the Special Obligation Bonds) but do not include debt service on notes issued to finance certain Medicaid-related liabilities, which were paid in full from non-budgeted funds. See "FINANCIAL RESULTS -- Fiscal Years 1990 Through 1994". Also excluded are debt service contract assistance payments to the MBTA ($181.9 million projected in fiscal 1995), the Massachusetts Convention Center Authority ($24.6 million projected in fiscal 1995), the Massachusetts Government Land Bank ($6.0 million projected in fiscal 1995), the Massachusetts Water Pollution Abatement Trust ($13.9 million projected in fiscal 1995) and grants to municipalities under the school building assistance program to defray a portion of the debt service costs on local school bonds ($179.2 million projected in fiscal 1995). See "MBTA and Regional Transit Authorities", "COMMONWEALTH BOND AND NOTE LIABILITIES" and "OTHER COMMONWEALTH LIABILITIES".

In January 1990, legislation was enacted to impose a limit on debt service in Commonwealth budgets beginning in fiscal 1991. The law, as amended, 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 (excluding the Fiscal Recovery Bonds) of the Commonwealth. This law may be amended or repealed by the Legislature or may be superseded in the General Appropriation Act for any year. The following table shows the percentage of total appropriations expended or estimated to be

expended from the budgeted operating funds for debt service (excluding debt service on Fiscal Recovery Bonds) in the fiscal years indicated:

Debt Service Expenditures
(in millions)

Fiscal Year	Debt Service (1)	Total Budgeted Expenditures and Other Uses	Percentage
1990	$770.9	$13,259.7	5.8%
1991	863.1	13,654.7	6.3
1992	656.1(2)	13,416.0	4.9
1993	861.1	14,696.4	5.9
1994 (Preliminary unaudited)	877.8	15,533.0	5.7
1995 (Estimated)	970.7	16,481.5	5.9

SOURCE: Fiscal 1990-1993, Preliminary (unaudited) Fiscal 1994, Office of the Comptroller. Estimated Fiscal 1995, Executive Office for Administration and Finance.

(1) Excludes $79.0 million in fiscal 1991, $242.2 million in fiscal 1992, $278.4 million in fiscal 1993; $277.1 million in fiscal 1994 and $278.7 million in fiscal 1995 in interest and principal payments related to Fiscal Recovery Bonds, which are not included in the calculation of the debt service limit.

(2) Reflects reduction of debt service by $261.0 million by issuance of refunding bonds in September and October 1991.

The estimated debt service on the Fiscal Recovery Bonds currently outstanding (a portion of which constitutes variable rate debt) ranges from approximately $278.7 million in fiscal 1995 through fiscal 1997 and approximately $130.0 million in fiscal 1998, at which time the entire amount of the Fiscal Recovery Bonds will be paid.

Five-Year Capital Spending Plan. The Five-Year Capital Spending Plan was instituted by the Governor in August 1991 to reduce the rate of growth of Commonwealth debt outstanding, and therefore, the payment of debt service. The Five-Year Capital Spending Plan projects Commonwealth capital spending to remain relatively constant during its five-year period. See "COMMONWEALTH BUDGET, FINANCIAL MANAGEMENT AND CONTROLS -- Overview of Capital Spending Process; *Five-Year Capital Spending Plan*".

Pensions

The Commonwealth is responsible for the payment of pension benefits for state employees and for school teachers throughout the state. The Commonwealth is also responsible for cost of living increases payable to local government retirees. State pension expenditures have risen dramatically as the Commonwealth has appropriated moneys to partially address the unfunded liabilities that had accumulated over several decades of "pay-as-you-go" administration of the pension systems for which it is responsible. For several years during the 1980s, the Commonwealth made substantial direct appropriations to pension reserves, in addition to paying current benefits. In 1988, the Commonwealth adopted a funding schedule under which it is required to fund future pension liabilities currently and to amortize the accumulated unfunded liabilities over 40 years. Total pension expenditures increased at an average annual rate of 7.8% from $671.9 million in fiscal 1990 to $908.9 million in fiscal 1994. The estimated pension expenditures (inclusive of current benefits and pension reserves) for fiscal 1995 are $993.3 million including approximately $40.0 million to fund the costs of an early retirement program for elementary and secondary school teachers mandated by the education reform legislation enacted in June 1993, representing an increase of 9.3% over fiscal 1994 expenditures. See "OTHER COMMONWEALTH LIABILITIES -- Retirement Systems and Pension Benefits".

Higher Education

Total budgeted expenditures for higher education have declined between fiscal 1990 and fiscal 1994 at an average annual rate of 1.1% from $701.9 million in fiscal 1990 to $672.6 million in fiscal 1994. To accommodate these budget reductions, the public higher education system decreased its state-funded payroll by 1,515 full-time equivalent employees between June 1988 and October 1993. Decreases in appropriations have been partially mitigated by increases in tuition and fees in fiscal 1990 through fiscal 1994. In fiscal 1992 all but two of the campuses raised tuition by 6.0%. In fiscal 1993 tuition was raised at all campuses by 4.0%. Fiscal 1994 tuition revenues also reflect a 2.0% tuition increase. In addition, tuition increases for nonresident students have brought these tuitions to 100% of cost. Chapter 142 of the Acts of 1991 reorganized the Commonwealth's higher education system by creating a Secretary of Educational Affairs and replacing the Board of Regents with the Higher Education Coordinating Council. In fiscal 1995 an estimated $707.0 million will be expended from the Commonwealth's budgeted operating funds for higher education.

MBTA and Regional Transit Authorities

The Commonwealth expends substantial amounts in support of the MBTA and certain regional transit authorities. Commonwealth support of these authorities takes the form of (i) guarantees of their debt service, (ii) certain contract assistance, and (iii) payment of their net cost of service. The Commonwealth is entitled to reimbursement from cities and towns within the service area of each authority for payment of net cost of service in excess of contract assistance payments.

Massachusetts Bay Transportation Authority. The MBTA finances and operates mass transit facilities within its territory, which consists of 78 cities and towns in the greater Boston metropolitan area, and to a limited extent outside its territory. 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. The Boston Metropolitan District no longer issues debt except for refunding purposes.

Commonwealth support of the MBTA includes all three forms of aid described above. First, a Commonwealth guarantee of MBTA debt obligations is provided by statutory requirements that the Commonwealth provide the MBTA funds sufficient to meet its obligations, including the principal and interest on MBTA and Boston Metropolitan District bonds and notes as they mature, to the extent that funds sufficient for this purpose are not otherwise available to the MBTA. Second, the Commonwealth has contracted to pay contract assistance equal to 90% of the debt service on MBTA bonds. Third, under applicable statutory provisions the Commonwealth is required to pay the MBTA its net cost of service (current expenses, including debt service and lease obligations, minus current income). During the calendar year the MBTA's net cost of service, as certified to the Commonwealth by the MBTA on a calendar year basis, is financed by the issue of notes by either the MBTA itself or the Commonwealth or by payments by the Commonwealth. In the following fiscal year, the Commonwealth pays to the MBTA the net cost of service for such calendar year (to the extent that the Commonwealth has not already advanced funds for such net cost of service). The Commonwealth issues short-term notes (transit notes) to provide funds to make such payments. The Commonwealth assesses such net cost of service on the cities and towns in the MBTA territory after deducting certain contract assistance provided by the Commonwealth. Proposition 2 1/2, as amended, generally limits the increase in such assessments from one year to the next to 2.5% of the prior year's assessment. The Commonwealth pays its transit notes from the proceeds of the assessments and from such contract assistance and, if the foregoing proceeds are insufficient, from other funds of the Commonwealth.

Total expenditures for the purpose of paying costs related to the MBTA and regional transit authorities have risen at an average annual rate of approximately 13.8% for fiscal years 1990 through 1994, from $354.5 million in fiscal 1990 (of which $333.9 million relates to the MBTA) to $522.3 million in fiscal 1994 (of which $490.4 million relates to the MBTA). Estimated expenditures for this purpose for fiscal 1995 are $522.3 million (of which $487.1 million relates to the MBTA).

In light of major expansion of service throughout the 1980s, the total MBTA operating expenses have risen at an average annual rate of approximately 5.9% for fiscal years 1990 through 1994, from $629.6 million in fiscal 1990 to $793.3 million in fiscal 1994. For fiscal 1995, the MBTA has an approved budget of $745.4 million. Management of the MBTA believes that this reduction of approximately $48 million from the fiscal 1994 budget

can be accomplished without reductions in the quantity and quality of service. The growth in the Commonwealth's share of the MBTA's budget reflects the statutory arrangements by which the MBTA is funded, declining federal assistance and constrained local support as a result of Proposition 2 1/2.

The information set forth above concerning the Commonwealth's total expenditures for the costs of the MBTA is based on the Commonwealth's fiscal year ending June 30. However, under state law, the MBTA continues to report its net cost of service to the Commonwealth on a calendar year basis for reimbursement and assessment purposes. The following table sets forth for the calendar years ended December 31, 1989 through December 31, 1993, the amounts of (i) the MBTA's cost of service in excess of the MBTA's income from its own sources, (ii) federal operating assistance, (iii) Section 28 contract assistance, (iv) additional contract assistance, (v) interest and other charges incurred in state borrowings by the Commonwealth and (vi) the total of the Commonwealth's assessments on the cities and towns for the net cost of service allocated to such year.

MBTA Net Cost of Service Assessments
(in millions)

Year Ended December 31	Cost of Service in Excess of Income	Less: Federal Operating Assistance	Less: Section 28 Contract Assistance (1)	Less: Additional Contract Assistance and Other State Assistance (2)	Subtotal	Interest and Other Charges (3)	Amount Assessed or to be Assessed
1989	$464.3	$18.5	$96.8	$245.4	$103.6	$12.1	$115.7
1990	512.9	18.3	115.7	272.6	106.3	12.3	118.6
1991	575.0	18.2	137.7	307.2	111.9	9.7	121.6
1992	607.0	18.2	155.8	315.4	117.6	7.0	124.7
1993	610.3	18.2	165.6	304.2(4)	122.3	5.5	127.8

SOURCE: Massachusetts Bay Transportation Authority.

(1) Contract assistance under Section 28 of the MBTA's enabling act for payment of a portion of debt service on certain of the MBTA's indebtedness.

(2) Additional contract assistance and other state assistance provided by the Commonwealth.

(3) Includes interest and other charges incurred in state borrowings by the Commonwealth and Boston Metropolitan District expenses of $25,000 in each year.

(4) The Commonwealth's fiscal 1995 budget contains appropriations, together with other prior appropriations, sufficient to provide this amount of additional state assistance.

Regional Transit Authorities and Steamship Authority. There are 15 regional transit authorities organized in various areas of the state. The Woods Hole, Martha's Vineyard and Nantucket Steamship Authority operates ferry service to Martha's Vineyard and Nantucket. As with the MBTA, the Commonwealth is required under applicable statutory provisions to provide the regional transit authorities and the Steamship 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.

The Commonwealth also is required under applicable statutory provisions to pay to the regional transit authorities and the Steamship Authority their net cost of service (current expenses, including debt service, minus current income). The Commonwealth recovers such amounts as are not paid by its contract assistance by assessments on the cities and towns served by such authorities. The Commonwealth is required under applicable statutory provisions relating to the regional transit authorities to provide contract assistance to such authorities in amounts equal to 50% of each authority's net cost of service, and such amounts are not assessed on the cities and towns served by such authorities.

The regional transit authorities have required aggregate net cost of service payments by the Commonwealth in fiscal 1990, 1991, 1992, 1993 and 1994 of $20.6 million, $23.6 million, $28.5 million, $31.1 million and $31.9 million, respectively. Estimated payments for fiscal 1995 are $34.0 million. The Steamship Authority is currently self supporting, requiring no net cost of service payments or contract assistance.

Other Programs

In addition to those expenditures described above, the Commonwealth also expends substantial amounts on all other programs and services. Spending on other programs and services supported by the Commonwealth's budget decreased from $4.222 billion in fiscal 1990 to $4.018 billion in fiscal 1991, which is $204.1 million, or 4.8%, less than fiscal 1990. Such expenditures increased by $48.2 million, or 1.2%, to $4.066 billion in fiscal 1992. Fiscal 1993 expenditures were $4.376 billion, which is $309.6 million, or 7.6% higher than fiscal 1992. Fiscal 1994 expenditures were $4.581 billion, which is $205.0 million or 4.7% more than fiscal 1993. Fiscal 1995 expenditures are estimated to be $4.878 billion, which is $297 million or 6.5% more than fiscal 1994. A large share of the projected fiscal 1995 spending in this category ($1.954 billion) consists of spending on human services programs other than Medicaid and public assistance detailed earlier. This other human services spending for fiscal 1995 includes expenditures for the Departments of Mental Retardation ($708.9 million), Mental Health ($504.1 million), Social Services ($386.2 million) and Public Health ($354.6 million). The remaining $2.106 billion in projected expenditures on other programs and services cover a wide variety of functions of state government, including, in particular, expenditures for the Judiciary, District Attorneys and the Attorney General ($422.4 million) and for the Executive Office for Administration and Finance ($375.2 million), Communities and Development ($138.4 million), Environmental Affairs ($165.2 million), Transportation and Construction ($92.4 million), Public Safety ($785.9 million) and Elder Affairs ($126.3 million).

State Work Force

As of September 3, 1994, the Commonwealth had approximately 63,694 full-time equivalent employees ("FTEs") in its standard work force delivering programs and services funded by annual operating budget appropriations and retained revenues. This number does not include 1,268 seasonal FTEs or 123 members of Boards or Commissions. Approximately 56,889 of these FTEs work in executive branch agencies (including employees of the Commonwealth's colleges and universities) under the control of the Governor, while the others work in the Legislature, Judiciary and other entities constitutionally independent of the Governor (e.g., the Offices of the State Treasurer, the Secretary of State, the State Auditor and the Attorney General). During fiscal 1994 approximately $2.3 billion was expended for salaries for state employees funded through the budget. Between June 1988 and September 1994, the size of the standard work force funded by annual operating budget appropriations was reduced by 16,645 FTE positions, or approximately 20.0%. Between January 1991 and September 1994, the size of the Commonwealth's standard work force was reduced by approximately 8,559 in executive agencies under the control of the Governor and by approximately 8,500 in the entire state government. The Governor has successfully implemented an aggressive program to reduce the state-wide work force since taking office in January 1991 through attrition, layoffs and an early retirement program (which took effect on July 1, 1992).

Full-Time Equivalent Work Force (1)

	June 1988	January 1991	June 1994	September 1994
Executive Branch (2):				
Governor's Office (3)	105	53	88	86
State Comptroller	119	101	103	104
Executive Departments:				
Administration & Finance	4,434	3,985	3,385	3,346
Environmental Affairs	3,319	3,019	2,229	2,226
Communities & Development	182	123	108	104
Human Services (4)	38,665	35,441	23,610	23,550
Transportation & Construction	3,146	2,565	1,390	1,370
Board of Library Commissioners	19	14	14	14
Education (5)	468	348	210	209
Higher Education (5)(6)	14,654	13,084	13,130	13,148
Public Safety (4)	3,405	2,833	8,827	8,807
Economic Affairs (7)	97	64	99	99
Elder Affairs	60	35	30	27
Consumer Affairs	755	725	614	614
Energy Resources (8)	66	--	--	--
Labor	464	443	390	388
Subtotal	69,958	62,833	54,227	54,092
Judiciary	6,157	5,858	5,861	5,876
Other (9)	4,224	3,502	3,721	3,726
Total	80,339	72,193	63,809	63,694

SOURCE: Executive Office for Administration and Finance.

(1) Excludes employees whose salaries are paid from direct federal grants, expendable trust funds and Capital Projects Funds.
(2) Includes only employees under control of the Governor.
(3) Includes staff of the Lieutenant Governor, formerly included in "Other".
(4) Includes transfer of personnel of Parole Board, Department of Corrections and MDC Police to Public Safety in July 1991.
(5) Chapter 142 of the Acts of 1991 combined the Department of Education and a successor to the Board of Regents under a newly created Secretary of Educational Affairs.
(6) Includes University of Massachusetts, state colleges and community colleges.
(7) Includes transfer of certain personnel from Consumer Affairs to Economic Affairs.
(8) Department functions were taken over by other departments in fiscal 1990.
(9) Includes Legislative staff, Offices of State Treasurer, Secretary of State, State Auditor, Attorney General and others constitutionally independent of the Governor. Does not include elected representatives, senators or members of the Governor's Cabinet.

In addition to the standard work force funded by annual operating budget appropriations, the Commonwealth has employees whose salaries are paid from various direct federal grants, expendable trust funds, and Capital Projects Funds. Virtually all of these employees work in the executive branch, over half of them in public higher education. Excluding personnel paid from certain higher education trust funds, the number of non-budgeted FTEs has increased from 11,366 in June 1988 to 13,054 in September 1994, an increase of approximately 14.9%. The Commonwealth also employs seasonal workers, primarily in its parks and other recreational facilities, varying in number from about 350 FTEs in the off-seasons to about 1,500 FTEs in midsummer.

Union Organization and Labor Negotiations

Under Chapter 150E of the General Laws, all employees of the Commonwealth, with the exception of managerial and confidential employees, have the right to bargain collectively with the Commonwealth through certified employee organizations recognized as exclusive bargaining representatives for appropriate bargaining units. Collective bargaining with employees of the Commonwealth's colleges and universities, its judicial branch and the Lottery Commission generally is conducted directly by those entities. The Office of Employee Relations, acting for the Secretary for Administration and Finance, conducts the collective bargaining negotiations with all other

employees of the Commonwealth. Such negotiations may cover wages, hours and other terms and conditions of employment, but may not include the levels of pension and group insurance benefits. All labor agreements negotiated by the Office of Employee Relations are subject to approval by the Secretary for Administration and Finance and, once approved, are forwarded to the Legislature for funding approval. Funding of most labor contracts is by means of a supplemental appropriation.

In most cases, the Chief Administrative Justice of the Trial Court, the Lottery Commission, and public higher education management negotiate directly with their respective employee representatives, but all wage increases and other economic provisions contained in agreements reached as a result of such bargaining 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 46,000 executive branch state employees are organized in eleven bargaining units, the employees of the Commonwealth's colleges and universities are organized in 25 bargaining units, and the employees of the judicial branch and the Lottery Commission are organized in six bargaining units. Public employees of the Commonwealth do not have a legal right to strike or otherwise withhold services. Unions representing certain state and metropolitan police are entitled to final and binding arbitration by a joint Labor-Management Committee.

All but three of the nine collective bargaining agreements between the Commonwealth and its employees have expired.

Agreements with the Alliance (the American Federation of State, County and Municipal Employees and the Service Employees International Union, representing units 2, 8 and 10), the National Association of Government Employees (NAGE, representing units 1, 3 and 6) and the Massachusetts Organization of State Engineers and Scientists (MOSES, representing unit 9) expired June 30, 1993. The agreement with the Coalition of Public Safety (COPS, representing Unit 5), which expired June 30, 1990, remains in effect. The parties did engage in collective bargaining for a new agreement; however, that bargaining resulted in an impasse. The parties are now in factfinding. The expired collective bargaining agreements remain in effect until new contracts are negotiated, or until successor collective bargaining agreement negotiations result in impasse.

Legislation to fund the economic provisions of the 1990 - 1993 agreements with the Alliance, NAGE and MOSES, which were negotiated in 1990, was not approved by the Governor in December, 1991 due to fiscal conditions. The agreements would have cost the Commonwealth approximately $289 million during their three year terms. The three unions filed lawsuits challenging the Governor's action. In August, 1992, the Massachusetts Supreme Judicial Court ruled that the Governor's action was constitutionally permissible. Economic benefits for these units remained unchanged from their previous agreements until December, 1992, when the legislature overrode the Governor's veto of legislation to grant wage increases of 6% effective December, 1992 and 7.25% effective June, 1993, which approximated the aggregate increases originally provided during the three year terms of the 1990-1993 agreements.

Negotiations for new contracts are currently underway with the Alliance, NAGE, MOSES and COPS.

In April, 1992, the Commonwealth reached agreement with the Massachusetts Correction Officers Union (representing unit 4) for a three year contract which expires December 31, 1994. The agreement provides for a wage increase of 5.4% through job title upgrades, as well as an educational incentive program, both of which were implemented retroactive to January 1, 1992, at a total cost of approximately $20.1 million through fiscal 1994. A supplemental agreement to this contract, negotiated in May, 1993, provides for 5% salary increases effective January 1, 1993, January 1, 1994 and July 1, 1994, and a longevity pay program effective March 1, 1993.

On July 1, 1992, the former Capitol, Metropolitan, Registry and State Police forces were consolidated into the Massachusetts Department of State Police. Negotiations between the Commonwealth and the State Police Association of Massachusetts (representing unit 5A) culminated with the signing in July, 1993 of a three year contract, which expires June 30, 1995. The contract grants a series of annual 6% salary increases, which are estimated to cost approximately $14.9 million in fiscal 1995.

In March of 1994, the Commonwealth and the Massachusetts Nurses Association signed the successor agreement to the agreement that expired October, 1990. The new agreement, which expires December 31, 1994, calls for a 4% pay raise effective July 1, 1992, a 2.5% increase effective July 1, 1993, a 1% increase effective July 1, 1994 and a 2.5% increase effective October 1, 1994. The contract is notable for being the first Commonwealth collective bargaining agreement to link an employee's salary increase to his or her performance. The agreement also provides for a reduction in overtime costs by paying employees at straight time for the first shift of overtime worked in any work week in which the employee uses sick leave. The cost of this agreement in fiscal 1995 is estimated to be approximately $10.5 million.

Despite the present uncertainty with respect to the new agreements caused by fiscal conditions, the Commonwealth believes that its relationship with its employees is reasonably good.

The following table sets forth information regarding the eleven bargaining units that are within the responsibility of the Office of Employee Relations.

Office of Employee Relations Bargaining Units

Contract Unit	Bargaining Union	Type of Employee	No. of Employees	Expiration Dates
1	National Association of Government Employees	Clerical	6,237	6/30/93
2	Alliance/American Federation of State, County & Municipal Employees and Service Employees International Union	Non-professional hospital	12,865	6/30/93
3	National Association of Government Employees	Skilled trades	907	6/30/93
4	Massachusetts Correction Officers Federated Union	Corrections	3,726	12/31/94
5	Coalition of Public Safety	Police/Law enforcement	350	6/30/90
5a	State Police Association of Massachusetts	State Police	1,878	6/30/95
6	National Association of Government Employees	Administrative professionals	6,168	6/30/93
7	Massachusetts Nurses Associations	Health professionals	2,474	12/31/94
8	Alliance/Service Employees International Union	Social workers	7,595	6/30/93
9	Massachusetts Organization of Engineers and Scientists	Engineers/scientists	2,865	6/30/93
10	Alliance/Service Employees International Union	Secondary education	672	6/30/93
	TOTAL		45,737	

SOURCE: Office of Employee Relations. Number of employees as of October 1, 1994.

COMMONWEALTH BOND AND NOTE LIABILITIES

Overview

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

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

Commonwealth Bonds and Notes. The Commonwealth currently has three types of bonds and notes outstanding: general obligation debt, dedicated income tax debt, and special obligation debt. Dedicated income tax debt consists of general obligation bonds or notes issued under Chapter 151 of the Acts of 1990, to which a portion of the Commonwealth's income tax receipts is dedicated for the payment of debt service. Special obligation revenue debt consists of special obligation revenue bonds ("Special Obligation Bonds") issued under Section 20 of Chapter 29 of the Massachusetts General Laws (the "Special Obligation Act") which may be secured by all or a portion of the revenues credited to the Commonwealth's Highway Fund. The Commonwealth has issued Special Obligation Bonds secured by a pledge of two cents of the Commonwealth's 21-cent gasoline tax. See "Special Obligation Debt."

Other Commonwealth Bond and Note Liabilities. Certain independent authorities and agencies within the Commonwealth are statutorily authorized to issue bonds and notes for which the Commonwealth is either directly, in whole or in part, or indirectly liable. The Commonwealth's liabilities with respect to these bonds and notes are classified as either (a) Commonwealth supported debt; (b) Commonwealth guaranteed debt; or (c) indirect obligations. Commonwealth supported debt arises from statutory requirements for payments by the Commonwealth with respect to debt service of the MBTA (including the Boston Metropolitan District), the Massachusetts Convention Center Authority, the Massachusetts Government Land Bank, the Steamship Authority and certain regional transit authorities. Commonwealth guaranteed debt consists of certain liabilities arising out of the Commonwealth's guarantees of the bonds of the four higher education building authorities, certain local housing authorities and certain bonds of the Town of Mashpee. Indirect obligations consist of (i) obligations of the Commonwealth to fund capital reserve funds pledged to certain MHFA bonds, (ii) the obligation of the Commonwealth, acting through the Higher Education Coordinating Council, to fund debt service, solely from moneys otherwise appropriated to HECC, on certain community college program bonds issued by the Massachusetts Health and Educational Facilities Authority, (iii) the obligation of the Commonwealth, acting through the Executive Office of Public Safety ("EOPS"), to fund debt service from amounts appropriated by the Legislature to EOPS, on certificates of participation issued to finance the new Plymouth County Correctional Facility; and (iv) the obligation of the Commonwealth to make lease payments from amounts appropriated by the Legislature with respect to the Massachusetts Information Technology Center now under construction in Chelsea, Massachusetts. See "Indirect Obligations." In addition, the Commonwealth has liabilities under certain tax exempt capital leases. See "OTHER COMMONWEALTH OBLIGATIONS -- Long Term Capital Leases".

Outstanding Bond and Note Liabilities. The following table sets forth the Commonwealth bond and note liabilities outstanding on October 1, 1994.

Commonwealth Bond and Note Liabilities
October 1, 1994
(in thousands)

	Long Term(1)	Short Term
COMMONWEALTH DEBT		
General Obligation Debt	$8,223,075(2)	$288,635(3)
Dedicated Income Tax Debt	839,810	--
Special Obligation Debt	403,770	--
Subtotal Commonwealth Debt	9,466,655	288,635
COMMONWEALTH SUPPORTED DEBT		
MBTA	2,165,230	365,000(4)
Massachusetts Convention Center Authority	173,664	--
Massachusetts Government Land Bank	--	--
Boston Metropolitan District	49,477	--
Steamship Authority	34,249	2,900
Regional transit authorities	--	66,707
Subtotal Supported Debt	2,422,620	434,607
COMMONWEALTH GUARANTEED DEBT		
Local housing authorities	--	--
Higher education building authorities	235,516	--
Town of Mashpee	400	--
Subtotal Guaranteed Debt	235,916	--
TOTAL COMMONWEALTH BOND AND NOTE LIABILITIES	$ 12,125,191	$ 723,242

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

(1) Long term debt includes discount and costs of issuance. Does not include long term capital lease obligations. See "Indirect Obligations - *Plymouth County Certificates of Participation*" and "OTHER COMMONWEALTH LIABILITIES -- Long Term Capital Leases".

(2) Includes interest on Commonwealth general obligation capital appreciation bonds to be accrued from October 1, 1994 through their maturity in the amount of $354.2 million. On November 16, 1994, the Commonwealth sold $200 million of general obligation bonds to finance various capital expenditures.

(3) Represents $240 million of Commonwealth General Obligation Notes issued on November 23, 1993 for the purpose of financing the MBTA's net cost of service and $48.6 million of the Commonwealth's "minibonds" (which are redeemable at the request of the holder on one business day's notice and are treated as short term liabilities). On November 16, 1994, the Commonwealth sold $240 million of general obligation notes in order to refund such Notes. See "General Obligation Debt; *Commonwealth General Obligation Notes and Minibonds*".

(4) As of November 16, 1994, the MBTA also has $70.1 million of commercial paper outstanding. See "Commonwealth Supported Debt; *MBTA*".

Trend of Long Term Bond Liabilities. The following table sets forth the outstanding long term Commonwealth debt and Commonwealth supported bond liabilities as of the end of the fiscal years indicated.

Long Term Bond Liabilities(1)(2)
Commonwealth Debt and Commonwealth Supported Debt
(in thousands)

June 30	General Obligation Bonds (3)	Dedicated Income Tax Debt	Special Obligation Debt	Commonwealth Long Term Debt Subtotal (4)	MBTA Bonds	Other Supported Debt (5)	Total (4)
1990	$6,605,040	--	--	$6,605,040	$1,283,765	$263,848	$8,152,653
1991	7,164,195	$1,416,145	--	8,580,340	1,475,480	247,574	10,303,394
1992	7,916,571	1,236,990	$103,770	9,257,331	1,708,230	257,327	11,222,888
1993	8,082,823	1,044,865	103,770	9,231,458	2,015,405	291,482	11,538,345
1994	8,181,253	839,810	403,770	9,424,833	2,165,230	277,655	11,867,718

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

(1) Does not include Commonwealth guaranteed debt. See "Commonwealth Guaranteed Debt".
(2) Outstanding bond liabilities include discount and costs of issuance.
(3) Does not include Dedicated Income Tax Debt. Commonwealth general obligation bonds include interest on capital appreciation bonds yet to be accrued from the end of the fiscal year indicated through their maturity in the following approximate amounts: fiscal 1990-$175.38 million; fiscal 1991-$399.64 million; fiscal 1992-$451.29 million; fiscal 1993-$389.40 million and fiscal 1994-$361.5 million.
(4) Totals may not add due to rounding.
(5) Includes bonds of the MCCA, the Steamship Authority, the Land Bank, and the Boston Metropolitan District. Does not include bonds of regional transit authorities.

From May, 1992 through August, 1993 the Commonwealth issued $2.975 billion in refunding bonds to refinance existing long-term debt obligations of the Commonwealth. These transactions have generated $189 million in gross debt service savings for the Commonwealth in fiscal years 1992 through 2011, the bulk of which ($154 million) occurs in fiscal years 1993, 1994 and 1995. These transactions yield approximately $154 million in savings on a present value basis.

Long Term Debt Analysis. The following table sets forth outstanding long term Commonwealth debt and Commonwealth supported debt as of the end of the fiscal years indicated and the ratio of such indebtedness to certain economic indicators.

Long Term Debt Analysis
Commonwealth Debt and Commonwealth Supported Debt

June 30	Amount (1)(2) (in thousands)	Net of CAB Interest Yet to be Accrued (in thousands)	Per Capita (3)	Ratio to Full Value of Real Estate (4)	Ratio to Personal Income (5)
1990	$8,152,653	$7,977,273	$1,326	2.13	5.87
1991	10,303,394	9,903,754	1,652	2.32	7.21
1992	11,222,888	10,771,598	1,797	2.52	7.61
1993	11,538,345	11,148,945	1,854	2.85	7.58
1994	11,867,718	11,416,084	1,899	2.92	7.76

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

(1) Includes Commonwealth general obligation bonds, dedicated income tax bonds and Special Obligation Bonds, and bonds of the MBTA, the MCCA, the Steamship Authority, the Land Bank and the Boston Metropolitan District. Does not include bonds of the regional transit authorities. Does not include Commonwealth guaranteed debt. See "Commonwealth Guaranteed Debt".

(2) Outstanding bond liabilities include discount and costs of issuance. Commonwealth general obligation bonds include interest on capital appreciation bonds yet to be accrued from the end of the fiscal year through their maturity. See "Table of Long Term Bond Liabilities; *footnote 3*" above.

(3) Based on United States Census resident population estimates for Massachusetts of 6,016,000 for 1990, 5,995,000 for 1991 and 1992, and 6,012,000 for 1993 and 1994.

(4) Based on Commonwealth Department of Revenue equalized valuation of assessed real estate of $374.9 billion for 1990, $427.6 billion for 1991 and 1992 and $391.0 billion for 1993 and 1994.

(5) Based on United States Department of Commerce, Bureau of Economic Analysis total personal income of $135.9 billion for 1990, $137.3 billion for 1991, $141.6 billion for 1992 and $147.1 billion for 1993 and 1994.

Maturities of Short Term Debt. The following table sets forth the maturities of the Commonwealth's short term liabilities outstanding as of October 1, 1994.

Maturities of Short Term Liabilities
October 1, 1994
(in thousands)

Month Due	Commonwealth	MBTA	Regional Transit Authorities	Steamship Authority	Total
Minibonds (1)	$ 48,635	--	--	--	$ 48,635
Commercial Paper (1 to 270 days)(2)	--	$ 57,000	--	--	57,000
October, 1994	--	--	$ 7,000	--	7,000
November, 1994	240,000 (3)	--	1,079	$2,900	243,979
March, 1995	--	185,000	--	--	185,000
June, 1995	--	--	19,325	--	19,325
Fiscal 1996	--	180,000	39,303	--	219,303
Total	$288,635	$422,000	$66,707	$2,900	$780,242

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

(1) Minibonds are redeemable at the option of the holder on one business day's notice and are considered short term obligations. See "General Obligation Debt; *Minibonds*".

(2) For a description of the MBTA's commercial paper program, see "Commonwealth Supported Debt; *MBTA*". As of November 16, 1994, the MBTA has $70.1 million of commercial paper outstanding. For a description of the Commonwealth commercial paper program, see "General Obligation Debt; *Commonwealth General Obligation Notes*". As of November 16, 1994, the Commonwealth has no commercial paper outstanding.

(3) On November 16, 1994, the Commonwealth sold $240 million of general obligation notes maturing on June 15, 1995 in order to refund such Notes.

General Obligation Debt

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

Dedicated Income Tax Debt. On August 1, 1990, the Governor signed into law Chapter 151 of the Acts of 1990, which provides, among other matters, for the authorization of the Commonwealth Fiscal Recovery Loan Act of 1990 to meet the deficit attributable to fiscal 1990, including certain Medicaid payments for prior service periods. Bonds issued pursuant to Chapter 151 ("Fiscal Recovery Bonds") must be repaid no later than December 31, 1997. The Commonwealth issued Fiscal Recovery Bonds in October and December 1990 in the aggregate principal amount of $1.416 billion. The Fiscal Recovery Bonds constitute general obligation bonds of the Commonwealth, but are to be repaid from funds deposited in the Commonwealth Fiscal Recovery Fund established by Chapter 151 (the "Fiscal Recovery Fund"), deposits to which are to be held in trust and pledged to pay debt service on the Fiscal Recovery Bonds. Deposits to the Fiscal Recovery Fund are to be made from up to 15% of the Commonwealth's income tax receipts in each year that debt service is payable related to the Fiscal Recovery Bonds. Income tax receipts in excess of the amount needed in any fiscal year for debt service on account of Fiscal

Recovery Bonds then outstanding, as certified by the Secretary for Administration and Finance in consultation with the State Treasurer, are paid into the Commonwealth's General Fund. Debt service related to the Fiscal Recovery Bonds in fiscal years 1995 through 1997 will not exceed approximately $279 million per annum. Fifteen percent of the Commonwealth's income tax receipts for fiscal 1994 amounted to approximately $853.5 million, while in fiscal 1995 it is estimated to amount to $914.0 million. The outstanding principal amount of the Fiscal Recovery Bonds is not counted toward the statutory limit on outstanding direct bonds of the Commonwealth (see "Statutory Limit on Direct Bonds"), and interest on the Fiscal Recovery Bonds is not counted toward the statutory limitation on debt service payments. See "COMMONWEALTH PROGRAMS AND SERVICES -- Debt Service".

Commonwealth General Obligation Notes. The Commonwealth currently issues short term general obligation debt as revenue anticipation notes, bond anticipation notes, and transit notes issued to fund a portion of the Commonwealth's net cost of service for the MBTA. Revenue anticipation notes may be issued by the State Treasurer in any fiscal year in anticipation of the receipts for that year. Revenue anticipation notes must be repaid no later than the close of the fiscal year in which they are issued. Bond anticipation notes may be issued by the State Treasurer in anticipation of the issuance of bonds. The Commonwealth utilizes a commercial paper program to facilitate the issuance of revenue and bond anticipation notes. Under the Commonwealth's commercial paper program, the Commonwealth may issue up to $600 million of short term general obligation debt under three series of notes; a line of credit is available through September 30, 1996 to secure up to $200 million of principal of such commercial paper, letters of credit are available through October 31, 1996 to secure the balance of such commercial paper. As of November 16, 1994, the Commonwealth has no commercial paper outstanding. The Commonwealth's current cash flow projection indicates that no more than $105 million of short term operating borrowings are expected to be outstanding under the commercial paper program at any time during the remainder of fiscal 1995. However, events occurring subsequent to the preparation of this projection may cause the actual cash flow of the Commonwealth to vary from the projected cash flow and additional commercial paper may be outstanding from time to time during fiscal 1995. See "1995 FISCAL YEAR -- Cash Flow".

Transit notes issued to fund the net cost of service payments to the MBTA may be issued by the State Treasurer pursuant to Chapter 161A of the General Laws, and may mature in the current or next succeeding fiscal year. The notes are general obligations of the Commonwealth, but are funded, in part, from assessments collected by the Commonwealth from cities and towns in the MBTA's territory. See "COMMONWEALTH PROGRAMS AND SERVICES -- MBTA and Regional Transit Authorities". As of October 1, 1994, the Commonwealth has $240 million of outstanding transit notes which mature on November 22, 1994 and, which are expected to be refinanced with an equal principal amount of notes maturing on June 15, 1995. As of October 1, 1994, no other revenue or bond anticipation notes were outstanding.

Minibonds. The State Treasurer is authorized by law to sell a portion of the Commonwealth's bonded indebtedness each year (not exceeding $50 million net proceeds per year) in the form of small denomination bonds, or "minibonds", which are redeemable at the option of the holder on any business day prior to maturity (generally five years). As minibonds are redeemable on one business day's notice, the Comptroller accounts for minibonds as short term liabilities of the Commonwealth. Such minibonds are sold at a discount with no current interest payments; the redemption value accrues monthly. As of October 1, 1994 the Commonwealth had outstanding $48.6 million in such minibonds; if all outstanding minibonds were to have been redeemed by the holders thereof on such date, the total redemption cost to the Commonwealth would have been approximately $68.5 million.

Special Obligation Debt

The Special Obligation Act authorizes the Commonwealth to issue Special Obligation Bonds secured by all or a portion of revenues accounted to the Highway Fund. Revenues which are currently accounted to the Highway Fund are primarily derived from taxes and fees relating to the operation or use of motor vehicles in the Commonwealth, including the motor fuels excise tax. Special Obligation Bonds are not general obligations of the Commonwealth. Chapter 33 of the Acts of 1991 authorizes the Commonwealth to issue Special Obligation Bonds in an aggregate amount not to exceed $1.125 billion. As of October 1, 1994, the Commonwealth had outstanding $403.77 million of Special Obligation Bonds, which includes $103.77 million of such bonds secured by a pledge of two cents of the 21-cent motor fuels excise tax and $300 million of another series of such bonds secured by a pledge of an additional 4.86 cents of the motor fuels excise tax and certain other moneys.

Debt Service Requirements on Commonwealth Bonds

The following table sets forth, as of October 1, 1994 the annual fiscal year debt service requirements on outstanding Commonwealth general obligation bonds, including the Fiscal Recovery Bonds, and Special Obligation Bonds.

Debt Service Requirements on Commonwealth Bonds (1)
October 1, 1994
(in thousands)

	GENERAL OBLIGATION BONDS (2)(3)				SPECIAL OBLIGATION BONDS			
Fiscal Year	Principal	Interest on CABs at Maturity	Current Interest	Subtotal	Principal	Interest	Subtotal	Total Debt Service Commonwealth Bonds
1995 (4)	$429,090	$ --	$323,006	$752,096	$9,050	$22,394	$31,444	$783,540
1996	665,036	--	444,829	1,109,865	9,460	21,987	31,447	1,141,312
1997	692,350	--	401,821	1,094,171	9,845	21,604	31,449	1,125,620
1998	603,417	8,675	359,845	971,937	14,330	21,185	35,515	1,007,452
1999	527,748	9,704	330,193	867,645	15,010	20,508	35,518	903,163
2000	525,486	23,586	298,850	847,922	15,750	19,764	35,514	883,436
2001	471,179	61,445	271,231	803,855	16,555	18,957	35,512	839,367
2002	452,402	43,848	243,670	739,920	17,420	18,098	35,518	775,438
2003	439,707	59,609	219,789	719,105	18,585	16,929	35,514	754,619
2004	396,039	88,320	197,174	681,533	19,585	15,927	35,512	717,045
2005	398,056	95,981	176,531	670,568	20,665	14,852	35,517	706,085
2006	447,657	45,481	158,118	651,256	21,815	13,699	35,514	686,770
2007	483,225	14,985	135,317	633,527	23,050	12,467	35,517	669,044
2008	476,152	--	110,917	587,069	24,365	11,148	35,513	622,582
2009	453,368	--	84,976	538,344	25,740	9,771	35,511	573,855
2010	375,264	--	61,886	437,150	27,215	8,299	35,514	472,664
2011 and thereafter	775,075	--	78,492	853,567	115,330	16,424	131,754	985,321
TOTAL	**$8,611,251**	**$ 451,634**	**$3,896,645**	**$12,959,530**	**$403,770**	**$284,013**	**$687,783**	**$13,647,313**

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

(1) Totals may not add due to rounding.

(2) Includes Fiscal Recovery Bonds. Estimated debt service on the Fiscal Recovery Bonds (a portion of which constitute variable rate debt) will equal approximately $279.0 million in fiscal 1995 through fiscal 1997 and $130.0 million in fiscal 1998, at which time the Fiscal Recovery Bonds will be paid.

(3) Excludes minibonds. Estimated debt service payable on outstanding minibonds (assuming interest is paid at maturity) in fiscal year 1995 is approximately $63.7 million.

(4) Does not include debt service paid in fiscal 1995 through October 1, 1994, including approximately $208.1 million of general obligation bond principal, and approximately $151.6 million of general obligation bond interest.

Statutory Debt Limit on Direct Bonds

Legislation enacted in December 1989 imposes a limit on the amount of outstanding "direct" bonds of the Commonwealth. The law, which is codified in Section 60A of Chapter 29, set a fiscal 1991 limit of $6.8 billion, and provides that the limit for each subsequent fiscal year shall be 105% of the previous fiscal year's limit. The measurement of this limit is performed under the statutory basis of accounting which differs from GAAP in that the principal amount of outstanding bonds is measured net of discount and costs of issuance. The law further provides that bonds to be refunded from the proceeds of Commonwealth refunding bonds shall be excluded from outstanding "direct" bonds upon the issuance of the refunding bonds. Chapter 151 of the Acts of 1990 and the Special Obligation Act provide that the Fiscal Recovery Bonds and the Special Obligation Bonds, respectively, shall not be counted in computing the amount of bonds subject to this limit. Pursuant to Chapter 5 of the Acts of 1991,

$287.2 million of the Commonwealth's refunding bonds issued in September and October 1991 are not counted in computing the amount of the bonds subject to this limit. The following table shows the amount of outstanding "direct" bonds of the Commonwealth, as compared with the appropriate statutory limit, as of the first day of each fiscal year in which the statutory limit has been in effect.

Statutory Debt Limit on Direct Bonds
(in thousands)

Date	Outstanding Direct Bonds	Statutory Limit on Direct Bonds
July 1, 1990	$6,010,063	$6,800,000
July 1, 1991	6,653,030	7,140,000
July 1, 1992	6,937,500	7,497,000
July 1, 1993	7,259,821	7,871,850
July 1, 1994	7,343,227	8,265,442
October 1, 1994	7,442,590	8,265,442

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

Authorized But Unissued Debt

General obligation bonds of the Commonwealth are authorized to correspond with capital appropriations. See "COMMONWEALTH BUDGET, FINANCIAL MANAGEMENT AND CONTROLS -- Overview of Capital Spending Process". Over the last decade, the Commonwealth has typically had a large amount of authorized but unissued debt. However, the Commonwealth's actual expenditures for capital projects in a given year relate more to the capital needs of the Commonwealth in such year than to the total amount of authorized but unissued debt. Authorized but unissued general obligation debt at fiscal year end, and capital expenditures in the Capital Projects Funds, excluding the federally assisted highway construction fund, in the same fiscal year, are as follows:

Authorized but Unissued General Obligation Debt
(in thousands)

Date	Authorized but Unissued General Obligation Debt	Capital Expenditures(1)
June 30, 1990	$5,383,743	$936,068
June 30, 1991	4,937,306	847,057
June 30, 1992	6,393,832	694,057(2)
June 30, 1993	4,614,367	575,905
June 30, 1994	4,395,455	760,871

SOURCE: Office of the Comptroller.

(1) Does not include $537.5 million, $1.892 billion, and $835.7 million of refunding bond proceeds paid to escrow agents in fiscal 1992, fiscal 1993 and fiscal 1994, respectively, in order to decease then outstanding general obligation bonds.

(2) Does not include $159.6 million deposited into the federally assisted highway construction fund to alleviate the fund deficit accumulated therein.

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

Pursuant to Chapter 33 of the Acts of 1991 ("Chapter 33"), the Commonwealth authorized the issuance of $697 million of bonds for certain highway development and improvement projects which may only be issued as Special Obligation Bonds. The Special Obligation Bonds will be secured by a pledge of all or a portion of the

revenues accounted for in the Commonwealth's Highway Fund. In addition, certain general obligation bonds authorized in Chapter 33 for such projects (which are reflected as Authorized but Unissued General Obligation Debt above) may be issued as Special Obligation Bonds, with the aggregate amount of Special Obligation Bonds not to exceed $1.125 billion. See "Special Obligation Debt".

Commonwealth Supported Debt

MBTA. 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. Commonwealth support of MBTA bonds and notes includes (1) a Commonwealth guarantee of MBTA debt obligations provided by statutory requirements that the Commonwealth provide the MBTA funds sufficient to meet its obligations, including the principal and interest on MBTA and Boston Metropolitan District bonds and notes as they mature, to the extent that funds sufficient for this purpose are not otherwise available to the MBTA; (2) Commonwealth contract assistance equal to 90% of the debt service on MBTA bonds; and (3) under applicable statutory provisions, the Commonwealth's payment of MBTA's net cost of service (current expenses, including debt service and lease obligations, minus current income). Commonwealth obligations with respect to the MBTA are discussed at "COMMONWEALTH PROGRAMS AND SERVICES -- MBTA and Regional Transit Authorities". As of October 1, 1994, the MBTA had $2.2 billion of outstanding long term bonds (exclusive of bonds that have been refunded), and $365 million of outstanding short term notes. The MBTA also has established a commercial paper program in order to issue bond anticipation notes for capital purposes. Up to $200 million of debt under two series of notes may be issued under this program. The notes are general obligations of the MBTA and ninety percent (90%) of the interest thereon is payable from contract assistance to be provided by the Commonwealth. As of November 16, 1994, $70.1 million of commercial paper notes were outstanding under this program. As of October 1, 1994, the Boston Metropolitan District had $49.5 million of outstanding long term bonds. See "Overview; *Outstanding Bond and Note Liabilities*" and "*Trend of Long Term Bond Liabilities*".

Regional Transit Authorities and Steamship Authority. There are 15 regional transit authorities organized in various areas of the state. The Steamship Authority operates passenger ferries to Martha's Vineyard and Nantucket. Each of these entities issues its own bonds and notes. Commonwealth support of the bonds and notes of the regional transit authorities and the Steamship Authority includes (1) a Commonwealth guarantee pursuant to statutory provisions requiring the Commonwealth to provide each of these entities with funds sufficient to meet the principal of and interest on their bonds and notes as they mature to the extent that funds sufficient for this purpose are not otherwise available to such entity; (2) the Commonwealth's payment, under applicable statutory provisions, of the net cost of service of the regional transit authorities and the Steamship Authority (current expenses, including debt service, minus current income); and (3) with respect to the regional transit authorities, Commonwealth contract assistance to such authorities in amounts equal to 50% of their net cost of service. Commonwealth obligations with respect to the regional transit authorities are discussed at "COMMONWEALTH PROGRAMS AND SERVICES -- MBTA and Regional Transit Authorities". The Steamship Authority is currently self-supporting, requiring no net cost of service or contract assistance payments. As of October 1, 1994, the regional transit authorities had no outstanding long term bonds and $66.7 million of outstanding short term notes. As of October 1, 1994, the Steamship Authority had $34.3 million of outstanding long-term bonds and $2.9 million of outstanding short-term notes. See "Overview; *Outstanding Bond and Note Liabilities*".

Massachusetts Convention Center Authority. The MCCA was created for the purpose of promoting the economic development of the Commonwealth by the development and operation of a major convention center in Boston and is authorized to issue bonds for any of its corporate purposes. Such bonds are fully secured by contract assistance payments by the Commonwealth, which payments are limited by statute to an amount equal to the annual debt service on $200 million of bonds outstanding at any one time. The assistance contract is a general obligation of the Commonwealth for which its full faith and credit are pledged. As of October 1, 1994, the MCCA had $173.7 million of outstanding long term bonds on which the Commonwealth will pay approximately $24.6 million in debt service contract assistance payments in fiscal 1995. See "Overview; *Outstanding Bond and Note Liabilities*" and "COMMONWEALTH BUDGET, FINANCIAL MANAGEMENT AND CONTROLS -- Overview of Capital Spending Process and Controls; *Five Year Capital Spending Plan.*"

Massachusetts Government Land Bank. The Land Bank assists in the development of state and federal surplus property for private use, and in the development of substandard, blighted or decadent open areas in the Commonwealth. The Land Bank has direct borrowing power and the Commonwealth is required to provide contract assistance payments for debt service obligations of the Land Bank of up to $6 million per fiscal year for a period of twelve fiscal years, of which five years remain. Like the MCCA assistance contract, the contract with the Land Bank is a general obligation of the Commonwealth for which the full faith and credit of the Commonwealth are pledged. As of October 1, 1994, the Land Bank had no outstanding long term bonds. On November 16, 1994, the Land Bank sold $25,170,000 of bonds, which would be secured by the contract assistance from the Commonwealth, as described above. See "Overview; *Outstanding Bond and Note Liabilities*".

Commonwealth Guaranteed Debt

Local Housing Authorities. Local housing authorities have been created by legislation in each city and town in the Commonwealth and have the power, among other things, to undertake projects to provide housing for persons of low income. Prior to a readjustment of their financing methods effected by Chapter 4 of the Acts of 1976 ("Chapter 4"), such housing authorities financed housing projects by issuing Commonwealth guaranteed bonds and notes. The financing has been taken over by the Commonwealth, which makes grants to housing authorities to pay the costs of housing projects. Housing authorities can no longer make arrangements for the permanent financing of projects by Commonwealth guaranteed borrowing. Chapter 4 and certain bond covenants of the Commonwealth place limitations on the amount and period of guaranteed temporary notes which may be issued by housing authorities to finance planning and construction phases of housing projects. Chapter 4 also provides that no guaranteed notes may be issued unless a contract for grants which may be used to retire such notes is in effect. Housing authorities may issue revenue bonds to finance privately owned housing developments under a program authorized by the Legislature in 1984 (the "TELLER program"), but may not pledge their credit to secure such bonds. As of October 1, 1994, local housing authorities had no outstanding long term bonds guaranteed by the Commonwealth. See "Overview; *Outstanding Bond and Note Liabilities*".

Higher Education Building Authorities. Four higher education building authorities, created to assist institutions of public higher education in the Commonwealth, may issue bonds which are guaranteed as to their principal and interest by the Commonwealth. The guarantee is a general obligation of the Commonwealth for which its full faith and credit are pledged. In addition to such guarantee, certain revenues of these authorities, including dormitory rental income and student union fees, are pledged to their respective debt service requirements. While revenues thus far have been sufficient to meet debt service requirements, they have not been sufficient in all cases to pay operating costs. In such cases, the operating costs have been met by Commonwealth appropriations. As of October 1, 1994, the higher education building authorities had $235.9 million of outstanding long term bonds guaranteed by the Commonwealth. The State College Building Authority issued $89,315,000 of refunding bonds on November 16, 1994 in order to refund approximately $90.2 million of its outstanding bonds. See "Overview; *Outstanding Bond and Note Liabilities*".

Indirect Obligations

Massachusetts Housing Finance Agency and Massachusetts Home Mortgage Finance Agency. The legislation establishing the MHFA limits the outstanding indebtedness of MHFA issued for the purpose, among others, of financing certain multi-family housing projects within the Commonwealth to $2.7 billion of bonds or notes (excluding certain notes issued for construction financing) and limits the proportion of such indebtedness that may be evidenced by notes rather than bonds.

MHFA and the Massachusetts Home Mortgage Finance Agency ("MHMFA") also provide mortgage loan financing with respect to certain single-family residences within the Commonwealth. The acts establishing MHFA and MHMFA place a $1.7 billion aggregate limit on outstanding indebtedness of both MHFA and MHMFA to finance single-family housing. MHMFA no longer has any bonds outstanding.

Bonds and notes issued by MHFA and MHMFA are solely the obligations of the respective agency, payable directly or indirectly from, and secured by a pledge of, revenues derived from the agency's mortgage on or other interest in the financed housing. The MHFA and MHMFA enabling legislation also permits, and certain resolutions authorizing the respective issuance of multi-family and single-family housing bonds to date have required, the

creation of a capital reserve fund in connection with the issuance of such bonds. With respect to multi-family housing bonds, 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 capital reserve fund, including the bonds then being issued. With respect to single family housing bonds, any such fund must be maintained in an amount not less than one-quarter of the maximum amount of interest becoming due in the current or any succeeding fiscal year of the agency and not greater than the maximum amount of debt service becoming due in the current or any succeeding fiscal year on all outstanding bonds which are secured by such capital reserve fund. Upon certification by the chairman of MHFA to the Governor of any amount necessary to restore a capital reserve 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.

As of October 1, 1994, multi-family obligations of the MHFA totaled $2.3 billion (of which approximately $711 million were secured by capital reserve funds) and single-family obligations of the MHFA totaled $1.3 billion (of which approximately $47 million were secured by capital reserve funds). As of such date the capital reserve funds were maintained at the required levels without Commonwealth appropriations and no payments from such funds have been necessary. Authorized but unissued amounts as of such date were approximately $445 million for MHFA multi-family bonds and approximately $423 million for, collectively, MHFA and MHMFA single-family bonds.

HEFA Community Colleges Program Bonds. The Massachusetts Health and Educational Facilities Authority ("HEFA") issued, in January 1992, $17,390,000 of its Revenue Bonds, Community Colleges Program Issue, Series A (the "Community Colleges Bonds") in order to fund loans to two of the Commonwealth's community colleges. The primary security for the Community Colleges Bonds are fees, rents, rates and other charges to students and other users of the projects financed. As additional security for the Community Colleges Bonds, the Commonwealth, acting through the Higher Education Coordinating Council ("HECC"), entered into a Contract for Financial Assistance, Maintenance and Services with HEFA. Pursuant to this contract, HECC agrees to provide financial assistance, from moneys legally available to it, if the revenues collected on behalf of HEFA are insufficient to pay debt service on the Community Colleges Bonds. Pursuant to the contract, the financial assistance will be provided solely from funds otherwise appropriated to HECC in the Commonwealth's operating budget. The financial assistance does not constitute either a general obligation, or a so-called "moral obligation", of the Commonwealth, as the Commonwealth is not obligated to continue to appropriate moneys to HECC, and the credit of the Commonwealth is not pledged to the Community Colleges Bonds.

Plymouth County Certificates of Participation. In May 1992 the County of Plymouth, Massachusetts ("Plymouth County") caused to be issued $110,535,000 of certificates of participation (the "Plymouth COPs") to finance the construction of the new 1,140 bed Plymouth County Correctional Facility. The Commonwealth, acting through the Executive Office of Public Safety and the Department of Correction, entered into a Memorandum of Agreement ("MOA") with Plymouth County, under which the Commonwealth is obligated to pay for the availability of 380 beds of the facility, regardless of whether 380 state prisoners are housed therein. The amounts payable by the Commonwealth under the MOA will at least equal the debt service on the Plymouth COPs, but are subject to appropriation of said amounts by the Legislature to the Executive Office of Public Safety. The obligation of the Commonwealth under the MOA does not constitute a general obligation or a pledge of the credit of the Commonwealth.

City of Chelsea Commonwealth Lease Revenue Bonds. On November 10, 1993, the City of Chelsea, Massachusetts, acting through the Industrial Development Financing Authority of the City of Chelsea (the "City"), issued $95,750,000 aggregate principal amount of City of Chelsea, Commonwealth of Massachusetts Lease Revenue Bonds (Massachusetts Information Technology Center Project - 1993 Issue) (the "Chelsea Bonds"). The proceeds of the Chelsea Bonds were loaned to the Massachusetts Industrial Finance Agency ("MIFA") and applied to the cost of the acquisition, construction and equipping of a 419,000 gross square foot office building to be known as the Massachusetts Information Technology Center, which will be used as a tax processing facility of the Department of Revenue ("DOR") of the Commonwealth and a data processing information system center for DOR and certain other departments and agencies of the Commonwealth. The Chelsea Bonds bear interest at a variable rate and MIFA has entered into an interest rate swap agreement with respect to the full amount of the Chelsea Bonds pursuant to which MIFA will receive variable rate payments equal to the interest due on the Chelsea Bonds and be obligated to make fixed rate payments in exchange therefor. Simultaneously with the issuance of the Chelsea Bonds,

the Commonwealth entered into a 30-year lease with MIFA which provides for the payment of debt service on the Chelsea Bonds and other expenses and costs associated with the Project. The obligations of the Commonwealth do not constitute a general obligation or a pledge of the full faith and credit of the Commonwealth and are subject to annual appropriation by the Legislature. The Chelsea Bonds are limited obligations of the City and do not constitute a debt or pledge of the faith and credit of the City.

OTHER COMMONWEALTH LIABILITIES

Retirement Systems and Pension Benefits

Commonwealth Responsibility for Pension Costs. 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 (members of the teachers retirement system, except for teachers in the Boston public schools who are members of the State-Boston retirement system but whose pensions are also the responsibility of the Commonwealth). Employees of certain independent authorities and agencies, such as the MWRA, and of counties, cities and towns (other than teachers) are covered by 104 separate retirement systems. However, the Commonwealth assumed responsibility, beginning in fiscal 1982, for payment of cost-of-living adjustments for the 104 local retirement systems, in accordance with the provisions of Proposition 2 1/2. The members of these state and local retirement systems do not participate in the federal Social Security System.

Pension Reserves and Employee Contributions. The state employees' and teachers' retirement systems are partially funded by employee contributions of regular compensation -- 5% for those hired before January 1, 1975, 7% for those hired from January 1, 1975 through December 31, 1983 and 8% for those hired on or after January 1, 1984, plus an additional 2% of compensation above $30,000 per year for those hired on or after January 1, 1979.

The systems were originally established as "pay-as-you-go" systems, meaning that amounts were appropriated each year to pay current benefits, and no provision was made to fund currently the future liabilities already incurred. In fiscal 1978 the Commonwealth began to address the unfunded liabilities of the two state systems by making appropriations to pension reserves. Prior to the establishment of the pension funding program described below, the Commonwealth appropriated approximately $680 million to the pension reserves during the mid-1980's, in addition to the pay-as-you-go pension costs during those years. As of December 31, 1993 the state's pension reserves, now administered by the Pension Reserves Investment Management Board, had grown to approximately $4.124 billion. Under current law the pension reserves receive monies from excess earnings (i.e., earnings above the level credited to member accounts) in the retirement systems, withdrawal penalties on members leaving government employment with less than ten years of service and any amounts from the funding schedule described below in excess of pension payments.

Pension Funding Plan. Comprehensive pension funding legislation approved in January 1988 requires the Commonwealth to fund future pension liabilities currently and to amortize the Commonwealth's accumulated unfunded liabilities over 40 years. The legislation requires the Secretary for Administration and Finance to prepare a funding schedule which will provide for the normal cost of Commonwealth benefits (normal cost being that portion of the actuarial present value of pension benefits which is allocated to a valuation year by an actuarial cost method) and to amortize over 40 years, beginning July 1, 1988, the unfunded actuarial liability of the Commonwealth for its pension obligations. The schedule must include the Commonwealth's liability for future payments of cost of living adjustments to local systems. The funding schedule is to be updated every three years on the basis of new actuarial valuation reports prepared under the direction of the Secretary for Administration and Finance. The Secretary is also required to conduct experience investigations every six years.

Funding schedules are required to be filed with the Legislature triennially on March 1 and are subject to legislative disapproval. The current funding schedule, which has been approved by the Legislature, was filed on October 26, 1994. (A different schedule, which was disapproved, had been originally filed on February 28, 1994.) If a schedule is not approved by the Legislature, payments are to be made in accordance with the most recent approved schedule; such payments must, however, at least equal the prior year's payments. The Commonwealth is contractually obligated to the members of the affected retirement systems to make appropriations in accordance

with the funding schedule.

The funding schedule must provide for annual payments in each of the ten years ending fiscal 1998 which are at least equal to the total estimated pay-as-you-go pension costs in each such year. The schedule must not provide for any reductions in the pension reserves (as of January 1, 1988 plus growth at the actuarially assumed investment rate) in the first ten years of the schedule. The amortization component in the funding schedule is to grow from year to year by no more than 7.5%. (The current schedule uses a 2.5% annual increase in the amortization component.)

Current Funding Schedule and Actuarial Valuations. The funding schedule currently in effect requires total payments by the Commonwealth over 35 years as shown in the following table.

Funding Schedule for Unfunded Pension Obligations
(in thousands)

Fiscal Year	Payments	Fiscal Year	Payments
1995	$ 889,985	2012	$2,215,826
1996	927,508	2013	2,300,966
1997	965,903	2014	2,389,980
1998	1,004,764	2015	2,483,069
1999	1,043,109	2016	2,580,443
2000	1,091,988	2017	2,682,327
2001	1,142,918	2018	2,788,953
2002	1,196,000	2019	2,900,572
2003	1,251,339	2020	3,017,445
2004	1,309,046	2021	3,139,850
2005	1,369,238	2022	3,268,079
2006	1,432,039	2023	3,402,440
2007	1,519,931	2024	3,543,261
2008	1,588,348	2025	3,690,887
2009	1,634,696	2026	3,845,681
2010	2,056,423	2027	4,008,029
2011	2,134,372	2028	4,178,338
		2029	2,379,789

SOURCE: Division of Public Employee Retirement Administration.

The current funding schedule is based on actuarial valuations of the state employees' and teachers' retirement systems and the State-Boston retirement system as of January 1, 1993 and on a review of selected local systems for purposes of determining cost of living allowance costs. The unfunded actuarial accrued liability, as of January 1, 1993, relative to the two state systems, to Boston teachers and to cost-of-living allowances for local systems is reported in the schedule to be approximately $7.445 billion, $372.6 million and $1.833 billion, respectively, for a total unfunded actuarial liability of $9.651 billion. Such valuations are based on actuarial assumptions described in the current schedule, including future investment earnings at the rate of 8% per year, annual salary increases at the rate of 6% and annual cost-of-living increases for pensioners at the rate of 3%. "Actuarial accrued liability," as used above, is the estimated present value of all benefits to be paid to existing pensioners and current employees less the present value of the future normal costs associated with such employees. The "unfunded" liability is the amount by which the actuarial accrued liability exceeded accumulated assets set aside therefor and represents the present value of the amount that would have to be contributed in the future in addition to normal costs in order for the liability to be fully funded.

As stated above, annual payments under the funding schedule through fiscal 1998 must be at least equal to the total estimated pay-as-you-go benefit cost in such year. As a result of this requirement, the funding requirements for fiscal 1995, 1996, 1997 and 1998 are estimated to be increased to approximately $959.9 million, $1.007 billion, $1.061 billion and $1.128 billion, respectively.

Long Term Rental Leases

In addition to Commonwealth owned buildings and facilities, the Commonwealth leases additional space from private parties. In fiscal 1993, rental expenditures under these operating leases totalled approximately $86.9 million. Minimum future rental expenditure commitments of the Commonwealth under operating leases in effect at June 30, 1993 are set forth below. These amounts represent expenditure commitments of both budgeted and non-budgeted funds.

Rental Expenditure Commitments
June 30, 1993(1)
(in thousands)

Fiscal Year	Rental Expenditure Commitments
1994	$79,078
1995	60,259
1996	42,271
1997	8,844
1998	4,109
1999 and thereafter	9,520
	$204,081

SOURCE: Office of the Comptroller.

(1) The most recently available information. Fiscal 1994 information will be available upon publication of the Commonwealth's fiscal 1994 audited financial statements.

Long Term Capital Leases

In certain circumstances, the Commonwealth has acquired certain types of capital assets under long term lease/purchase agreements. Typically, these lease/purchase agreements relate to computer and telecommunications equipment, and to motor vehicles.

Long term total principal and interest obligations at June 30, 1993 related to lease/purchase agreements and tax-exempt Certificates of Participation (COPs) are as follows:

Lease/Purchase and COP Obligations
June 30, 1993(1)
(in thousands)

Fiscal Year	Lease/Purchase	COPs	Total
1994	$23,831	$2,671	$26,502
1995	15,208	2,668	17,876
1996	8,393	2,670	11,063
1997	3,648	2,671	6,319
1998	2,769	2,668	5,437
1999 and thereafter	8,498	5,344	13,842
	$62,347(2)	$18,692(2)	$81,039

SOURCE: Office of the Comptroller.

(1) The most recently available information. Fiscal 1994 information will be available upon publication of the Commonwealth's fiscal 1994 audited financial statements.

(2) As of June 30, 1993, the principal amounts of these obligations were $50,685,000 and $14,653,000 for lease/purchase and COPs, respectively.

Water Pollution Abatement Trust

The Massachusetts Water Pollution Abatement Trust (the "Trust") was created in 1989 as a public instrumentality of the Commonwealth to implement the Commonwealth's state revolving fund program under Title VI of the federal Clean Water Act. The Trust is authorized to apply for and accept federal grants and associated Commonwealth matching grants to capitalize the revolving fund and to issue debt obligations to fund loans to local governmental units to finance eligible water pollution abatement projects. To date, the Trust has received approximately $375 million in federal grants and approximately $75 million in Commonwealth matching grants to capitalize the fund. The Trust has also received additional Commonwealth grants of approximately $21 million to capitalize a separate revolving fund program for projects which are not eligible under the Clean Water Act. The Trust's enabling legislation authorizes the State Treasurer to issue up to $122.3 million of Commonwealth general obligation bonds to fund Commonwealth grants to the Trust to capitalize the revolving fund and to finance other costs of the revolving fund program.

Capitalization grants received by the Trust and held in the revolving fund may be applied by the Trust to fund reserves to secure debt obligations issued by the Trust to make loans to local governmental units to finance eligible projects or to directly fund such loans. Obligations issued by the Trust are not a debt of the Commonwealth or any political subdivision thereof but are payable solely from revenues of the Trust including loan repayments payable by loan recipients, investment income from reserves and other moneys of the Trust and, for certain loans, contract assistance payments from the Commonwealth as described below. As of November 16, 1994, the Trust had approximately $392.8 million of bonds outstanding for such purposes. At such date, approximately $130.3 million of direct loans from the Trust to local governmental units were also outstanding, of which approximately $11.6 million were temporary interim loans which are expected to be refinanced from the proceeds of bonds to be issued by the Trust during fiscal year 1995 and approximately $81.7 million were direct loans to the City of New Bedford which are expected to be refinanced from the proceeds of bonds to be issued during fiscal year 1996.

Under the enabling legislation creating the Trust, each loan made by the Trust is required to provide for debt service subsidies or other financial assistance sufficient to result in the loan being the financial equivalent of a grant to the borrower of between 25% and 90% of the eligible cost of the financed project. Financial assistance sufficient to result in a 25% grant equivalency (or approximately 50% in the case of eligible direct loans) is provided either through the application of investment earnings on Trust reserves or through a fixed below-market interest rate on the loan. To date, financial assistance in excess of 25% (or 50% in the case of direct loans) has been provided through the application of contract assistance payments from the Commonwealth. The Trust's enabling legislation directs the State Treasurer to enter into contract assistance agreements with the Trust for such purpose providing for annual contract assistance payments to the Trust of up to $20 million in the aggregate in each fiscal year through fiscal year 2025. The contract assistance agreements and the Trust's right to receive payments thereunder may be pledged by the Trust as security for repayment of the Trust's debt obligations.

Legislation was recently filed by the Governor to expand the scope of the Trust's loan programs. Among other things, the Governor's bill recommends a $19 million appropriation to provide additional matching funds for the Trust's revolving fund programs and authorizes the Trust to implement a water treatment facilities loan program. The Governor's bill also mandates that all new loans made by the Trust in fiscal years 1995 and 1996 shall provide for financial assistance sufficient to result in at least a 50% grant equivalency to the borrower and that interest payable after July 1, 1994 on loans made by the Trust prior to that date shall be forgiven so that such loans shall thereafter be equivalent to at least a 50% grant. All financial assistance in excess of 25% would continue to be funded from contract assistance payments from the Commonwealth. However, the amount of contract assistance required to fund the new requirements mandated by the bill would not be limited by the $20 million annual limit currently included in the Trust's enabling act. Based on the Trust's current expectations of loan demand through fiscal year 1996, annual contract assistance payments may increase to $30 million to $40 million under the proposed legislation.

School Building Assistance

The school building assistance program was established in 1948 to promote the planning and construction of school buildings and the establishment of consolidated and regional schools in the Commonwealth. Under this program, cities, towns, regional school districts and the three counties that maintain agricultural schools can obtain reimbursements from the Commonwealth for a portion of the construction costs (including any interest expense from indebtedness incurred) of approved school projects. With the exception of grants to assist cities, towns and regional school districts in the elimination of racial imbalance, the reimbursement percentage varies by municipality and may range from 50% to 90% of total construction costs. School projects for the purpose of eliminating racial imbalance are eligible for 90% reimbursement. Grants are usually payable over a period of up to 20 years to defray a portion of the debt service on city, town, district or county bonds issued to pay construction costs. Payment is made to cities, towns, regional school districts and counties from amounts annually appropriated for the school building assistance program. The following table shows the amount of the Commonwealth's obligation to pay such grants as of June 30, 1994.

School Building Assistance Obligations
(in thousands)

Fiscal Year	Budgeted School Building Assistance Obligations	Fiscal Year	Budgeted School Building Assistance Obligations
1995	$167,586	2005	106,903
1996	159,107	2006	101,954
1997	152,959	2007	98,231
1998	139,629	2008	93,219
1999	131,304	2009	86,860
2000	127,763	2010	79,545
2001	123,923	2011	65,212
2002	120,238	2012	42,272
2003	117,724	2013	29,777
2004	112,104	2014	14,399
		Total	$2,070,709

SOURCE: Department of Education, School Facilities Service Bureau.

Unemployment Compensation Trust Fund

The assets and liabilities of the Commonwealth Unemployment Compensation Trust Fund are not assets and liabilities of the Commonwealth. See "Exhibit A - Economic Information" under the heading "Employment--Unemployment".

LITIGATION

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

Commonwealth 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. In June, 1993, in an action challenging the Commonwealth's funding of public primary and secondary education systems on both federal and state constitutional grounds *Webby v. Dukakis* (Supreme Judicial Court for Suffolk County No. 78-179) (now known as *McDuffy v. Robertson*, Supreme Judicial Court for Suffolk County No. 90-128), the Supreme Judicial Court ruled that the Massachusetts Constitution imposes an enforceable duty on the Commonwealth to provide adequate public education for all children in the Commonwealth and that the Commonwealth is not currently fulfilling this constitutional duty. However, the court also ruled that no present statutory enactment is to be declared unconstitutional. The court further ruled that the Legislature and Governor are to determine the necessary response to satisfy the Commonwealth's constitutional duty, although a single justice of the court may retain jurisdiction to determine whether, within a reasonable time, appropriate legislative action has been taken. It cannot now be determined what action, if any, the plaintiffs in *McDuffy* may take in response to this decision or whether the court will order any further relief.

Massachusetts Hospital Association v. Rate Setting Commission (Suffolk Superior Court No. 89-3215) challenges an element of the Medicaid rate setting methodology for hospitals. On October 12, 1993, the case was settled with the hospital association and most acute hospitals, thereby reducing the Commonwealth's potential liability in the pending case or in related rate appeals to approximately $10 million.

In *Massachusetts Hospital Association et al. v. Department of Public Welfare et al.* (Suffolk Superior Court No. 90-7116B), the Massachusetts Hospital Association and a group of chronic care hospitals seek an injunction to compel the Department of Public Welfare to pay for Medicaid patients at chronic care hospitals at rates which were set by the Rate Setting Commission but disapproved by the Department of Public Welfare under its statutory authority to veto rates. The defendants were granted summary judgment on all claims, except the hospitals' claim that they paid a 2% increase in fiscal 1991 Medicaid rates over fiscal 1990 rates for inflation in wages and labor costs. The plaintiffs' appeal is awaiting argument in the Appeals Court.

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

In *Massachusetts Hospital Association et al. v. Department of Public Welfare et al.* (Suffolk Superior Court No. 92-4656C) the hospital association and certain chronic care hospitals challenged the adequacy of rates for fiscal year 1992 on the theory that the Rate Setting Commission made inadequate provision for labor cost inflation. The Superior Court denied the plaintiffs' motion for a preliminary injunction and the parties have commenced discovery.

In *Hodge et al. v. Gallant* (Suffolk Superior Court No. 93-0290G), plaintiffs allege that the Department of Public Welfare has unlawfully denied personal care attendant services to certain disabled Medicaid recipients. The Superior Court denied plaintiffs' motions for a preliminary injunction and class certification. If plaintiffs were to prevail on their claims and the Commonwealth were required to provide all of the services sought by plaintiffs to all similarly situated persons, a substantial increase in the annual cost to the Commonwealth of these services might eventually be required. The Department of Public Welfare currently estimates this increase to be as much

as $200 million per year.

Environmental Matters. The Commonwealth is engaged in various lawsuits involving environmental and related laws, including an action brought on behalf of the U.S. Environmental Protection Agency alleging violations of the Clean Water Act and seeking to enforce the clean-up of Boston Harbor. *United States v. Metropolitan District Commission* (U.S. District Court C.A. No. 85-0489-MA). See also *Conservation Law Foundation v. Metropolitan District Commission* (U.S. District Court C.A. No. 83-1614-MA). The Massachusetts Water Resources Authority (the "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. The MWRA currently is in material compliance with the Court's scheduling orders, although the MWRA expects to miss deadlines for (a) completion of the outfall and the inter-island tunnels and (b) commencement of operation of new primary batteries A and B. The Court has recognized some of the problems encountered by the MWRA due to the recent severe winter of 1993-1994 and the inherent uncertainties faced by the MWRA in completing a construction project of this magnitude. It has requested the MWRA to continue to report on developments on these matters. The MWRA currently has projected that the total cost of construction of the wastewater facilities required under the Court's order is approximately $3.5 billion in current dollars, with approximately $1.78 billion to be spent on or after January 1, 1994. Under the Clean Water Act, the Commonwealth may be liable for any costs of complying with any judgment in these or any other Clean Water Act cases to the extent the MWRA or a municipality is prevented by state law from raising revenues necessary to comply with such a judgment.

Taxes and Other Revenues. In *American Trucking Assns. et al. v. Nessen et al.* (Suffolk Superior Court No. 91-7048) plaintiffs challenge two fees imposed on trucks, arguing that they violate the Commerce Clause of the Constitution of the United States. In May, 1993, the Supreme Judicial Court struck down, on Commerce Clause grounds, several fees imposed on interstate motor carriers operating in the Commonwealth. The court remanded the case to the Superior Court to determine the appropriate remedy. The Superior Court has approved the parties' agreement establishing a refund mechanism. The Commonwealth's total liability equals approximately $30 million, with $20 million to be paid in fiscal 1995 (which amount has been appropriated) and the remaining $10 million in fiscal 1996, assuming the appropriation of necessary funds.

Massachusetts Wholesalers of Malt Beverages v. Commonwealth (Suffolk Superior Court No. 90-1523) is a suit brought by associations of bottlers challenging the 1990 amendments to the bottle bill which escheat abandoned deposits to the Commonwealth. Plaintiffs claim a taking; the Commonwealth claims legitimate regulation of abandoned amounts. The case involves about $22 million annually, from January, 1990 (i.e., approximately $80-90 million total) plus certain amounts in deposit transaction funds and claimed interest. In March of 1993, the Supreme Judicial Court upheld the amendments except for the initial funding requirement, which the Court held severable. The Superior Court recently ruled that the Commonwealth is liable for certain amounts (plus interest) as a result of the Supreme Judicial Court's decision. The actual amount will be determined in further proceedings.

In *National Association of Government Employees v. Commonwealth*, Suffolk Superior 93-5509-E, the Superior Court declared that a line item in the Commonwealth's general appropriations act for fiscal 1994 that increased the state employees' percentage share of their group health insurance premiums from 10% to 15% violated the terms of several collective bargaining agreements, and hence was invalid under the contracts clause of the United States Constitution as regards employees covered by the agreements. The Commonwealth appealed the Superior Court's decision and the Supreme Judicial Court has granted direct appellate review. The Court has tentatively scheduled the appeal for oral argument at its November, 1994 sitting. Several other unions have filed a companion suit asserting that the premium increase similarly violated other collective bargaining agreements. *Alliance, AFSCME/SEIU, AFL-CIO, et al. v. Commonwealth, et al.*, Suffolk Superior 94-3438-E. This latter suit is in its initial stages. If the Superior Court decision in favor of the state employees is upheld, the Commonwealth's aggregate liability is estimated to be approximately $32 million.

In addition, there are several tax cases pending which could result in significant refunds if taxpayers prevail. It is the policy of the Attorney General and the Commissioner of Revenue to defend such actions vigorously on behalf of the Commonwealth, and the descriptions that follow are not intended to imply that the Commissioner has conceded any liability whatsoever. In *BayBank, et al. v. Commissioner of Revenue*, the banks challenge the inclusion of income from tax exempt obligations in the measure of the bank excise tax. The Appellate

Tax Board issued findings of fact and a report in favor of the Commissioner of Revenue on September 30, 1993. The case is pending in the Supreme Judicial Court. Taking into account all banks and all years at issue (1974 through 1986), there are 142 appeals consolidated in this case. The amount at issue is estimated to be approximately $1.2 billion, which amount includes interest of approximately $900 million and amounts involved in other related applications for abatement pending with the Commissioner of Revenue or with the Appellate Tax Board. The Supreme Judicial Court is expected to hear the appeal in March, 1995. S.J.C. Docket No. 6518. Approximately $150 million in taxes and interest in the aggregate are at issue in seven other cases pending before the Appellate Tax Board or on appeal to the Appeals Court or the Supreme Judicial Court.

On June 23, 1993 the Commonwealth filed an appeal with the Appeals Court from a decision of the Appellate Tax Board which held in favor of a commercial bank on the calculation of amounts owed for bank excise taxes under statutes in effect in 1983 and 1984 when such bank converted from chartered mutual savings bank status to that of a bank corporation of stockholder form. The bank filed an application for direct appellate review by the Supreme Judicial Court which was granted. On October 5, 1994, the Supreme Judicial Court affirmed the decision of the Appellate Tax Board. The expected liability is approximately $8 million, including similarly situated banks. *South Boston Savings Bank v. Commissioner of Revenue* (S.J.C. No. 6365).

Other Fiscal Matters. In *County of Barnstable et al. v. Commonwealth* (Suffolk Superior Court No.90-7439B) twelve Massachusetts counties seek reimbursement from the Commonwealth for the costs of courthouse maintenance on the theory that the state is required to pay them the amount of money necessary to maintain their courthouses at the "constitutional minimum" for the adequate provision of justice. The Supreme Judicial Court denied a request for an injunction to pay the sums sought and has referred the matter to the Superior Court for fact finding. The parties have completed a stipulation of facts with respect to two counties for an agreed upon test year, and the Superior Court has made findings and rulings regarding the ability of those two counties to provide courthouse facilities and services within their available sources of funds in that year. The Superior Court has now developed a record regarding expenditures for each facility in those two counties, and re-transfer to the Supreme Judicial Court may occur shortly. That Court indicated in its 1991 decision that it will identify the facilities and services necessary to meet the constitutional minimum.

In *Hayward v. National Information Systems, Inc.* (Norfolk Superior Court No. 92-2361), a lottery player seeks recovery of a $9 million jackpot allegedly wrongfully denied him by the State Lottery Commission. The player seeks to have that amount trebled under the Commonwealth's Consumer Protection Act. The Superior Court has denied the Commonwealth's motion for summary judgment. A trial date of December 12 has been set.

Liability Investigative Fund Effort, Inc. et al. v. Commonwealth of Massachusetts et al., No. 89-949 (Hampden Superior) and *Slocum v. Medical Malpractice Joint Underwriting Association of Massachusetts, et al.*, No. 89-2101 (Hampden Superior) are two actions (one a purported class action) brought by plaintiff physicians against the Commonwealth, the Commissioner of Insurance and the Medical Malpractice Joint Underwriting Association ("JUA") seeking declarations that the deficit recoupment statute, St. 1975, 362, §6, and the deferred premium liability statute, St. 1986, c. 351, §38, are unconstitutional to the extent they authorize collection of "retroactive premiums" by the JUA. The plaintiffs are seeking restitution of those amounts, allegedly totalling approximately $200 million for the class. It appears that the claim for restitution runs only against the JUA, which collected the premiums, but the complaints are not clear on this point. In 1991, the Supreme Judicial Court reversed the Superior Court's dismissal of the complaints. In 1992, the Superior Court denied plaintiffs' motion for class certification, and in 1993, the Superior Court granted summary judgment and entered judgment for the defendants. The plaintiffs appealed and on December 15, 1993, the Supreme Judicial Court allowed their application for direct appellate review. On July 21, 1994, the Supreme Judicial Court affirmed the grants of summary judgment to the defendants. On October 16, 1994, plaintiffs filed a petition for writ of certiorari in the United States Supreme Court.

MISCELLANEOUS

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

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.

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

CONTINUING DISCLOSURE

The 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.

The Commonwealth prepares its Comprehensive Annual Financial Report ("CAFR") with respect to each fiscal year ending June 30, which become available in January of the following fiscal year. Copies of the CAFR 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, The Commonwealth of Massachusetts, One Ashburton Place, Room 909, Boston, Massachusetts 02108.

AVAILABILITY OF OTHER FINANCIAL INFORMATION

Questions regarding this Information Statement or requests for additional information concerning the Commonwealth should be directed to Kenneth Olshansky, Deputy Treasurer, Office of the Treasurer and Receiver-General, One Ashburton Place, 12th Floor, Boston, Massachusetts 02108, telephone (617) 367-3900, or Lowell Richards, Director of Debt Finance, Executive Office for Administration and Finance, State House, Room 373, Boston, Massachusetts 02133, telephone (617) 727-2040. Questions regarding legal matters relating to this Information Statement should be directed to Walter J. St. Onge, III, Esq., Palmer & Dodge, One Beacon Street, Boston, Massachusetts 02108, telephone (617) 573-0100.

THE COMMONWEALTH OF MASSACHUSETTS

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

By /s/ Alan R. Morse, Jr.
Alan R. Morse, Jr.
Undersecretary for Administration and Finance

November 16, 1994

ECONOMIC INFORMATION

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

All information is presented on a calendar-year basis unless otherwise indicated. Sources of information are indicated in the text or immediately following the charts and tables. Although the Commonwealth considers the sources to be reliable, the Commonwealth has made no independent verification of the information presented herein and does not warrant its accuracy.

OVERVIEW

Population Characteristics. Massachusetts experienced modest population increases between 1980 and 1990 and perhaps a very small decline thereafter. The 1990 United States census count for Massachusetts is 6,016,425 or 4.9 percent more than the 5,737,093 counted in 1980. Bureau of the Census estimates for 1993 show the Massachusetts population to be 6,012,268. In contrast, the total United States population increased by approximately 9.8 percent between 1980 and 1990, and an estimated 3.6 percent from 1990 to 1993. According to the 1990 United States census, the City of Boston experienced a small population increase of 2.0 percent from 562,994 in 1980 to 574,283 in 1990. The Boston-Washington corridor, which includes the states of Massachusetts, Maryland, Delaware, Rhode Island, Connecticut, New York, New Jersey, Pennsylvania, and Virginia was home to sixty million people in 1992, nearly one quarter of the entire United States population of 255 million.

Personal Income, Consumer Prices, and Poverty. Per capita personal income levels in Massachusetts have been consistently higher than those in the United States since 1970. While the growth in per capita income has slowed and real income levels have even declined in Massachusetts since 1988 (even as real income levels in the United States continued to grow), real income levels in Massachusetts in 1993 remained well above the national average: $24,475 compared to $20,781. The growth in levels of average annual pay in Massachusetts has been striking over the last ten years: since 1984, when levels of pay in Massachusetts were roughly equal to those in the United States, Massachusetts levels of pay have grown at a rate two to three percentage points faster than the rate of growth of average levels of pay in the United States. As a result, preliminary data for 1992 show that the average level of pay in Massachusetts was $30,229 while that in the United States was $29,362. Some of the differences between Massachusetts and the United States can be explained by the comparatively high cost of living in Massachusetts. Since 1970, the Consumer Price Index (CPI-U) for the Boston Metropolitan area has been higher than that in the United States in every year except 1982. The most recent data for July, 1994 show that the CPI-U for Boston was 3.7 percent higher than for the United States. In addition to high income levels, Massachusetts has maintained a poverty rate well below the national average. In 1992, 10 percent of the Massachusetts population was below the poverty line, while 14.5 percent of the population of the United States fell below the poverty line.

Employment. Total employment levels in Massachusetts, which had declined between 1989 and 1992, grew at a rate of 1.7 percent between 1992 and 1993. The only employment sector which did not grow in

1993 was the manufacturing sector, which has experienced declining employment levels since 1985. The sector employing the greatest number of people in Massachusetts continues to be the services sector, which contributed approximately 33.5 percent of total, seasonally adjusted non-agricultural employment in 1993. The unemployment rate in Massachusetts, which was below that of the United States between 1979 and 1989, has been higher than the national average since 1990. In 1993, however, the rate of unemployment in Massachusetts was not considerably higher than that of the United States: 6.9 percent compared to 6.8 percent.

Economic Base and Performance. Massachusetts has a diversified economic base which includes traditional manufacturing, high technology, and service industries. A substantial portion of products produced by these and other sectors is exported. Like most other industrial states, Massachusetts has seen a shift in employment from labor-intensive manufacturing industries (e.g., textiles, apparel, shoes, paper products) to technology and service-based industries like computers, biomedical technology, consulting, health care and business services.

Today, Massachusetts is a leader in research and development of biotechnology, biomedical technology, software, robotics, and other high technology products. A large proportion of the Massachusetts total work force is employed in high technology-related jobs. Nine of the fourteen Massachusetts companies listed in the 1994 Fortune 500 are engaged in the production of computer equipment, electronic components, or scientific/photographic instruments. Non-manufacturing high technology jobs have continued to increase their share of total employment in the state. The concentration of world-renowned research institutions, as well a large number of smaller firms, has helped make Massachusetts a national center for high technology industries.

Human Resources and Infrastructure. Skilled human capital is the foundation of Massachusetts' economic strength. It provides the basis for a technologically dynamic and industrially diverse regional economy. The concentration of technical, engineering, managerial, scientific, and other professional skills within the Massachusetts work force is, in part, due to the 120 private and public colleges and universities located throughout the state. The largest and best known of these institutions include Amherst College, Boston College, Boston University, Clark University, Harvard University, Holy Cross College, Massachusetts Institute of Technology, Mount Holyoke College, Northeastern University, Smith College, Tufts University, the University of Massachusetts, Wellesley College, and Williams College.

Massachusetts is also home to many of the nation's most well-known hospitals and medical institutions, including Massachusetts General, Children's, Beth Israel, and Brigham and Women's Hospitals and the Lahey Clinic. The Massachusetts medical establishment is recognized internationally as a center for health services, medical teaching and research, attracting patients and health professionals from all over the world. The hospitals and other health care institutions provide a valuable link to the biomedical and biotechnical research and development activities conducted by approximately 178 biotechnology companies located in Massachusetts. Non-hospital employment in medically related research and development continues to accelerate.

Massachusetts possesses an extensive transportation system and related facilities. The City of Boston is the transportation and commercial center for New England and is the site of both a full-facility seaport and a major international airport. Boston's Logan International Airport is a major contributor to the economy of the greater Boston area, Massachusetts, and the New England region. Based upon the volume of air passengers served, in 1993 Logan Airport ranked first in New England, tenth in the United States, and sixteenth in the world according to the Massachusetts Port Authority ("Massport"). In 1993, Logan Airport served slightly more than 24 million arriving and departing passengers, more than double the number served in 1975. For the same period, Logan Airport ranked thirteenth nationally and twenty fourth in the world in total air cargo volume, handling nearly 700 million pounds of total cargo. Massachusetts also has several deep-water seaports. The Port of Boston handled more than 16 million tons of cargo in 1992 valued at more than $7.3 billion. The state is also well served by the federal interstate highway system, including interstate routes 84, 90, 91, 93, 95,

295 and 495. Data shows that the condition of the interstate highway system in Massachusetts is comparable to that of the rest of the United States, with the majority of the roadways in "good" or "very good" condition. Rail and trucking systems provide direct overland shipping throughout the United States and Canada.

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

POPULATION CHARACTERISTICS

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

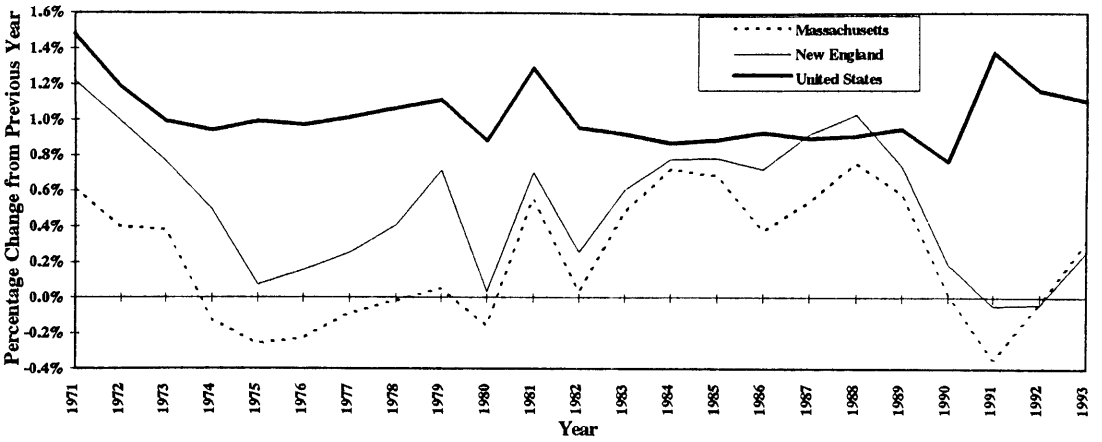
The City of Boston, the largest city in New England, has a population of 574,283, according to the 1990 United States Census. The official Metropolitan Statistical Area ("MSA") for Boston, with a 1990 population of 2,870,669, contains close to one-half of the Massachusetts population. The other Massachusetts cities with populations in excess of 100,000 include Worcester (169,759), situated approximately 40 miles west of Boston, Springfield (156,983), located in the Connecticut River Valley in western Massachusetts, and Lowell (103,439), located approximately 30 miles northwest of Boston, along the Merrimack River.

Worcester is the second largest city in New England, though its MSA, extending into Connecticut, is slightly smaller than Springfield's MSA. Its service, trade, and manufacturing industries combine for more than 70 percent of Worcester's total employment. As a major medical and educational center, the Worcester area is home to 19 patient care facilities, including the University of Massachusetts Medical School, and twelve colleges and universities.

Springfield, the third largest city in the Commonwealth, enjoys a diverse body of corporate employers, the largest of which are the Bay State Medical Center, the Massachusetts Mutual Life Insurance Company, the Milton Bradley Company, and Smith and Wesson. In addition, Springfield is home to four independent colleges.

As the following chart indicates, the percentage change in population in Massachusetts since 1971 has been both lower and more erratic than has the change in population for the United States as a whole. Over the last four years, the rate of population growth in Massachusetts has been essentially zero. While this trend is similar to that experienced by New England, it differs considerably from the steady growth rates for the United States over the same period of time.

Percentage Change in Total Population, 1971-1993



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

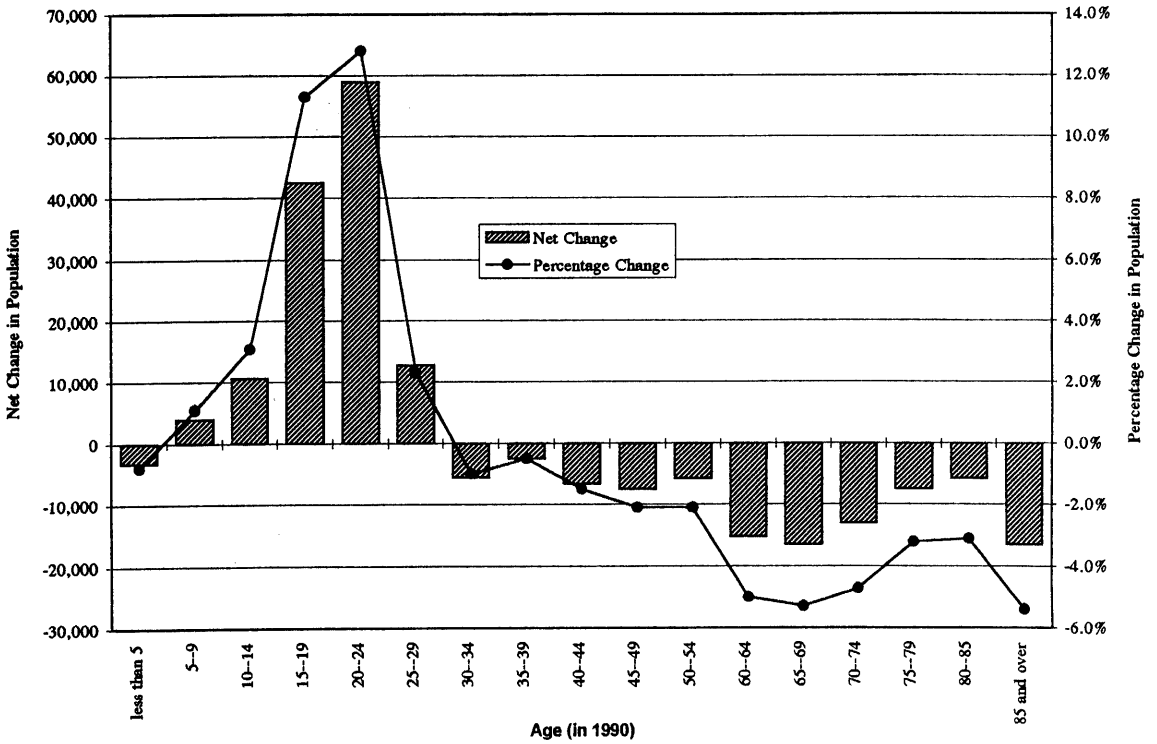
Population, 1970-1993
(in thousands)

	Massachusetts		*New England*		*United States*	
Year	*Total*	*Percentage Change*	*Total*	*Percentage Change*	*Total*	*Percentage Change*
1970	5,704		11,735		203,799	
1971	5,739	0.6%	11,878	1.2%	206,818	1.5%
1972	5,762	0.4%	11,996	1.0%	209,275	1.2%
1973	5,784	0.4%	12,088	0.8%	211,349	1.0%
1974	5,777	-0.1%	12,148	0.5%	213,334	0.9%
1975	5,762	-0.3%	12,157	0.1%	215,457	1.0%
1976	5,749	-0.2%	12,176	0.2%	217,554	1.0%
1977	5,744	-0.1%	12,207	0.3%	219,761	1.0%
1978	5,743	0.0%	12,257	0.4%	222,098	1.1%
1979	5,746	0.1%	12,345	0.7%	224,564	1.1%
1980	5,737	-0.2%	12,349	0.0%	226,542	0.9%
1981	5,769	0.6%	12,436	0.7%	229,466	1.3%
1982	5,771	0.0%	12,468	0.3%	231,664	1.0%
1983	5,799	0.5%	12,544	0.6%	233,792	0.9%
1984	5,841	0.7%	12,642	0.8%	235,825	0.9%
1985	5,881	0.7%	12,741	0.8%	237,924	0.9%
1986	5,903	0.4%	12,833	0.7%	240,133	0.9%
1987	5,935	0.5%	12,951	0.9%	242,289	0.9%
1988	5,980	0.8%	13,085	1.0%	244,499	0.9%
1989	6,015	0.6%	13,182	0.7%	246,819	0.9%
1990	6,016	0.0%	13,207	0.2%	248,710	0.8%
1991	5,995	-0.3%	13,201	0.0%	252,137	1.4%
1992	5,993	0.0%	13,196	0.0%	255,078	1.2%
1993	6,012	0.3%	13,230	0.3%	257,908	1.1%

SOURCE: United States Department of Commerce, Bureau of the Census.
1970, 1980, and 1990 estimates are as of July 1 of that year; estimates for other years are as of April 1 of that year.

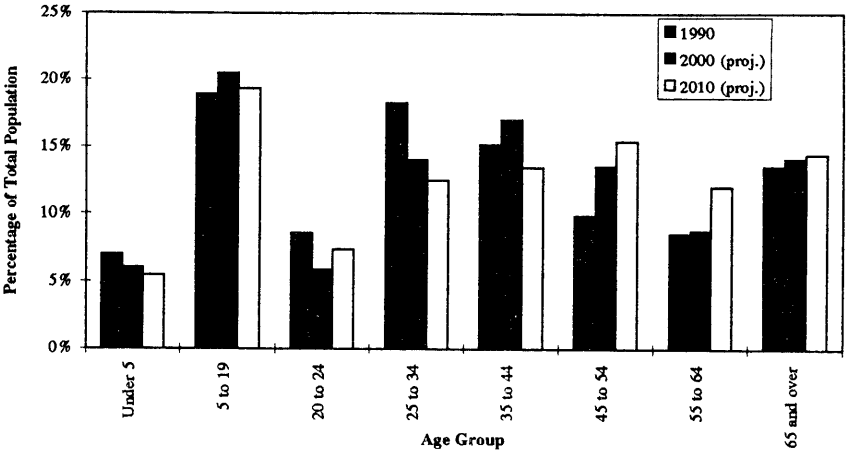
For the most part, net migration has not contributed to much change during the Commonwealth's population during the last decade, although preliminary evidence suggests that out-migration increased during the Commonwealth's recent economic downturn. However, net migration has reduced the age profile of the Massachusetts population. Between 1980 and 1990, considerable increases in the population of younger age groups (10 years to 30 years) coincided with smaller decreases in the population of all age groups representing people over thirty. The following chart shows the net change in Massachusetts population between 1980 and 1990, by five year classifications of ages.

Net Change in Massachusetts Population, by Age Group, 1980-1990



The next fifteen years are expected to bring about a considerable change in the age distribution of the Massachusetts population. As the following chart shows, the population of Massachusetts is expected to be distributed more heavily in the "45 and over" age groups in 2010 than it was in 1990. At the same time, the percentage of people between the ages of 20 and 44 is expected to decline.

Distribution of Massachusetts Population by Age, 1990-2010



The following table sets forth the distribution of population by age for Massachusetts in 1990 and the projected distribution of population by age in 2000 and 2010.

Distribution of Massachusetts Population by Age, 1990-2010
(in thousands)

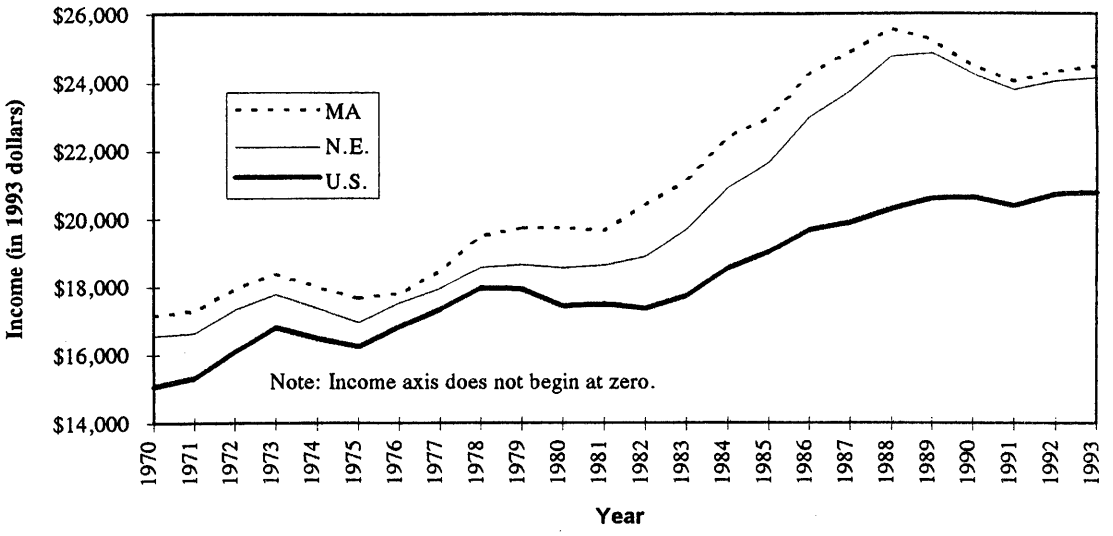
	1990 (Actual)		*2000 (Projected)*		*2010 (Projected)*	
AGE	*Number*	*Pct. of Total*	*Number*	*Pct. of Total*	*Number*	*Pct. of Total*
Under 5	421	7.0%	362	6.1%	335	5.5%
5 to 19	1140	18.9%	1218	20.5%	1177	19.3%
20 to 24	517	8.6%	351	5.9%	451	7.4%
25 to 34	1099	18.3%	834	14.0%	760	12.5%
35 to 44	914	15.2%	1015	17.1%	820	13.5%
45 to 54	596	9.9%	808	13.6%	940	15.4%
55 to 64	514	8.5%	521	8.8%	732	12.0%
65 and over	815	13.5%	842	14.1%	881	14.5%

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

PERSONAL INCOME, CONSUMER PRICES, AND POVERTY

Personal Income. Income levels are consistently higher in Massachusetts than in the United States as a whole. Since 1970, real and nominal per capita income in Massachusetts has been considerably higher in Massachusetts than in the United States. Between 1982 and 1988, and with few exceptions, real income levels in Massachusetts grew at an annual rate higher than those in the United States. But, since 1989, the growth in real income levels in Massachusetts has slowed to a rate below that for real income levels in the United States. Despite two years of positive growth, per capita real income levels in 1993 in Massachusetts were one thousand dollars below 1988 levels: $24,475 compared to $25,590. In contrast, real income levels in the United States have grown at a positive rate in nine of the ten years since 1983 and stood at a higher level in 1993 than at any time in the previous twenty-two years. Nevertheless, per capita income levels in Massachusetts remained considerably higher than those in the United States in 1993: $24,475 versus $20,781. In addition, the per capita personal income in Massachusetts was fifth highest among the fifty states in 1993. The following chart illustrates real per capita personal income in Massachusetts, New England, and the United States since 1970.

Per Capita Personal Income, 1970-1993
(in constant 1993 dollars)



The following table compares per capita personal income in Massachusetts, New England, and the United States for the period 1970-1993.

Per Capita Personal Income, 1970-1993

	Nominal Income (in current dollars)			*Real Income (in 1993 dollars)*			*Percentage Change in Real Income*		
Year	*MA*	*N.E.*	*U.S.*	*MA*	*N.E.*	*U.S.*	*MA*	*N.E.*	*U.S.*
1970	$4,515	$4,445	$4,047	$17,173	$16,554	$15,072			
1971	4,771	4,665	4,294	17,286	16,644	15,321	0.7%	0.5%	1.6%
1972	5,130	5,013	4,659	17,949	17,330	16,106	3.8%	4.1%	5.1%
1973	5,564	5,466	5,168	18,374	17,789	16,819	2.4%	2.7%	4.4%
1974	6,033	5,927	5,628	18,017	17,372	16,496	-1.9%	-2.3%	-1.9%
1975	6,445	6,314	6,045	17,660	16,959	16,236	-2.0%	-2.4%	-1.6%
1976	6,988	6,902	6,629	17,808	17,528	16,835	0.8%	3.4%	3.7%
1977	7,620	7,537	7,267	18,464	17,972	17,328	3.7%	2.5%	2.9%
1978	8,466	8,380	8,117	19,495	18,572	17,989	5.6%	3.3%	3.8%
1979	9,448	9,374	9,017	19,735	18,658	17,947	1.2%	0.5%	-0.2%
1980	10,659	10,582	9,940	19,731	18,557	17,431	0.0%	-0.5%	-2.9%
1981	11,805	11,729	11,009	19,662	18,645	17,501	-0.3%	0.5%	0.4%
1982	12,750	12,604	11,583	20,413	18,873	17,344	3.8%	1.2%	-0.9%
1983	13,776	13,558	12,223	21,106	19,670	17,733	3.4%	4.2%	2.2%
1984	15,326	15,034	13,332	22,382	20,909	18,542	6.0%	6.3%	4.6%
1985	16,423	16,113	14,155	22,953	21,639	19,009	2.6%	3.5%	2.5%
1986	17,796	17,418	14,906	24,251	22,964	19,653	5.7%	6.1%	3.4%
1987	19,066	18,670	15,638	24,895	23,748	19,892	2.7%	3.4%	1.2%
1988	20,787	20,276	16,610	25,590	24,767	20,289	2.8%	4.3%	2.0%
1989	21,688	21,325	17,690	25,256	24,851	20,615	-1.3%	0.3%	1.6%
1990	22,248	21,935	18,667	24,490	24,251	20,638	-3.0%	-2.4%	0.1%
1991	22,796	22,421	19,199	24,038	23,787	20,369	-1.8%	-1.9%	-1.3%
1992	23,625	23,364	20,131	24,309	24,063	20,734	1.1%	1.2%	1.8%
1993	24,475	24,141	20,781	24,475	24,141	20,781	0.7%	0.3%	0.2%

SOURCE: United States Department of Commerce, Bureau of Economic Analysis.
Notes: Estimated population as of April 1 of that year. Massachusetts real income is calculated using Boston CPI-U data. New England and United States real income are calculated using national CPI-U data.

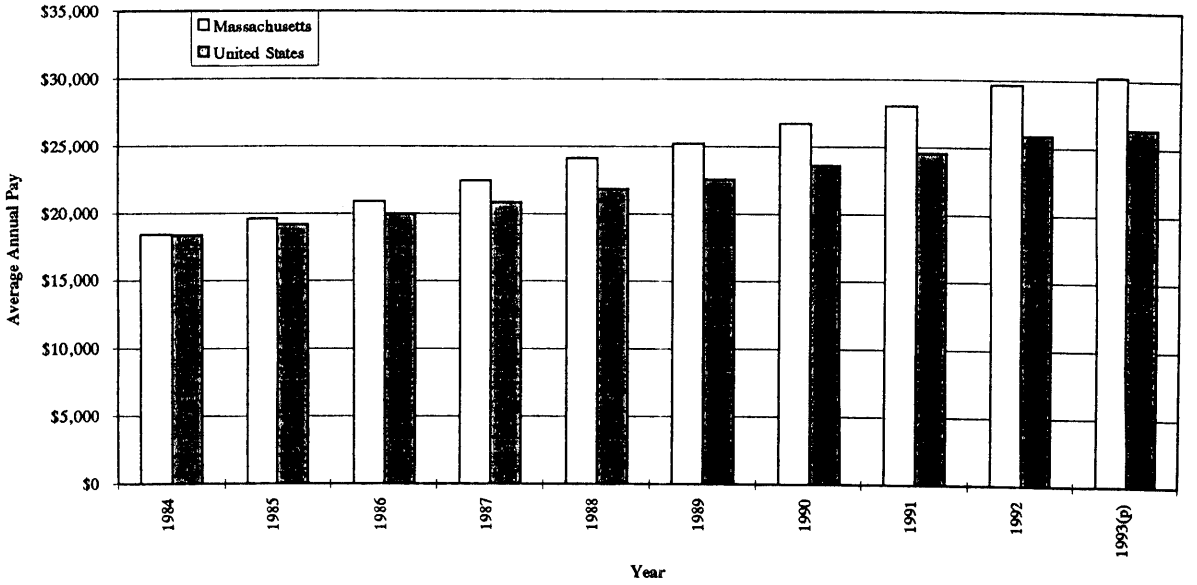
Although the growth in per capita personal income has fluctuated, annual pay has grown steadily in Massachusetts over the past eight years. Average annual pay is computed by dividing total annual payrolls of employees covered by Unemployment Insurance programs by the average monthly number of these employees. Data are reported by employers covered under the Unemployment Insurance program. While levels of annual pay were nearly equal in Massachusetts and the United States in 1984, the rate of growth in annual pay has been consistently higher in Massachusetts than in the United States in the last eight years. As a result, the level of annual pay in Massachusetts in 1993 was fifteen percent higher than in the United States as a whole: $30,229 as compared to $26,362.

Average Annual Pay, 1984-1993
(in current dollars)

	Annual Pay			*Percentage Change*	
Year	*Massachusetts*	*United States*	*Ratio (MA/U.S.)*	*Massachusetts*	*United States*
1984	$18,414	$18,353	1.00		
1985	$19,627	$19,189	1.02	6.6%	4.6%
1986	$20,925	$19,966	1.05	6.6%	4.0%
1987	$22,486	$20,857	1.08	7.5%	4.5%
1988	$24,143	$21,872	1.10	7.4%	4.9%
1989	$25,233	$22,567	1.12	4.5%	3.2%
1990	$26,699	$23,602	1.13	5.8%	4.6%
1991	$28,041	$24,578	1.14	5.0%	4.1%
1992	$29,664	$25,903	1.15	5.8%	5.4%
1993(p)	$30,229	$26,362	1.15	1.9%	1.8%

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

Average Annual Pay, 1984-1993
(in current dollars)



Consumer Prices. Higher income levels in Massachusetts relative to the rest of the United States are offset to some extent by the higher cost of living in Massachusetts. The following table presents consumer price trends for the Boston metropolitan area and the United States for the period between 1970 and July 1994. Data for each year indicate the Consumer Price Index for all urban consumers and the percentage change in the Consumer Price Index for all urban consumers from the previous year. The latest available data for July 1994 show that the Consumer Price Index of the Boston Metropolitan area grew at a rate of only 0.9 percent from July 1993; in the United States, growth for the comparable period was 2.8 percent. Despite the consistently higher overall CPI-U levels in Boston since 1970, the percentage change in the consumer price index in Boston has not shown much variation from the percentage change in CPI-U levels for the United States. As the following table shows, the rate of change in CPI-U in Boston has, with some minor variation, mirrored that for the United States as a whole.

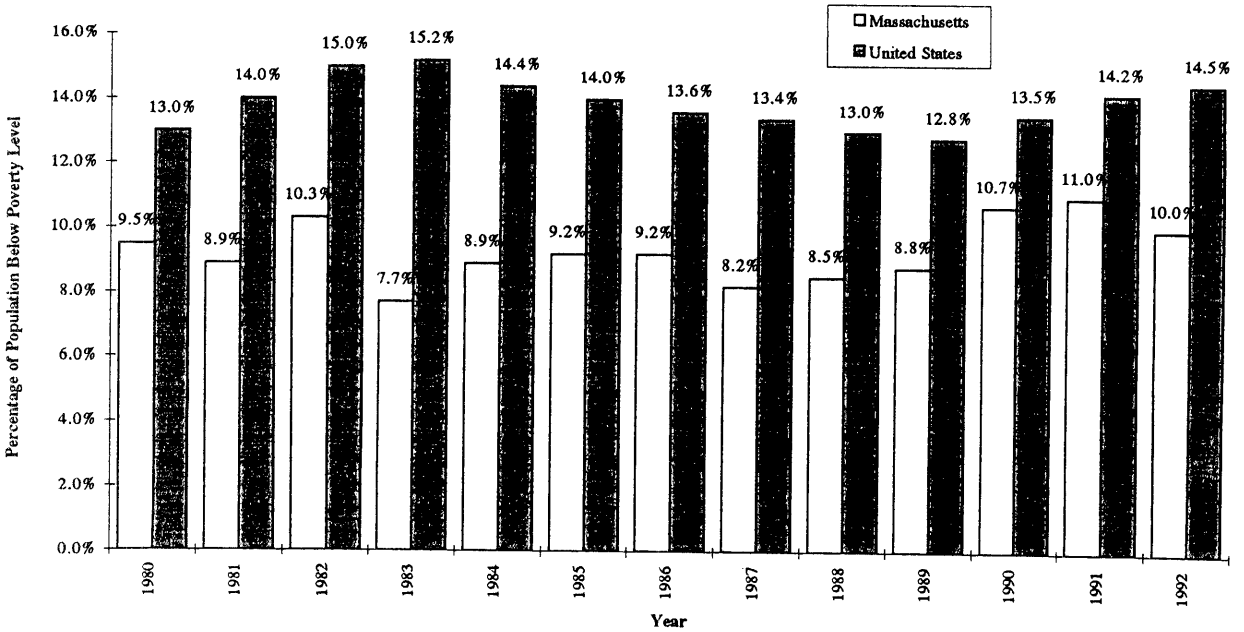
Consumer Price Index for all Urban Consumers (CPI-U), 1970-1994
(1982-1984=100)

	CPI-U		*Ratio*	*Pct. Change*	
Year	*Boston*	*U.S.*	*(Boston/U.S.)*	*Boston*	*U.S.*
1970	40.2	38.8	103.6%		
1971	42.2	40.5	104.2%	5.0%	4.4%
1972	43.7	41.8	104.5%	3.6%	3.2%
1973	46.3	44.4	104.3%	5.9%	6.2%
1974	51.2	49.3	103.9%	10.6%	11.0%
1975	55.8	53.8	103.7%	9.0%	9.1%
1976	60.0	56.9	105.4%	7.5%	5.8%
1977	63.1	60.6	104.1%	5.2%	6.5%
1978	66.4	65.2	101.8%	5.2%	7.6%
1979	73.2	72.6	100.8%	10.2%	11.3%
1980	82.6	82.4	100.2%	12.8%	13.5%
1981	91.8	90.9	101.0%	11.1%	10.3%
1982	95.5	96.5	99.0%	4.0%	6.2%
1983	99.8	99.6	100.2%	4.5%	3.2%
1984	104.7	103.9	100.8%	4.9%	4.3%
1985	109.4	107.6	101.7%	4.5%	3.6%
1986	112.2	109.6	102.4%	2.6%	1.9%
1987	117.1	113.6	103.1%	4.4%	3.6%
1988	124.2	118.3	105.0%	6.1%	4.1%
1989	131.3	124.0	105.9%	5.7%	4.8%
1990	138.9	130.7	106.3%	5.8%	5.4%
1991	145.0	136.2	106.5%	4.4%	4.2%
1992	148.6	140.3	105.9%	2.5%	3.0%
1993	152.9	144.5	105.8%	2.9%	3.0%
July, 1993	152.5	144.4	105.6%		
July, 1994	153.9	148.4	103.7%	0.9%	2.8%

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

Poverty. In addition to its relatively high income levels, Massachusetts enjoys poverty rates significantly lower than those in the United States on average. Since 1980, the percentage of the Massachusetts population below the poverty line has varied between 7.7 percent and 11.0 percent. During the same time, the poverty rate for the United States varied between 12.8 percent and 15.2 percent. In 1992, the poverty rate in Massachusetts was 10.0 percent while the poverty rate in the United States was 14.5 percent. Since 1980, the ratio of the Massachusetts rate of poverty to that of the United States has varied from a low of 0.51 in 1983 to a high of 0.79 in 1980. The following chart illustrates the lower poverty rates in Massachusetts from 1980 through 1992:

Poverty Rate, 1980-1992

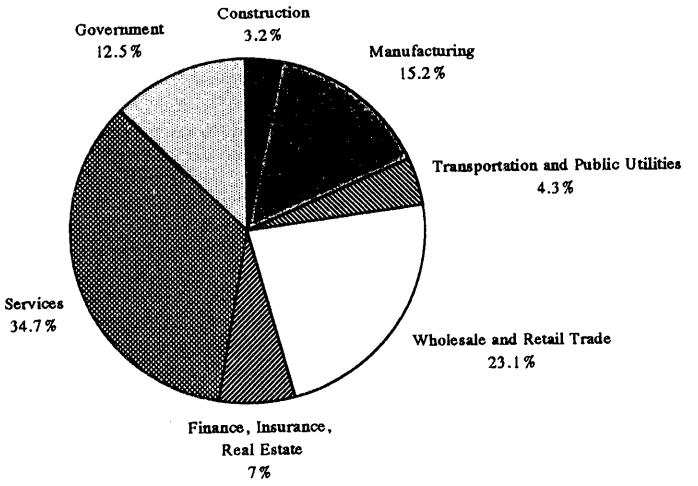


SOURCE: United States Department of Commerce, Bureau of the Census.

EMPLOYMENT

Employment by Industry. The Massachusetts services sector, with 34.7 percent of the non-agricultural work force in July 1994, is the largest employment sector in the Massachusetts economy, followed by wholesale and retail trade (23.1 percent) and manufacturing (15.2 percent). Government employment in Massachusetts was 12.5 percent of total employment. The following chart shows the distribution of employment by industry in Massachusetts for July 1994 (data are not seasonally adjusted):

Massachusetts Non-Agricultural Employment by Industry, July 1994



During the economic downturn that ended in 1992, the construction, manufacturing, and trade sectors experienced the greatest decreases, with more modest declines taking place in the government, finance, insurance and real estate ("FIRE"), and services sectors over the same period. The most recent yearly figures, however, show that employment levels increased in all these sectors except manufacturing in 1993, and it is expected that the Central Artery/Tunnel Project and the Boston Harbor Cleanup will further contribute to the growth in employment levels in the construction sector. The only employment sector which did not grow in 1993 was the manufacturing sector, which has experienced employment declines since 1985. All other employment sectors experienced various degrees of growth in 1993, with the construction and services sectors growing most rapidly at rates of 9.9 percent and 4.2 percent, respectively. Total nonagricultural employment increased by 1.7 percent from 2.795 million to 2.841 million between 1992 and 1993.

The following table demonstrates the changes in employment by sector from 1980 through 1993.

Massachusetts Non-Agricultural Employment by Industry, 1980-1993
(in thousands)

	Construction		*Manufacturing*		*Transportation and Public Utilities*		*Wholesale and Retail Trade*		*Finance, Insurance, Real Estate*		*Services*		*Government*		*Total Employment*	
Year	*Number Employed*	*Pct. Change*	*Number Employed*	*Pct. Change*	*Number Employed*	*Pct. Change*	*Number Employed*	*Pct. Change*	*Number Employed*	*Pct. Change*	*Number Employed*	*Pct. Change*	*Number Employed*	*Pct. Change*	*Number Employed*	*Pct. Change*
1980	77.4		673.3		121.6		576.6		159.0		634.0		412.3		2654.3	
1981	79.6	2.8%	668.0	-0.8%	120.1	-1.2%	581.3	0.8%	164.8	3.6%	663.5	4.7%	394.6	-4.3%	2671.8	0.7%
1982	78.4	-1.5%	636.5	-4.7%	120.0	-0.1%	579.2	-0.4%	168.7	2.4%	683.5	3.0%	374.7	-5.0%	2642.0	-1.1%
1983	82.6	5.4%	629.0	-1.2%	118.2	-1.5%	612.7	5.8%	171.8	1.8%	705.8	3.3%	375.4	0.2%	2696.5	2.1%
1984	96.4	16.7%	667.6	6.1%	123.3	4.3%	659.0	7.6%	179.0	4.2%	754.0	6.8%	375.4	0.0%	2855.8	5.9%
1985	109.4	13.5%	649.7	-2.7%	125.4	1.7%	684.1	3.8%	188.1	5.1%	786.5	4.3%	385.3	2.6%	2930.0	2.6%
1986	123.2	12.6%	614.4	-5.4%	125.9	0.4%	709.7	3.7%	202.6	7.7%	818.4	4.1%	393.0	2.0%	2988.8	2.0%
1987	137.7	11.8%	599.1	-2.5%	131.0	4.1%	723.4	1.9%	217.9	7.6%	853.9	4.3%	401.2	2.1%	3065.8	2.6%
1988	142.1	3.2%	584.7	-2.4%	133.6	2.0%	739.4	2.2%	221.5	1.7%	896.6	5.0%	411.3	2.5%	3130.8	2.1%
1989	126.8	-10.8%	561.1	-4.0%	128.3	-4.0%	740.5	0.1%	217.3	-1.9%	924.1	3.1%	408.8	-0.6%	3108.6	-0.7%
1990	101.1	-20.3%	521.3	-7.1%	129.9	1.2%	700.1	-5.5%	213.3	-1.8%	915.7	-0.9%	402.2	-1.6%	2984.8	-4.0%
1991	78.8	-22.1%	485.0	-7.0%	123.4	-5.0%	650.6	-7.1%	201.8	-5.4%	890.5	-2.8%	389.9	-3.1%	2821.2	-5.5%
1992	73.6	-6.6%	465.7	-4.0%	121.4	-1.6%	640.5	-1.6%	196.7	-2.5%	913.5	2.6%	382.6	-1.9%	2795.1	-0.9%
1993	80.9	9.9%	453.5	-2.6%	123.5	1.7%	644.0	0.5%	199.3	1.3%	951.8	4.2%	387.4	1.3%	2841.5	1.7%

SOURCE: Massachusetts Department of Employment and Training.

Notes: Annual averages of monthly figures. Data are seasonally adjusted and subject to revision. Sum of the parts may not equal totals due to rounding.

The following table presents changes in non-agricultural employment by sector for July, 1993 and July, 1994. Total non-agricultural employment increased by 2.8 percent and average weekly earnings rose 4.1 percent over that period of time.

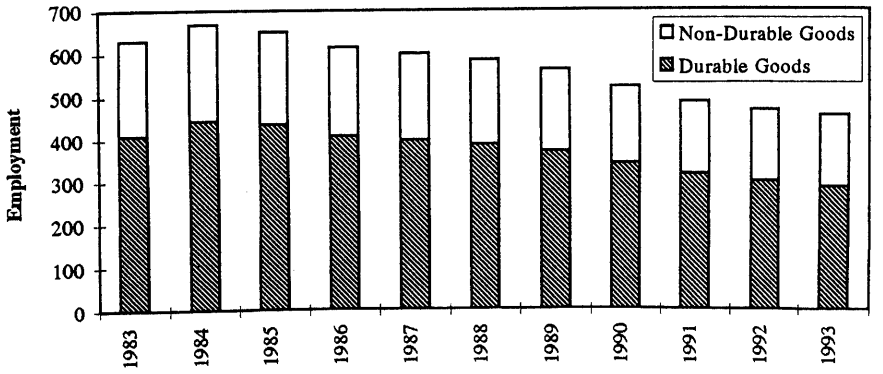
Massachusetts Non-Agricultural Employment by Industry, July 1993-July 1994

Employment Sector	*July 1993*	*Pct. of Total*	*July 1994*	*Pct. of Total*	*Pct. Change 1993-1994*
Construction	89.2	3.1%	94.8	3.2%	6.3%
Manufacturing	445.9	15.7%	443.7	15.2%	-0.5%
Transportation and Public Utilities	121.7	4.3%	125.0	4.3%	2.7%
Wholesale and Retail Trade	651.0	22.9%	675.2	23.1%	3.7%
Finance, Insurance, Real Estate	202.1	7.1%	204.2	7.0%	1.0%
Services	962.1	33.8%	1,015.3	34.7%	5.5%
Government	372.2	13.1%	366.8	12.5%	-1.5%
Total Employment	2845.5	100.0%	2926.3	100.0%	2.8%
Average Weekly Earnings	$507.17		$527.92		4.1%

SOURCE: Massachusetts Department of Employment and Training.
Notes: Figures are preliminary and subject to revision. Sum of the parts may not equal totals due to rounding. Figures are not seasonally adjusted.

Manufacturing Employment. In recent years, like virtually all industrial states, Massachusetts has seen a steady diminution of its manufacturing jobs base. Total employment in the manufacturing sector has fallen each year since 1984. Between 1992 and 1993, manufacturing employment declined 2.6 percent, from 465,700 to 453,500. However, with the end of the recession and the beginning of recovery in 1992, the rate of overall decline has slowed significantly, from over 7 percent in both 1990 and 1991 to the 2.6 percent decline of 1993. Indeed, in 1993, the manufacture of non-durable goods posted its first positive employment gain since 1984. Although high technology manufacturing has been in a slowdown nationally as well as in Massachusetts, it is expected to outperform other types of manufacturing in the long-term. As of August 1994, high technology manufacturing employed 165,800 persons, down by 6,300 from a year earlier. The general character of the Massachusetts manufacturing sector continues to show many small and diversified firms. Currently, approximately 80 percent of the manufacturing firms in Massachusetts employ fewer than 50 people.

Manufacturing Employment in Massachusetts, 1983-1993
(in thousands)



Manufacturing Establishment Employment by Industry in Massachusetts, 1983-1993
(selected industries, in thousands)

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
Durable Goods	409.2	443.5	436.0	409.1	398.0	388.1	372.1	342.7	317.0	299.6	286.4
Percentage Change	-1.3%	8.4%	-1.7%	-6.2%	-2.7%	-2.5%	-4.1%	-7.9%	-7.5%	-5.5%	-4.4%
Primary Metals	15.0	16.5	15.8	15.8	15.6	12.9*	12.3	11.3	10.3	9.3	9.1
Fabricated Metals	46.1	48.3	45.3	42.8	41.7	45.0*	43.2	40.9	37.9	36.2	35.7
Industrial Machinery	111.9	123.0	119.0	107.4	102.3	100.0	95.8	85.2	76.6	72.5	67.3
Electronic & Elec. Equip.	97.9	109.7	111.3	107.4	105.2	82.2*	79.3	72.9	68.5	63.9	59.9
Transportation Equip.	35.0	40.3	41.6	37.1	35.4	32.4	30.6	27.8	26.0	24.1	21.7
Stone, Clay, & Glass	11.3	11.8	11.5	10.8	10.7	10.7	10.0	8.7	7.8	7.9	8.0
Instruments	57.7	59.1	58.0	55.1	54.5	72.4*	71.2	69.4	65.6	61.6	59.8
Non-Durable Goods	219.7	224.1	213.6	205.3	201.1	196.5	189.0	178.6	168.0	166.1	167.1
Percentage Change	-1.1%	2.0%	-4.7%	-3.9%	-2.0%	-2.3%	-3.8%	-5.5%	-5.9%	-1.1%	0.6%
Apparel	35.9	36.0	31.7	27.8	25.4	23.7	22.0	19.2	17.7	17.7	16.9
Food & Kindred Prod.	24.1	24.0	23.1	22.7	21.4	21.0	20.5	20.1	19.6	19.3	20.1
Chemicals	16.8	17.8	17.6	17.2	18.0	18.6	18.4	17.7	17.3	16.5	16.3
Printing & Publishing	48.1	51.7	53.3	54.2	55.6	55.8	55.0	52.2	48.9	47.3	47.4
Textile Mill Prod.	20.2	20.2	18.8	17.7	17.1	16.3	15.5	14.6	14.1	14.6	15.1
Paper & Allied Prod.	26.0	26.9	25.9	24.8	24.7	24.3	23.4	22.5	21.1	20.7	20.1
Rubber & Misc. Plastics	30.5	31.0	29.3	29.4	28.7	26.9	25.3	23.8	22.1	22.9	24.3
Total Man. Employ.	629.0	667.6	649.7	614.4	599.1	584.7	561.1	521.3	485.0	465.7	453.5
Percentage Change	-1.2%	6.1%	-2.7%	-5.4%	-2.5%	-2.4%	-4.0%	-7.1%	-7.0%	-4.0%	-2.6%

SOURCE: Massachusetts Department of Employment and Training.
NA = Not Available.
* Break in series; 1988 and subsequent data not comparable to previous years for this industry.

Largest Employers in Massachusetts. The following table lists, in alphabetical order, the twenty-five largest private sector employers in Massachusetts in 1993. The group has remained relatively stable; only Shawmut Bank and Wang Laboratories fell from the list, and were replaced by May Department Stores and the New England Medical Centers Hospital.

Twenty-Five Largest Massachusetts Employers in 1993

American Telephone & Telegraph	Massachusetts Institute of Technology
Bank of Boston	May Department Stores Company
Blue Cross of Massachusetts Inc.	New England Medical Centers Hospital
Boston University	New England Telephone & Telegraph Company
Brigham & Women's Hospital Inc.	Polaroid Corporation
Digital Equipment Corporation	Purity Supreme Inc.
First HealthCare Corporation	Raytheon Company
Friendly Ice Cream Corporation	S & S Credit Company Inc.
General Electric Company	Sears Roebuck & Company
Harvard University	Shaw's Supermarkets Inc.
Jewel Food Stores Inc.	State Street Bank & Trust Company
John Hancock Mutual Life Insurance Company Inc.	United Parcel Service Inc.
Massachusetts General Hospital	

SOURCE: Massachusetts Department of Employment and Training.

Unemployment. From 1979 to 1989, the Massachusetts unemployment rate was significantly lower than the national average. By 1990, however, the Commonwealth's unemployment rate reached 6.0 percent, exceeding the national average for the first time since 1977. This softening of the Massachusetts labor market continued in the early 1990s, with the unemployment rate reaching 9 percent for the first time since 1976. Although employment was slow to respond to the beginning of the recovery in 1992, the average monthly unemployment rate in Massachusetts for 1993 stood at 6.9 percent, compared to the national 1993 monthly average of 6.8 percent. The Massachusetts unemployment rate in August 1994 was 5.9 percent, as compared to 6.0 percent for July 1994 and 6.1 percent for August 1993. The United States unemployment rate in August 1994 was 6.1 percent, as compared to 6.1 percent for July 1994 and 6.7 percent for August 1993. Due to the Current Population Survey redesign, comparisons between 1994 data and data for earlier years are not advisable.

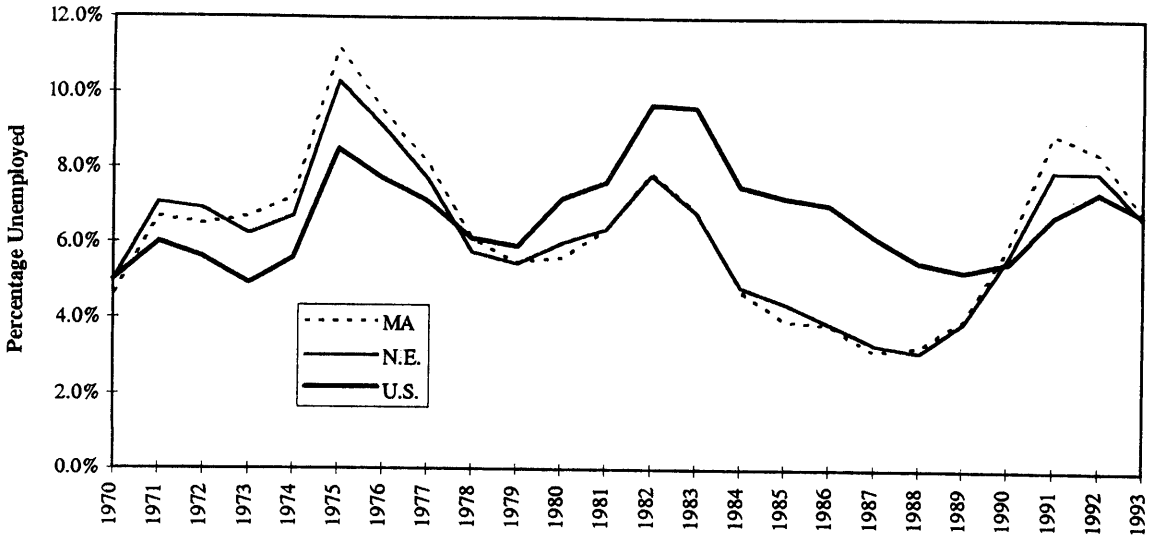
The following table compares the civilian labor force, unemployment and unemployment rate averages of Massachusetts, the New England States, and the United States between 1970-1993.

Annual Average Civilian Labor Force and Unemployment, 1970-1993
(in thousands)

	Civilian Labor Force			*Unemployed*			*Unemployment Rate*			*MA Rate as Pct. of U.S.*
Year	*MA*	*N.E.*	*U.S.*	*MA*	*N.E.*	*U.S.*	*MA*	*N.E.*	*U.S.*	
1970	2,465	5,129	82,796	114	256	4,127	4.6%	5.0%	5.0%	92.0%
1971	2,459	5,157	84,376	164	364	5,022	6.7%	7.1%	6.0%	111.7%
1972	2,487	5,261	87,011	161	363	4,876	6.5%	6.9%	5.6%	116.1%
1973	2,557	5,387	89,411	171	336	4,359	6.7%	6.2%	4.9%	136.7%
1974	2,636	5,512	91,976	190	369	5,173	7.2%	6.7%	5.6%	128.6%
1975	2,725	5,634	93,770	306	581	7,940	11.2%	10.3%	8.5%	131.8%
1976	2,727	5,717	96,151	259	519	7,398	9.5%	9.1%	7.7%	123.4%
1977	2,754	5,816	98,984	223	447	6,967	8.1%	7.7%	7.1%	114.1%
1978	2,815	5,908	102,233	171	339	6,187	6.1%	5.8%	6.1%	100.0%
1979	2,870	6,100	104,961	159	332	6,135	5.5%	5.5%	5.9%	93.2%
1980	2,867	6,166	106,974	161	368	7,671	5.6%	6.0%	7.2%	78.1%
1981	2,946	6,262	108,676	187	399	8,278	6.4%	6.4%	7.6%	83.4%
1982	2,993	6,338	110,224	237	496	10,715	7.9%	7.8%	9.7%	81.3%
1983	2,978	6,363	111,515	205	433	10,694	6.9%	6.8%	9.6%	71.5%
1984	3,048	6,548	112,532	145	317	8,529	4.8%	4.8%	7.5%	63.5%
1985	3,053	6,632	115,467	120	292	8,313	4.0%	4.4%	7.2%	54.9%
1986	3,060	6,721	117,846	117	260	8,245	3.8%	3.9%	7.0%	54.9%
1987	3,087	6,829	119,853	98	227	7,414	3.2%	3.3%	6.2%	51.0%
1988	3,155	6,913	121,671	104	216	6,697	3.3%	3.1%	5.5%	59.7%
1989	3,180	7,002	123,851	127	273	6,524	4.0%	3.9%	5.3%	76.2%
1990	3,224	7,138	124,805	193	405	6,889	6.0%	5.7%	5.5%	108.2%
1991	3,165	7,085	125,312	284	564	8,443	9.0%	8.0%	6.7%	132.9%
1992	3,148	7,065	126,984	267	562	9,390	8.5%	8.0%	7.4%	114.5%
1993	3,170	7,035	128,035	217	473	8,727	6.9%	6.7%	6.8%	100.7%

SOURCES: Massachusetts Department of Employment and Training; United States Department of Labor, Bureau of Labor Statistics; Federal Reserve Bank of Boston.

Unemployment Rate, 1970-1993



The unemployment insurance system is a federal-state cooperative program established by the Social Security Act and the Federal Unemployment Tax Act to provide for the payment of benefits to eligible individuals when they are unemployed through no fault of their own. Benefits are paid from the Commonwealth's Unemployment Compensation Trust Fund, financed through employer and employee contributions.

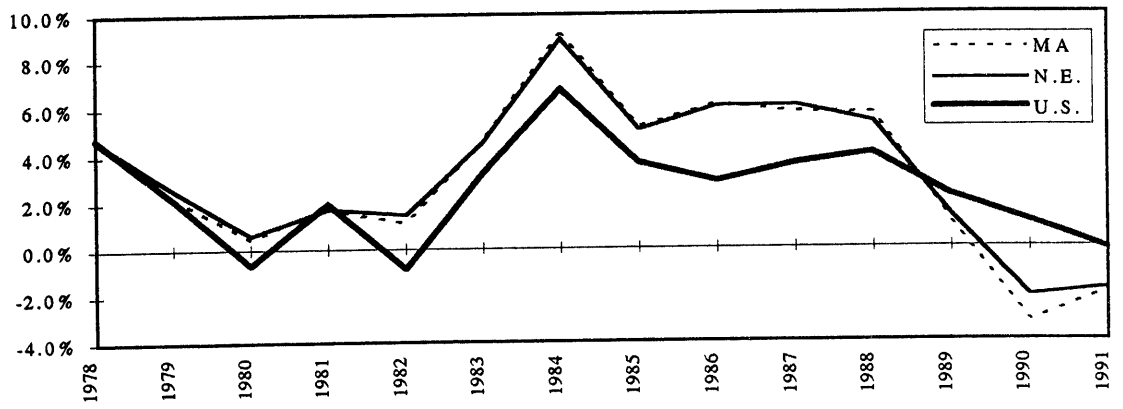
In September 1991 the reserves in the fund were exhausted due to the continued high level of unemployment. Between September 1991 and May 1994, benefit payments in excess of contributions were financed through repayable advances from the federal unemployment loan account. Legislation enacted in 1992 significantly increased employer contributions in order to reduce advances from the federal loan account and 1993 contributions exceeded benefit outlays by more than $200 million. All federal advances were paid in May 1994 and since that time, the trust fund has been solvent. As of August 31, 1994, the Massachusetts Unemployment Trust Fund was running a surplus of $187 million. Interest on federal advances of $4.7 million was paid in September.

The Department of Employment and Training's most recent quarterly report indicates that the additional increases in contributions provided by the 1992 legislation should result in a positive balance in the Unemployment Compensation Trust Fund by December 1994 and rebuild reserves in the system to almost $1 billion by the end of 1998, even if the Legislature acts to keep contribution rates at their current level for one more year.

ECONOMIC BASE AND PERFORMANCE

The economy of Massachusetts and New England was for much of the 1980s one of the strongest performers in the nation. This strength can be seen in the rate of growth of Gross State Product for both Massachusetts and New England throughout the majority of the 1980s, presented in the graph and table below. The Massachusetts economy has been the strongest in New England, making up an average of 47 percent of New England's total Gross State Product for nearly two decades. Massachusetts' percentage of the United States Gross State Product has varied between 2.5 to 3.0 percent during the same time frame. However, both Massachusetts and New England suffered output declines to a much greater extent than the rest of the nation in the most recent recession.

Percentage Change in Real Gross State Product, 1978-1991



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

Gross State Product, 1977-1991
(millions of 1987 constant dollars)

	Massachusetts		*New England*		*United States*	
Year	*GSP*	*Percentage Change*	*GSP*	*Percentage Change*	*Total GSP*	*Percentage Change*
1977	$88,480		$185,066		$3,478,517	
1978	92,734	4.8%	193,749	4.7%	3,643,391	4.7%
1979	94,823	2.3%	198,748	2.6%	3,722,513	2.2%
1980	95,276	0.5%	199,935	0.6%	3,697,140	-0.7%
1981	96,929	1.7%	203,374	1.7%	3,769,425	2.0%
1982	98,034	1.1%	206,405	1.5%	3,738,155	-0.8%
1983	102,564	4.6%	215,821	4.6%	3,859,508	3.2%
1984	112,020	9.2%	235,121	8.9%	4,121,329	6.8%
1985	117,806	5.2%	246,963	5.0%	4,270,981	3.6%
1986	125,045	6.1%	261,889	6.0%	4,391,529	2.8%
1987	132,250	5.8%	277,749	6.1%	4,548,182	3.6%
1988	139,786	5.7%	292,611	5.4%	4,731,458	4.0%
1989	141,242	1.0%	296,506	1.3%	4,836,446	2.2%
1990	136,717	-3.2%	290,280	-2.1%	4,888,324	1.1%
1991	134,086	-1.9%	285,140	-1.8%	4,883,224	-0.1%

SOURCE: U.S. Department of Commerce, Bureau of Economic Analysis.
Note: New England and United States figures include Massachusetts and New England GSP, respectively.

The commercial base of Massachusetts is anchored by the fourteen 1994 Fortune 500 industrial firms headquartered within the state, as the following table indicates. The Fortune 500 firms are ranked according to total sales in 1993.

Massachusetts Companies in the 1994 Fortune 500

Ranking 1994	1993	*Company*	*Industry*	*1993 Sales (in millions)*
29	27	Digital Equipment (Maynard)	Computer Equipment	$14,371.4
52	54	Raytheon (Lexington)	Electronics	9,201.2
99	104	Gillette (Boston)	Consumer Products	5,410.8
176	170	EG & G (Wellesley)	Scientific, Photographic	2,697.9
206	211	Polaroid (Cambridge)	Scientific, Photographic	2,244.9
263	264	Cabot (Waltham)	Chemicals	1,614.3
309	361	Thermo Electron (Waltham)	Scientific, Photographic	1,249.7
311	225	Wang Laboratories (Lowell)	Computer Equipment	1,247.0
332	336	Ocean Spray (Lakeville)	Food Products	1,167.6
348	328	Data General (Westboro)	Computer Equipment	1,077.9
403	421	Kendall International (Mansfield)	Medical Products	816.3
412	-	EMC (Hopkinton)	Computer Equipment	782.6
426	425	Stanhome (Westfield)	Home Products	750.7
468	-	Analog Devices (Norwood)	Electronics	666.3

SOURCE: Fortune Magazine, April 18, 1994.

The current restructuring of the Massachusetts economy due to the economic recovery has brought new business opportunities to many. The incorporation of new businesses in Massachusetts reached a peak in 1986 and declined steadily over the next five years. Since 1991, however, the number of new business incorporations has grown at a steady rate. In addition, the total number of existing businesses in Massachusetts has been higher over the last three years than at any time in the last ten years.

According to Dun & Bradstreet, the business failure rate in Massachusetts, which was significantly lower than the national average between 1984 and 1989, has grown to a rate slightly higher than that of the United States; in 1993, the failure rate for Massachusetts was 1.4 percent while the failure rate for both New England and the United States was 1.0 percent. This is shown in the following table (total existing businesses, new business incorporations, and business failures are derived from different and unrelated data sources and survey techniques and should not be compared as if they constitute a self-contained, closed group of data). The following table shows the total number of existing businesses, business incorporations, and business failures for Massachusetts, New England, and the United States since 1980.

Business Failures and Incorporations, 1980-1993

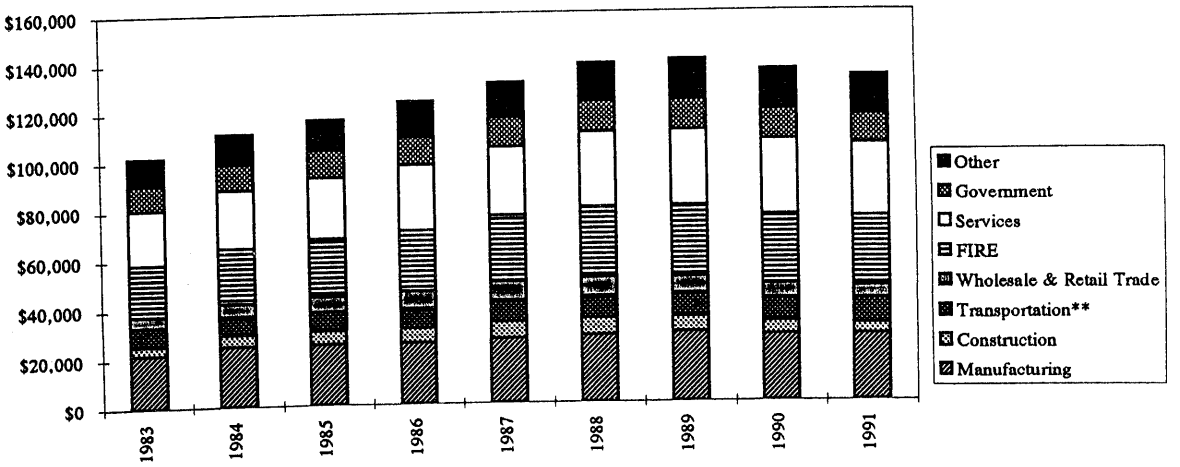
	Total Existing Businesses			*New Business Incorporations*			*Business Failures*			*Failure Rate*		
Year	*MA*	*N.E.*	*U.S.*	*MA*	*N.E.*	*U.S.*	*MA*	*N.E.*	*U.S.*	*MA*	*N.E.*	*U.S.*
1980	NA	NA	NA	11,291	25,328	533,520	235	464	11,742	NA	NA	NA
1981	NA	NA	NA	12,625	28,134	581,242	226	553	15,694	NA	NA	NA
1982	NA	NA	NA	11,827	26,484	566,942	331	650	24,908	NA	NA	NA
1983	NA	NA	NA	12,599	28,723	600,420	398	831	31,334	NA	NA	NA
1984	123,021	276,551	4,867,102	14,159	32,027	634,991	513	1,203	52,078	0.4%	0.4%	1.1%
1985	125,551	284,259	4,978,521	15,801	37,943	664,235	683	1,228	57,253	0.5%	0.4%	1.2%
1986	129,464	291,842	5,134,666	17,321	41,940	702,738	725	1,109	61,616	0.6%	0.4%	1.2%
1987	150,714	340,333	5,991,274	17,222	42,027	685,572	633	1,021	61,111	0.4%	0.3%	1.0%
1988	142,307	328,750	5,826,224	16,438	40,251	685,095	555	1,052	57,097	0.4%	0.3%	1.0%
1989	175,227	442,068	7,747,846	14,078	35,299	676,565	771	1,282	50,361	0.4%	0.3%	0.7%
1990	180,471	441,000	7,993,026	12,465	31,383	647,386	1,913	3,087	60,747	1.1%	0.7%	0.8%
1991	218,384	514,000	8,237,383	11,706	28,864	628,604	2,839	5,654	88,140	1.3%	1.1%	1.1%
1992	222,867	531,111	8,824,454	12,197	28,686	666,800	3,031	6,214	97,069	1.4%	1.2%	1.1%
1993(p)	200,000	533,000	8,956,458	12,850	30,233	705,540	2,709	5,304	85,673	1.4%	1.0%	1.0%

SOURCE: The Dun & Bradstreet Corporation, Department of Economic Analysis.
NA=Data not available for these years.
(p)=preliminary estimates.

Economic Base and Performance – Sector Detail

The economy of Massachusetts is highly diversified. The data below show the contribution to the Massachusetts real Gross State Product of several industrial and non-industrial sectors. These data clearly show the some of the trends that have been prevalent in the Massachusetts economy over the past decade. For instance, the manufacturing sector's contribution to GSP was on a steady rise from 1983 to 1989, but then declined slightly in 1990 and 1991. This can be contrasted with the employment picture for manufacturing in Massachusetts. As shown earlier, employment in this sector has been in steady decline since 1984.

Sectoral Composition of Massachusetts Gross State Product, 1983-1991
(millions of 1987 constant dollars)



Gross State Product by Industry in Massachusetts, 1983-1991
(millions of 1987 constant dollars)

Sector	*1983*	*1984*	*1985*	*1986*	*1987*	*1988*	*1989*	*1990*	*1991*
Manufacturing	$21,838	$24,539	$24,876	$25,026	$26,518	$27,584	$28,714	$27,521	$27,144
Construction	3,828	4,669	5,511	6,043	6,748	6,747	5,988	4,922	4,151
Agriculture*	648	640	774	977	999	982	913	916	1,011
Transportation**	7,360	7,801	7,963	7,946	8,817	9,037	9,483	9,719	10,397
Wholesale & Retail Trade	4,476	5,309	6,285	7,020	7,747	7,729	6,901	5,838	5,162
FIRE	21,045	22,555	23,566	24,960	26,806	28,840	29,221	28,121	28,147
Services	22,051	23,629	25,020	26,830	28,314	30,559	30,890	30,842	30,189
Government	10,578	10,675	11,177	11,555	11,842	12,440	12,380	12,627	11,766
Other	10,740	12,203	12,634	14,688	14,459	15,868	16,752	16,211	16,119
Total GSP	$102,564	$112,020	$117,806	$125,045	$132,250	$139,786	$141,242	$136,717	$134,086

SOURCE: United States Department of Commerce, Bureau of Economic Analysis.
* Includes Forestry and Fisheries
** Includes Public Utilities

Services. The services sector is the largest sector in the economy of Massachusetts in terms of numbers of employees. This sector includes the broad categories of health services, business services, educational services, engineering and management services, and social services. In July 1994, service sector employment (not seasonally adjusted) was 1,015,300, representing some 34.7 percent of total nonagricultural employment. It contributed 22.5 percent of the Commonwealth's Gross State Product in 1991. The largest sector within services was the health care sector which contributed 6.4 percent of the GSP. The service sector has represented a major source of strength in the Massachusetts economy, increasing 23.5 percent between 1985 and 1989. After moderate declines in 1990 and 1991, the service sector employment levels reached new highs in 1993. Between July 1993 and July 1994 the service sector saw an increase in employment of some 5.4 percent. An area with relatively high wages, business services employed more than 17.1 percent of service sector workers in August 1994. Compared with the nation as a whole, Massachusetts has a greater concentration in the area of business services.

Health Services. The health care industry continues to play an important role in the Massachusetts economy. Health services is the largest component of the service sector in terms of employment. In 1990, the health services sector numbered 270,900 workers, with 128,600 of those employed by hospitals. Health service employment continued to grow during the economic downturn in the early 1990s and by 1993 had reached 299,900. As of August 1994, health services employment had increased to 311,800, with 136,900 employed in hospitals.

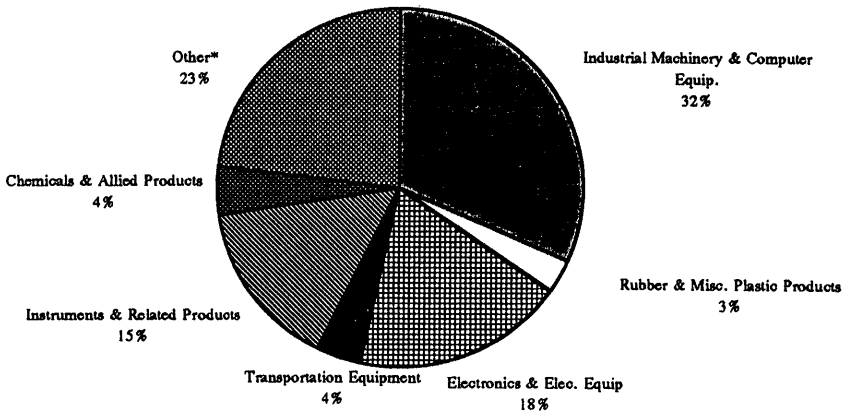
The current outlook for health services, including employment levels, is uncertain. The industry is buoyed by strong demand for health services. Per capita health care spending in Massachusetts is 25 percent above the national average, according to a recent study published by the Families U.S.A. Foundation, although this reflects, in part, the fact that Massachusetts health care costs are well above the national average. The high cost of health care has led to recent efforts to contain costs by businesses as well as governments. Cutbacks in federal reimbursements, combined with the rising costs of patient care, contributed to operating deficits in over half of Massachusetts' hospitals in 1988. The deficits were also caused in part by an excess of acute care beds in the state. Recent restructuring of the hospital sector has led to the conversion of many acute care beds to long-term care beds throughout the state. This may result in increased state-wide occupancy rates, as well as a reduction in the cost of long-term care.

Trade and International Trade. In the mid-1980s the trade sector was an area of strong job growth, boosted by a growing export sector. Trade employment declined between 1990 and 1992 but there was a slight rebound of 0.5 percent between 1992 and 1993. In July 1994, retail and wholesale trade was the second largest employment sector in Massachusetts with 675,200 workers, 3.7 percent above July 1993 levels. Of this number, about three-quarters were employed in retail trade.

A significant proportion of what Massachusetts produces is exported. Massachusetts ranked eleventh in the United States with nearly $12.2 billion in exports in 1993. However, the rate of growth in the Commonwealth's exports have increased slowly over time in comparison to some of the other states in the U.S., and has slowed significantly since the late 1980s. In 1993, the value of Massachusetts exports increased only 0.3 percent from the previous year, compared to 16.1 percent in 1988.

Manufactured goods accounted for 95.9 percent of all foreign trade receipts in 1993. Such a focus on production for export has given Massachusetts the fifth highest concentration of manufacturing sector jobs dependent on exports in the nation, according to the Bureau of the Census 1987 Census of Manufacturers, the most recent data available. Three of the four states with greater concentrations border Massachusetts. According to the same report, 190,600 of Massachusetts' manufacturing jobs, which amounts to 6.4 percent of its civilian labor force, were dependent upon exports. Massachusetts' most important exports, as shown in the chart below, are industrial machinery, including computer equipment, electronic and electric equipment, and instruments and related products.

Percentage Composition of Massachusetts Exports by Industry Group, 1993



* Includes textiles, printing & publishing, paper, primary metal industries, and agricultural production.

Massachusetts' most important trading partners for 1993 were: Canada, which purchased $2.8 billion worth of products; Japan, which bought $1.1 billion; and the United Kingdom and Germany which each purchased $1.0 billion. In 1993, Massachusetts exported about $4.3 billion to the European Union ("EU"). This was about 5 percent of all U.S. exports to the EU. Massachusetts also exported approximately $2.9 billion to Japan and other Asian countries. This was about 60 percent of New England exports to Asia and about 2.5 percent of U.S. exports to Asia.

Value of International Shipments from Massachusetts, 1987-1993
(by major industry group, in millions)

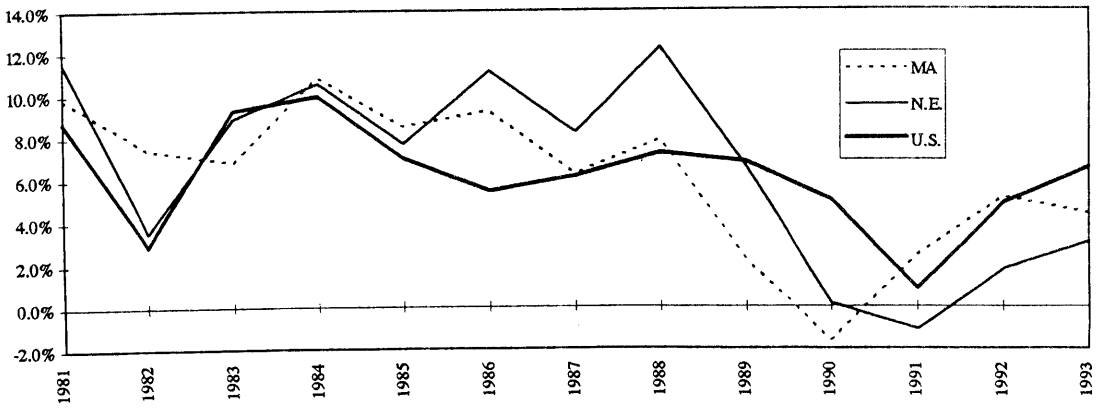
Major Industry Group	*1987*	*1988*	*1989*	*1990*	*1991*	*1992*	*1993*
Industrial Machinery & Computer Equip.	$3,989.2	$4,496.1	$4,521.0	$4,284.1	$4,460.1	$4,174.0	$3,874.0
Electronics & Elec. Equip.(ex. Computers)	1,051.5	945.7	1,395.9	2,030.5	2,167.4	2,082.1	2,240.5
Instruments & Related Products	1,039.5	1,604.6	1,636.0	1,871.8	1,796.9	1,848.3	1,867.0
Chemicals & Allied Products	278.1	323.3	399.1	479.5	490.3	496.3	534.1
Transportation Equipment	591.9	562.0	433.6	403.0	352.2	479.0	499.1
Rubber & Misc. Plastic Products	162.3	212.4	192.4	214.0	196.7	236.8	373.8
Textile Mill Products	73.0	90.4	123.6	175.9	199.5	257.3	263.3
Printing & Publishing	59.4	59.1	101.8	105.1	141.6	161.5	171.2
Paper & Allied Products	106.3	156.5	175.0	202.9	194.0	243.1	242.8
Primary Metal Industries	106.2	172.3	170.7	182.7	216.5	200.0	211.5
Agricultural Production	33.9	42.2	24.6	34.2	45.2	54.2	48.4
Total from Above Industries	$7,491.3	$8,664.4	$9,173.6	$9,983.9	$10,260.4	$10,232.7	$10,325.6
Total from All Industries-Massachusetts	$8,349.3	$9,691.8	$10,472.0	$11,586.8	$11,891.4	$12,157.6	$12,194.8
Percentage Change		16.1%	8.0%	10.6%	2.6%	2.2%	0.3%

SOURCE: Massachusetts Institute for Social and Economic Research, University of Massachusetts at Amherst.

Retail Sales. Retail sales growth in the Commonwealth outpaced national sales growth during most of the 1980s, although in more recent years this has not been the case. In 1989 and 1990, the Massachusetts rate of retail sales growth dropped significantly below the national average. Traditionally retail sales has contributed between 9.0 and 9.5 percent of the Massachusetts Gross State Product. However, in 1991 this figure fell to 8.7 percent. In 1991 and 1992, retail sales growth in Massachusetts outpaced both New England and the nation.

According to the Federal Reserve Bank of Boston, retail sales for the month of June 1994 were 9.7 percent above the figures for the same month in 1993. The following chart and table show the annual retail sales activity for Massachusetts and the United States from 1980-1993.

Percentage Change in Retail Sales, 1981-1993



Annual Retail Sales Activity, 1980-1993
(in millions)

	Massachusetts		*New England*		*United States*	
Year	*Sales*	*Percentage Change*	*Sales*	*Percentage Change*	*Sales*	*Percentage Change*
1980	$23,068		$51,92		$954,826	
1981	25,347	9.9%	57,91	11.5%	1,038,309	8.7%
1982	27,231	7.4%	59,94	3.5%	1,068,227	2.9%
1983	29,095	6.8%	65,27	8.9%	1,167,416	9.3%
1984	32,261	10.9%	72,19	10.6%	1,283,753	10.0%
1985	35,014	8.5%	77,76	7.7%	1,373,829	7.0%
1986	38,256	9.3%	86,43	11.1%	1,449,210	5.5%
1987	40,664	6.3%	93,55	8.2%	1,538,637	6.2%
1988	43,868	7.9%	105,02	12.3%	1,649,974	7.2%
1989	44,830	2.2%	111,90	6.5%	1,762,012	6.8%
1990	44,091	-1.6%	112,08	0.2%	1,849,941	5.0%
1991	45,163	2.4%	110,85	-1.1%	1,865,811	0.9%
1992	47,491	5.2%	112,80	1.8%	1,956,175	4.8%
1993	49,576	4.4%	116,26	3.1%	2,083,877	6.5%

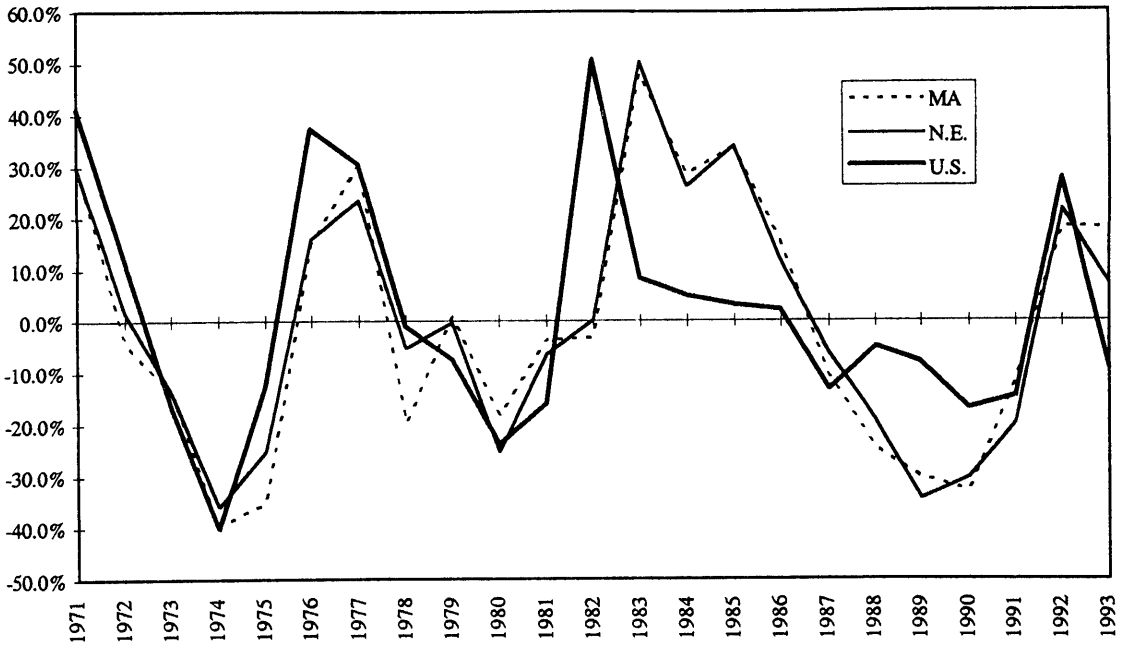
SOURCES: United States Department of Commerce; Federal Reserve Bank of Boston.

Finance, Insurance, and Real Estate. While the Finance, Insurance and Real Estate ("FIRE") sector experienced 23.7 percent growth in employment between 1984 and 1988, there was a 10.0 percent decline in employment between 1988 and 1993. However, this has masked a hastening rebound in early 1994 and a slight turnaround of 1.3 percent in 1993 from 1992 figures. The total employment in FIRE was 199,300 in 1993, and 204,200 as of July 1994. FIRE contributed 21.0 percent of the Massachusetts Gross State Product in 1991. This figure was slightly higher than for 1989 and 1990 despite the recession that was depressing other sectors of the Massachusetts economy.

Housing and Construction. Fueled by the general growth of the rest of the Massachusetts economy, employment in the construction industry experienced dramatic growth in the first part of the 1980s, increasing by more than 80 percent between 1982 and 1988. This trend reversed direction between 1988 and 1992. Much of the earlier growth within the industry was lost with the downturn. Employment in the construction industry declined nearly 50 percent from 1988 to 1992 due to an excess supply in both the commercial and residential real estate markets. Since 1992, with the return to general growth in the Massachusetts economy, employment in construction has rebounded and in 1991 construction activity contributed 3.1 percent of the Massachusetts Gross State Product.

The following table shows the number of housing permits authorized on an annual basis in Massachusetts and the United States. In recent years there has been some improvement in the Massachusetts housing industry. This comes on the heels of a prolonged decline in the demand for housing permits that extended from 1986 to 1991; between those years, the total number of permits authorized declined by 72 percent. 1992 saw the first rise in the number of permits authorized since 1986, with an increase of 18 percent. Although the number of authorized permits again increased 18.0 percent between 1992 and 1993, the total number does not yet match the explosive growth between 1983 and 1985. However, it should be noted that the increase of 18 percent between 1992 and 1993 was far better than the performance of the nation, which saw a decline of 9.2 percent during the same period.

Percentage Change in Housing Permits Authorized, 1971-1993



Housing Permits Authorized, 1970-1993

	Massachusetts		*New England*		*United States*	
Year	*Total Permits*	*Percentage Change*	*Total Permits*	*Percentage Change*	*Total Permits*	*Percentage Change*
1970	39,500		74,230		1,355,000	
1971	51,400	30.1%	96,360	29.8%	1,913,000	41.2%
1972	49,300	-4.1%	98,080	1.8%	2,138,000	11.8%
1973	42,400	-14.0%	84,640	-13.7%	1,783,000	-16.6%
1974	25,600	-39.6%	54,310	-35.8%	1,068,000	-40.1%
1975	16,600	-35.2%	40,690	-25.1%	935,000	-12.5%
1976	19,100	15.1%	47,160	15.9%	1,285,000	37.4%
1977	24,900	30.4%	58,200	23.4%	1,678,000	30.6%
1978	20,000	-19.7%	55,100	-5.3%	1,659,000	-1.1%
1979	20,200	1.0%	54,900	-0.4%	1,534,000	-7.5%
1980	16,500	-18.3%	40,970	-25.4%	1,171,000	-23.7%
1981	15,900	-3.6%	38,300	-6.5%	985,000	-15.9%
1982	15,400	-3.1%	38,370	0.2%	1,485,000	50.8%
1983	22,800	48.1%	57,700	50.4%	1,605,000	8.1%
1984	29,300	28.5%	72,760	26.1%	1,682,000	4.8%
1985	39,200	33.8%	97,570	34.1%	1,733,000	3.0%
1986	45,200	15.3%	108,880	11.6%	1,769,000	2.1%
1987	40,400	-10.6%	102,050	-6.3%	1,534,000	-13.3%
1988	30,500	-24.5%	82,587	-19.1%	1,456,000	-5.1%
1989	21,300	-30.2%	54,240	-34.3%	1,338,000	-8.1%
1990	14,300	-32.9%	37,860	-30.2%	1,111,000	-17.0%
1991	12,700	-11.2%	30,393	-19.7%	949,000	-14.6%
1992	15,000	18.1%	36,939	21.5%	1,211,000	27.6%
1993	17,700	18.0%	39,562	7.1%	1,100,000	-9.2%

SOURCES: Federal Reserve Bank of Boston; United States Department of Commerce.

The current recovery in the regional economy is reflected in the housing sector. With existing home sales resuming an increasing trend in 1991, prices began rising slowly a year later. This stabilized the large loss of 42 percent that occurred in 1989 and 1990. Existing home sales have grown substantially faster than the U.S. average since 1991. On a seasonally adjusted annual rate basis, existing home sales for the Commonwealth, New England, and the United States appear in the table below.

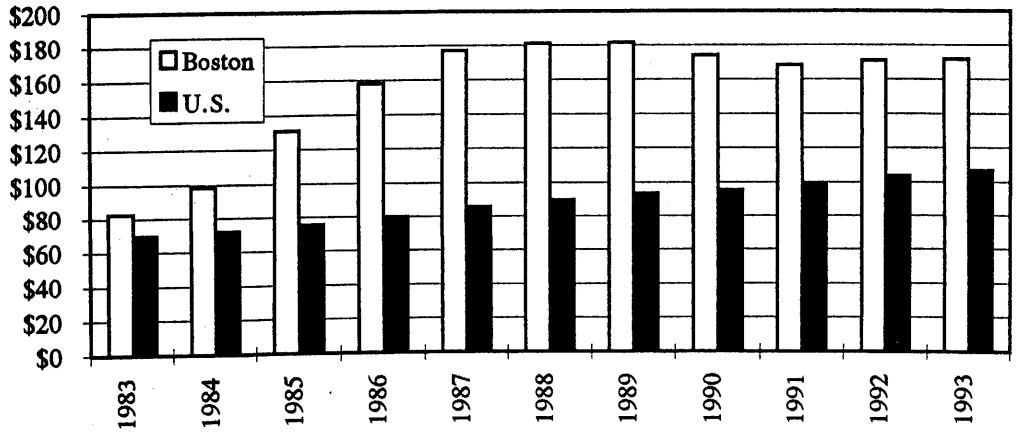
Existing Home Sales, 1983-1993
(seasonally adjusted annual rates, in thousands)

	Massachusetts		*New England*		*United States*	
Year	*Sales*	*Percentage Change*	*Sales*	*Percentage Change*	*Sales*	*Percentage Change*
1983	59.2		141.3		2,925.0	
1984	54.9	-7.3%	140.7	-0.4%	3,092.5	5.7%
1985	60.2	9.7%	157.0	11.6%	3,487.5	12.8%
1986	66.0	9.6%	169.2	7.8%	3,897.5	11.8%
1987	76.4	15.8%	174.5	3.1%	3,977.0	2.0%
1988	76.6	0.3%	178.5	2.3%	3,947.5	-0.7%
1989	67.4	-12.0%	142.8	-20.0%	3,807.5	-3.5%
1990	44.1	-34.6%	NA	NA	3,483.3	-8.5%
1991	49.5	12.2%	NA	NA	3,561.5	2.2%
1992	57.6	16.4%	139.7	NA	3,887.5	9.2%
1993	65.6	13.9%	159.1	13.9%	4,220.0	8.6%

SOURCES: Federal Reserve Bank of Boston; National Association of Realtors.
NA=Not Available.

Single family home prices for the Boston Metropolitan area (not seasonally adjusted) appear below. While Boston housing prices were 18 percent higher than the U.S. average in 1983, by 1987 Boston housing prices were more than double the national average and remained 61 percent above the national average in 1993.

Average Annual Home Prices, 1983-1993
(in thousands)



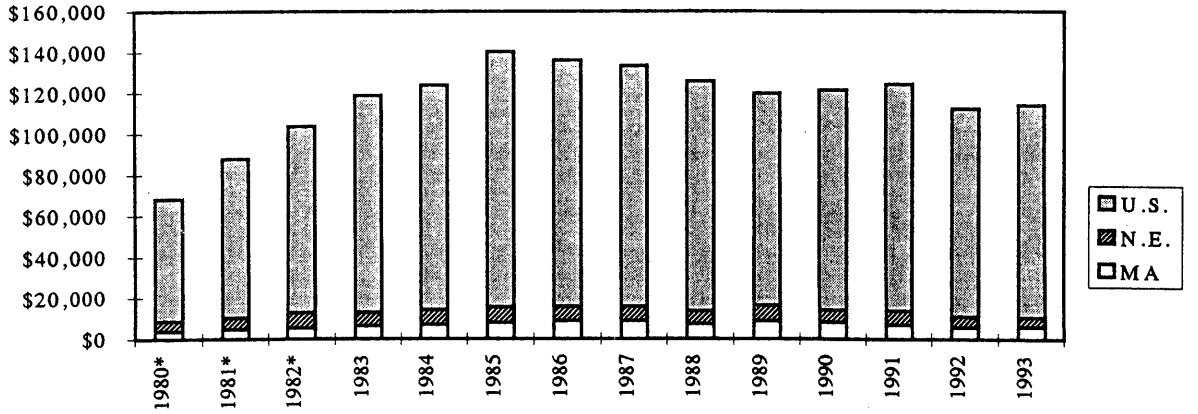
Average Annual Home Prices for the Boston Metropolitan Area, 1983-1993
(in thousands)

Year	*Boston*	*U.S.*	*Boston Prices as a Percentage of the U.S.*
1983	$82.3	$69.7	118.1%
1984	98.0	72.4	135.4%
1985	130.8	75.3	173.7%
1986	158.2	80.2	197.3%
1987	176.5	85.8	205.7%
1988	180.7	89.5	201.9%
1989	181.5	93.1	195.0%
1990	173.8	95.2	182.6%
1991	168.5	99.4	169.5%
1992	170.5	103.6	164.6%
1993	171.4	106.5	160.9%

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

Defense. An estimated 143,400 workers were employed in defense-related industries in 1992, accounting for approximately 5.0 percent of Massachusetts private sector employment. Following a peak in the value of military prime contracts awarded to Massachusetts firms in fiscal 1986 of $8.7 billion, defense-related contracts declined 17 percent by fiscal 1988 to $7.2 billion. By fiscal 1993, the value of defense-related prime contracts had declined to $5.9 billion. The diversity of Massachusetts companies, particularly in the area of electronics and high technology research and development, has helped reduce the impact of the decline in national defense expenditures on the Massachusetts economy.

Total Prime Contract Awards, 1980-1993
(in millions)



* Prime Contract is defined as $10,000 and above for these years; for remaining years it is defined as $25,000 and above.

The importance of the defense industry to the Massachusetts economy is reflected in the following table. Since 1980, Massachusetts has increased its share of New England contract awards. In 1980, Massachusetts received 42.7 percent of total New England awards; by 1993 that had risen to 55.1 percent. This has come at the expense of neighboring New England states as New England's share of total contract awards has remained steady.

Net Value of Department of Defense Prime Contract Awards
(in millions)

Year	*MA*	*N.E.*	*U.S.*	*Percentage MA of N.E.*	*Percentage MA of U.S.*
1980*	$3,743	$8,775	$68,070	42.7%	5.5%
1981*	4,605	10,372	87,761	44.4%	5.2%
1982*	5,317	13,037	103,858	40.8%	5.1%
1983	6,328	12,967	118,744	48.8%	5.3%
1984	7,029	14,249	123,995	49.3%	5.7%
1985	7,714	15,487	140,096	49.8%	5.5%
1986	8,735	15,748	136,026	55.5%	6.4%
1987	8,685	15,606	133,262	55.7%	6.5%
1988	7,212	13,673	125,767	52.7%	5.7%
1989	8,757	16,268	119,917	53.8%	7.3%
1990	8,166	14,271	121,254	57.2%	6.7%
1991	6,933	13,889	124,119	49.9%	5.6%
1992	5,686	11,033	112,285	51.5%	5.1%
1993	5,936	10,779	114,145	55.1%	5.2%

SOURCE: United States Department of Defense.

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

Massachusetts leads the New England region in federally funded defense research activities, with contracts in amounts exceeding 1.9 times the national average. An estimated 6 percent of the goods and services in Massachusetts are attributable to the defense sector. It is unknown at this time what effect federal budget changes and international events will have on the level of defense contracts awarded within Massachusetts. To the extent there are federal spending reductions, they may have a significant impact on the level of defense related production and research in Massachusetts. However, since most contracts cover a period of years, the effect of any cancellations on federal spending reductions may not be directly experienced for some time.

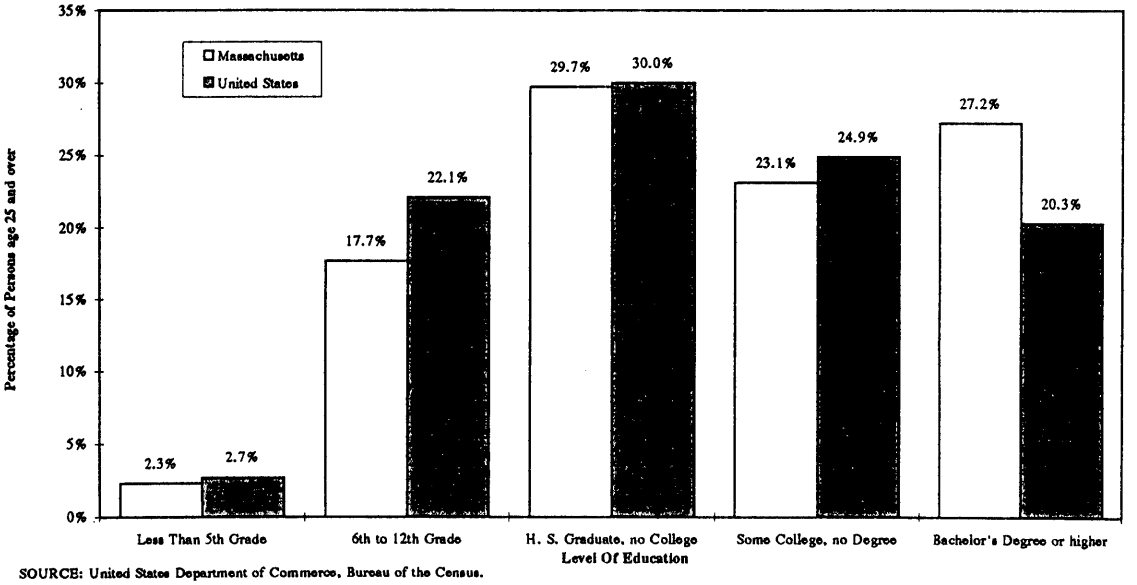
Travel and Tourism. The travel and tourism industry represents a substantial component of the overall Massachusetts economy. Massachusetts is one of the nation's most popular tourist and travel destinations for both domestic and overseas visitors. Within Massachusetts, the greater Boston area represents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

The Massachusetts Office of Travel and Tourism estimates that a total of 31.9 million people visited the Commonwealth in 1993. Of these, 1.6 million were international visitors. It was also estimated that spending by domestic travelers was $6.8 billion while the international travelers spent $1.2 billion. This yielded estimated tax revenues of $209 million for the Commonwealth.

HUMAN RESOURCES AND INFRASTRUCTURE

Human Resources. The availability of a skilled and well-educated population is an important resource for Massachusetts. The level of education reached by the population of Massachusetts compares favorably with the level in the United States as a whole. In both Massachusetts and the United States, less than three percent of the population over age 25 received less than a fifth grade education. The most significant difference between Massachusetts and the United States is the percentage of people over age 25 with a Bachelor's Degree or higher: 27.2 percent in Massachusetts as compared to 20.3 percent for the United States as a whole. The following chart shows this difference:

Educational Attainment, 1990



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

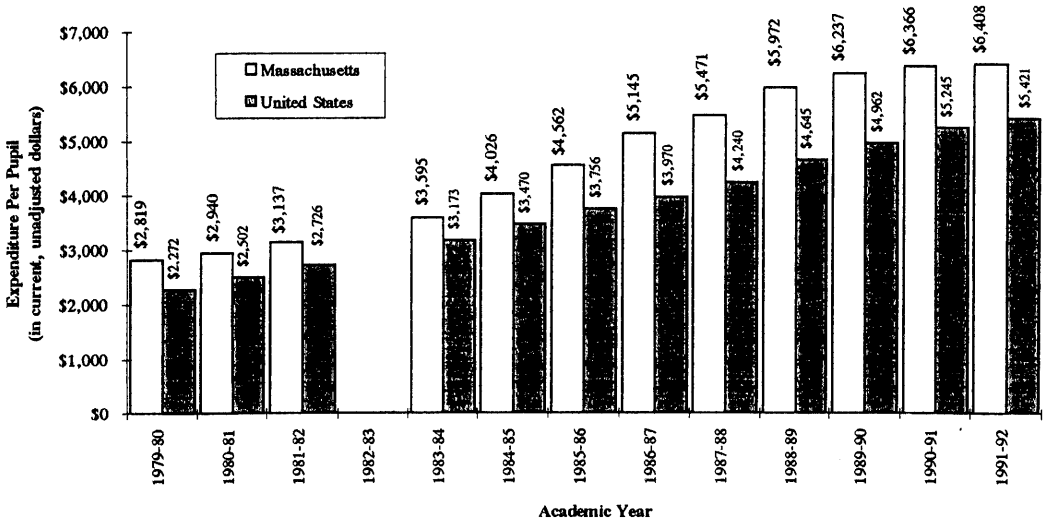
Although spending on education is not necessarily an indication of results, it is important to note that Massachusetts spends more per pupil than the national average on primary and secondary education. As the following table and chart show, per pupil spending in Massachusetts has been significantly higher than the national average since 1980. The ratio of Massachusetts spending to the national average has varied from 1.13 in 1983-1984 to a high of 1.30 in 1986-1987. The most recent available data, for 1991-92, indicate that Massachusetts spends 18 percent more on public elementary and secondary education than the United States average.

Expenditure Per Pupil in Public Elementary and Secondary Schools, 1980-1992
(in current, unadjusted dollars)

Academic Year	*Massachusetts*	*United States*	*Ratio (MA/U.S.)*
1979-80	$2,819	$2,272	1.24
1980-81	$2,940	$2,502	1.18
1981-82	$3,137	$2,726	1.15
1982-83	NA	NA	NA
1983-84	$3,595	$3,173	1.13
1984-85	$4,026	$3,470	1.16
1985-86	$4,562	$3,756	1.21
1986-87	$5,145	$3,970	1.30
1987-88	$5,471	$4,240	1.29
1988-89	$5,972	$4,645	1.29
1989-90	$6,237	$4,962	1.26
1990-91	$6,366	$5,245	1.21
1991-92	$6,408	$5,421	1.18

SOURCE: United States Department of Education, National Center for Education Statistics.
NA = Data not available for this academic year.

Expenditure Per Pupil in Public Elementary and Secondary Schools, 1980-1992



SOURCE: United States Department of Education, National Center for Education Statistics.

Massachusetts is an internationally recognized center for higher education, with approximately 419,381 students in undergraduate, professional and graduate programs, according to data supplied by the New England Board of Higher Education. The number of foreign students enrolled in Massachusetts colleges and universities totals 23,721, slightly more than five percent of the U.S. total. The Massachusetts public higher education system is composed of universities, state colleges, and community colleges with a combined enrollment of approximately 180,753 students. The strength of both public and private colleges and universities as centers for research, teaching, and education contributes to the high quality of the Massachusetts work force and plays a key role in attracting and retaining business and industry within the state.

The pre-eminence of higher education in Massachusetts contributes not only to the quality of its work force, but also to its stature in the nation and the world as a center for basic scientific research and for academic and entrepreneurial research and development. For example, Massachusetts institutions have a large number of Nobel Laureates. The Massachusetts Institute of Technology recently became the first university in the U.S. to receive more than 100 patents in a year. Nationally, private industry funded only 6.4 percent of University research and development ("R&D") at doctorate-granting institutions in 1991, compared with 9.0 percent for Massachusetts. The federal government provides funding for 71.5 percent of all R&D activities in Massachusetts, compared to 58.0 percent for the nation as a whole during the same period. Massachusetts was fourth in the nation in total federal dollars pledged to R&D work at research institutions.

The higher education system in Massachusetts is particularly strong in post-graduate, scientific, and technical education. The strength of the Massachusetts higher education system is evidenced by the draw it has upon new students. According to the New England Board of Higher Education (NEBHE), almost twice as many new students migrated into the Massachusetts higher education system as migrated out in 1988. The strength of the Commonwealth's educational institutions is also reflected in the large number of degrees awarded. The following table shows the number of Massachusetts graduates with science and engineering degrees as a percentage of the entire United States population. Note that the figures are particularly strong for masters and doctoral degrees.

Science and Engineering Degrees Conferred in Massachusetts, 1991

		Total Number	*Massachusetts as Percentage of U.S. Total*
Baccalaureate:			
	Mathematics	618	4.2%
	Physical Sciences	751	4.5%
	Engineering	2975	4.9%
Masters:			
	Mathematics	244	6.8%
	Physical Sciences	415	8.0%
	Engineering	2189	9.3%
Ph.D.:			
	Mathematics	69	7.4%
	Physical Sciences	319	7.1%
	Engineering	350	6.7%

SOURCE: New England Board of Higher Education analysis of U.S. Department of Education Data.
Note: Massachusetts population age 25 and over as a percentage of U.S. population age 25 and over in 1990 = 2.5%.

The diversity of federal funding sources reflects the diversity of the research and development work done at Massachusetts educational institutions. Of the $679 million of total federal spending on college and university-based research and development in 1991 in Massachusetts, 47.0 percent was from the Department of Health and Human Services, 18.1 percent was from the National Science Foundation, 15.6 percent was from the Department of Defense, 9.8 percent was from the Department of Energy, and 2.9 percent was from the Department of Agriculture.

Massachusetts colleges and universities are also significant employers within the state. Four Massachusetts private universities are among the Commonwealth's 25 largest non-governmental employers. The educational services sector includes only private institutions for education; public institutions are included in the government sector. According to the Massachusetts Department of Employment and Training, educational services accounted for 120,600 jobs in 1993, while in the government sector, state and local public education accounted for 155,700 jobs.

Major Infrastructure Projects. The next decade brings significant work on several major public sector-sponsored construction projects, giving rise in Massachusetts to new economic and employment opportunities. The projects include the depression of the central artery which traverses the City of Boston, and the construction of a third harbor tunnel linking downtown Boston to Logan Airport. Final completion of the project is planned for 2003. The federal government will take responsibility for about 90 percent of the estimated $7.7 billion cost of the project. Plans are to employ 5,000 on-site workers and 10,000 auxiliary workers during the peak year of construction, 1994 to 1995. Massport and the Massachusetts Bay Transportation Authority also plan to devote several billion dollars to maintenance and enhancements of the area's port, airport, and mass transportation facilities.

The Massachusetts Water Resources Authority is undertaking capital projects for the construction and rehabilitation of sewage collection and treatment facilities in order to bring wastewater discharges into Boston Harbor into compliance with federal and state pollution control requirements. The harbor cleanup project is estimated to cost $3.5 billion in 1994 dollars. Work on the project began in 1988 and is expected to be completed in 1999, with the most significant expenditures occurring between 1990 and 1999. The majority of these expenditures will be paid for by local communities, in the form of user fees, with federal and state sources making up the difference. Cambridge Systematics estimates that during the peak years of the project, the cleanup will produce 3,600 construction jobs and 6,200 auxiliary jobs.

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COMBINED FINANCIAL STATEMENTS -

STATUTORY BASIS

Exhibit B-1

Deloitte & Touche

125 Summer Street
Boston, Massachusetts 02110-1617

Telephone: (617) 261-8000
Facsimile: (617) 261-8111

Independent Auditors' Report

Mr. William Kilmartin, Comptroller
The Commonwealth of Massachusetts

We have audited the accompanying combined financial statements - statutory basis of the Commonwealth of Massachusetts as of June 30, 1993, and for the year then ended. These combined financial statements - statutory basis are the responsibility of the management of the Commonwealth of Massachusetts. Our responsibility is to express an opinion on these combined financial statements - statutory basis based on our audit. We did not audit the financial statements of the Pension Reserves Investment Trust which is an investment vehicle for certain of the Commonwealth of Massachusetts' Pension Trust Funds, the financial statements of which reflect 28 and 12 percent, respectively, of the assets and revenues of the Fiduciary Fund Type. We did not audit the financial statements of the University of Massachusetts and Massasoit Community College which statements reflect 74 percent of the assets and 68 percent of the revenues of the Non-appropriated Higher Education Funds. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Fiduciary and Non-appropriated Higher Education Fund Type referred to above, is based solely on the reports of the other auditors.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements - statutory basis are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the combined financial statements - statutory basis. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall combined financial statement - statutory basis presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinion.

As described in Note 2, the Commonwealth prepares its combined financial statements - statutory basis on a prescribed basis of accounting that demonstrates compliance with the General Laws and budgetary principles and funds of the Commonwealth of Massachusetts which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, based upon our audit and the reports of the other auditors, such combined financial statements - statutory basis present fairly, in all material respects, the financial position of the Commonwealth of Massachusetts as of June 30, 1993, and the results of its operations for the year then ended, on the basis of accounting described in Note 2.

As discussed in Note 2, the financial statements of the Non-appropriated Higher Education Fiduciary Fund Type included in the combined financial statements - statutory basis have been restated to reflect the addition of an entity affiliated with the University of Massachusetts. In addition, as described in Note 2 certain agency activities of the Non-appropriated Higher Education Fund Type have been reclassified from fund balance to liabilities.

As discussed in Note 2, the Fiduciary Fund Type includes investments representing 7.9% of the assets of the Fiduciary Fund Type, whose values have been estimated by management in the absence of readily ascertainable market values. The procedures used by management in arriving at the estimated value of such investments and the underlying documentation have been reviewed and inspected by us and by the other auditors', and, in the circumstances, we believe and the other auditors' report states their belief, that the procedures of management are reasonable and the documentation appropriate. However, determination of the value of these investments involves subjective judgment because the actual market value can be determined only by negotiation between the parties in a sales transaction. The estimated values of the investments may differ from the values that would have been used had a ready market existed for the investments.

Deloitte & Touche

December 28, 1993

COMMONWEALTH OF MASSACHUSETTS

COMBINED BALANCE SHEET - STATUTORY BASIS - ALL FUND TYPES AND ACCOUNT GROUPS

JUNE 30, 1993

(Amounts in thousands)

ASSETS AND OTHER DEBITS	Governmental Fund Types			Fiduciary Fund Types	Account Groups				Totals (Memorandum Only)	
	General	Special Revenue	Capital Projects	Trust and Agency	General Fixed Assets	General Long-term Obligations	Subtotal (Memorandum Only)	Non-appropriated Higher Education (As restated)	1993	1992 (As restated)
Cash and short-term investments	$ 0	$ 1,572,229	$ 0	$ 432,881	$ 0	$ 0	$ 2,005,110	$ 106,112	$ 2,111,222	$ 1,691,528
Cash with fiscal agent		3,797					3,797		3,797	5,156
Investments				11,335,857			11,335,857	230,232	11,566,089	10,079,472
Advances to related entity	199,881						199,881		199,881	256,060
Assets held in trust				1,518,389			1,518,389		1,518,389	1,583,758
Receivables, net of allowance for uncollectibles:										
Taxes	3,119	532					3,651		3,651	3,071
Due from federal government	105,958	101,682	87,209				294,849	12,571	307,420	300,409
Other receivables	1,009	10,604					11,613		11,613	14,434
Due from cities and towns	139,814	1,457					141,271		141,271	123,399
Due from other funds	15,884			376,050			391,934		391,934	377,783
Fixed assets:										
Land					448,885		448,885		448,885	412,579
Buildings					3,243,622		3,243,622		3,243,622	3,183,617
Machinery and equipment					806,729		806,729		806,729	726,958
Construction in progress					155,090		155,090		155,090	190,392
Amount to be provided for retirement of long-term obligations						9,296,238	9,296,238		9,296,238	9,332,639
Total assets and other debits	$ 465,665	$ 1,690,301	$ 87,209	$ 13,663,177	$ 4,654,326	$ 9,296,238	$ 29,856,916	$ 348,915	$ 30,205,831	$ 28,281,255

(Continued)

Exhibit B-4

COMMONWEALTH OF MASSACHUSETTS

COMBINED BALANCE SHEET - STATUTORY BASIS - ALL FUND TYPES AND ACCOUNT GROUPS

JUNE 30, 1993

(Amounts in thousands)

LIABILITIES, FUND EQUITY AND OTHER CREDITS	Governmental Fund Types			Fiduciary Fund Types	Account Groups				Totals (Memorandum Only)	
	General	Special Revenue	Capital Projects	Trust and Agency	General Fixed Assets	General Long-term Obligations	Subtotal (Memorandum Only)	Non-appropriated Higher Education (As restated)	1993	1992 (As restated)
Liabilities:										
Deficiency in cash and short-term investments	$ 549,333	$ 0	$ 74,612	$ 0	$ 0	$ 0	$ 623,945	$ 0	$ 623,945	$ 300,460
Accounts payable	320,689	288,178	246,581	44,090			899,538	36,176	935,714	751,872
Accrued payroll	57,239	13,463	1,434	333			72,469	484	72,953	47,875
Agency liabilities				2,010,502			2,010,502	1,238	2,011,740	2,053,249
Due to federal government				269,429			269,429		269,429	308,033
Due to cities and towns				12,710			12,710		12,710	13,284
Due to other funds				379,326			379,326	12,608	391,934	377,783
Obligations under lease/purchase						64,780	64,780		64,780	68,209
Bonds and notes payable	240,000		84,433			9,231,458	9,555,891		9,555,891	9,614,968
Total liabilities	1,167,261	301,641	407,060	2,716,390		9,296,238	13,888,590	50,506	13,939,096	13,535,733
Fund equity and other credits:										
Investment in general fixed assets					4,654,326		4,654,326		4,654,326	4,513,546
Fund balances (deficit):										
Reserved for:										
Continuing appropriations	64,007	42,619					106,626		106,626	231,030
Commonwealth stabilization		309,512					309,512		309,512	230,380
Debt service		3,797					3,797		3,797	5,156
Pension benefits				11,096,499			11,096,499		11,096,499	9,626,070
Unreserved:										
Designated for specific purpose		124,491		(149,712)			(25,221)	12,207	(13,014)	(58,129)
Undesignated	(765,603)	908,241	(319,851)				(177,213)	286,202	108,989	197,469
Total fund equity (deficit) and other credits	(701,596)	1,388,660	(319,851)	10,946,787	4,654,326		15,968,326	298,409	16,266,735	14,745,522
Total liabilities, fund equity and other credits	$ 465,665	$ 1,690,301	$ 87,209	$ 13,663,177	$ 4,654,326	$ 9,296,238	$ 29,856,916	$ 348,915	$ 30,205,831	$ 28,281,255

See notes to combined financial statements - statutory basis.

(Concluded)

Exhibit B-5

COMMONWEALTH OF MASSACHUSETTS

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - STATUTORY BASIS - ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUNDS

FISCAL YEAR ENDED JUNE 30, 1993

(Amounts in thousands)

	Governmental Fund Types			Fiduciary Fund Type			Totals (Memorandum Only)	
	General	Special Revenue	Capital Projects	Expendable Trust	Subtotal (Memorandum Only)	Non-appropriated Higher Education (As restated)	1993	1992 (As restated)
Revenues:								
Taxes	$ 5,906,225	$ 4,028,588	$ 0	$ 993,582	$ 10,928,395	$ 0	$ 10,928,395	$ 10,270,260
Assessments	190,595	423,023		3,640	617,258		617,258	775,147
Federal grants and reimbursements	2,662,268	1,171,995	727,395	638,064	5,199,722	134,975	5,334,697	4,696,889
Departmental	478,429	2,888,785	526	3,006	3,370,746	900,022	4,270,768	3,632,755
Miscellaneous	322,522	58,633	274	59,849	441,278	185,034	626,312	561,101
Total revenues	9,560,039	8,571,024	728,195	1,698,141	20,557,399	1,220,031	21,777,430	19,936,152
Other financing sources:								
Proceeds of general obligation bonds			368,367		368,367		368,367	720,847
Proceeds of special obligation bonds								100,000
Proceeds of refunding bonds			1,891,468		1,891,468		1,891,468	574,313
Fringe benefit cost recovery	138,296				138,296		138,296	91,060
Operating transfers in	197,780	761,146	108,090	2,768	1,069,784	12	1,069,796	923,968
Stabilization transfer		76,872			76,872		76,872	170,020
Other sources	16,250	1	26,104	1,683	44,038		44,038	54,283
Total other financing sources	352,326	838,019	2,394,029	4,451	3,588,825	12	3,588,837	2,634,491
Total revenues and other financing sources	9,912,365	9,409,043	3,122,224	1,702,592	24,146,224	1,220,043	25,366,267	22,570,643
Expenditures:								
Legislature	41,123		4		41,127		41,127	42,952
Judiciary	84,185	223,923	911	2,179	311,198		311,198	308,249
Inspector General	1,279		119		1,398		1,398	998
Governor and Lieutenant Governor	3,651				3,651		3,651	3,625
Secretary of the Commonwealth	11,705	2,118	10	7	13,840		13,840	12,116
Treasurer and Receiver - General	102,883	1,553,309	14,486	20	1,670,698		1,670,698	1,383,060
Auditor of the Commonwealth	9,466	717		347	10,530		10,530	10,530
Attorney General	17,884	2,421	1,221	672	22,198		22,198	18,944
Ethics Commission	1,002				1,002		1,002	892
District Attorney	11,052	32,910		3,039	47,001		47,001	42,517
Office of Campaign and Political Finance	545				545		545	467
Board of Library Commissioners		4,530	14,360	1	18,891		18,891	7,550
Comptroller	5,037	525	2,092		7,654		7,654	6,314
Administration and finance	709,412	218,833	108,617	1,132	1,037,994		1,037,994	1,329,945

(Continued)

Exhibit B-6

COMMONWEALTH OF MASSACHUSETTS

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - STATUTORY BASIS - ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUNDS

FISCAL YEAR ENDED JUNE 30, 1993

(Amounts in thousands)

	Governmental Fund Types			Fiduciary Fund Type			Totals (Memorandum Only)	
	General	Special Revenue	Capital Projects	Expendable Trust	Subtotal (Memorandum Only)	Non-appropriated Higher Education (As restated)	1993	1992 (As restated)
Expenditures (continued):								
Environmental affairs	28,625	132,303	122,083	5,610	288,621		288,621	237,676
Communites and development	172,419	191,263	33,073	3,210	399,965		399,965	427,233
Health and human services	3,193,277	906,007	10,969	56,885	4,167,138		4,167,138	4,011,797
Transportation and construction	596,270	226,365	949,844	819	1,773,298		1,773,298	1,242,497
Education	10,187	460,145	13,456	1,216	485,004		485,004	430,984
Educational affairs	2,201	7,390			9,591		9,591	3,461
Higher education	543,497	14,833	6,831	164	565,325	1,123,434	1,688,759	1,691,311
Public safety	325,647	284,128	14,502	2,259	626,536		626,536	571,231
Economic affairs	21,813	190,056	1,736	1,499,780	1,713,385		1,713,385	1,880,114
Elder affairs	122,323	27,413	12	26	149,774		149,774	136,593
Consumer affairs	24,957	5,100	1	2,541	32,599		32,599	29,899
Labor	22,370	1,802		24,321	48,493		48,493	50,802
Direct local aid	5,318	2,541,183			2,546,501		2,546,501	2,358,926
Medicaid	3,151,361				3,151,361		3,151,361	2,817,674
Pension	338,460	529,694			868,154		868,154	751,519
Debt service:								
Principal retirement	290,518	301,975			592,493		592,493	342,282
Interest and fiscal charges	319,674	230,501			550,175		550,175	558,784
Total expenditures	10,168,141	8,089,444	1,294,327	1,604,228	21,156,140	1,123,434	22,279,574	20,710,942
Other financing uses:								
Payments to refunded bond escrow agent			1,891,468		1,891,468		1,891,468	574,313
Fringe benefit cost assessment		52,696	11,613	1,513	65,822	72,474	138,296	91,059
Operating transfers out	37,964	920,770	108,254	2,574	1,069,562	222	1,069,784	923,963
Stabilization transfer	46,123	30,749			76,872		76,872	170,020
Other uses		257			257		257	
Total other financing uses	84,087	1,004,472	2,011,335	4,087	3,103,981	72,696	3,176,677	1,759,355
Total expenditures and other financing uses	10,252,228	9,093,916	3,305,662	1,608,315	24,260,121	1,196,130	25,456,251	22,470,297
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	(339,863)	315,127	(183,438)	94,277	(113,897)	23,913	(89,984)	100,346
Fund balances (deficit) at beginning of year	(361,733)	1,073,533	(136,413)	(249,831)	325,556	274,496	600,052	499,708
Fund balances (deficit) at end of year	$ (701,596)	$ 1,388,660	$ (319,851)	$ (155,554)	$ 211,659	$ 298,409	$ 510,068	$ 600,052

See notes to combined financial statements - statutory basis.

(Concluded)

Exhibit B-7

COMMONWEALTH OF MASSACHUSETTS

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES – STATUTORY BASIS
BUDGET AND ACTUAL – GENERAL AND BUDGETED SPECIAL REVENUE FUNDS

FISCAL YEAR ENDED JUNE 30, 1993

(Amounts in thousands)

	General Fund			Budgeted Special Revenue Funds			Totals (Memorandum Only)		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
Revenues:									
Taxes	$ 5,796,200	$ 5,906,225	$ 110,025	$ 3,888,800	$ 4,023,669	$ 134,869	$ 9,685,000	$ 9,929,894	$ 244,894
Assessments		190,595	190,595		7,913	7,913		198,508	198,508
Federal grants and reimbursements	2,648,600	2,662,268	13,668	5,600	11,808	6,208	2,654,200	2,674,076	19,876
Departmental	729,800	478,429	(251,371)	482,900	542,003	59,103	1,212,700	1,020,432	(192,268)
Miscellaneous		322,522	322,522		36,489	36,489		359,011	359,011
Total revenues	9,174,600	9,560,039	385,439	4,377,300	4,621,882	244,582	13,551,900	14,181,921	630,021
Other financing sources:									
Fringe benefit cost recovery		138,296	138,296					138,296	138,296
Operating transfers in	305,900	197,780	(108,120)	536,800	594,569	57,769	842,700	792,349	(50,351)
Stabilization transfer					76,872	76,872		76,872	76,872
Other sources	45,000	16,250	(28,750)		1	1	45,000	16,251	(28,749)
Total other financing sources	350,900	352,326	1,426	536,800	671,442	134,642	887,700	1,023,768	136,068
Total revenues and other financing sources	9,525,500	9,912,365	386,865	4,914,100	5,293,324	379,224	14,439,600	15,205,689	766,089
Expenditures:									
Legislature	54,028	41,123	12,905				54,028	41,123	12,905
Judiciary	86,179	84,185	1,994	228,570	221,825	6,745	314,749	306,010	8,739
Inspector General	1,289	1,279	10				1,289	1,279	10
Governor and Lieutenant Governor	4,253	3,651	602				4,253	3,651	602
Secretary of the Commonwealth	11,825	11,705	120	1,401	1,395	6	13,226	13,100	126
Treasurer and Receiver – General	108,657	102,883	5,774	1,207	807	400	109,864	103,690	6,174
Auditor of the Commonwealth	9,469	9,466	3	717	717		10,186	10,183	3
Attorney General	18,195	17,884	311	734	712	22	18,929	18,596	333
Ethics Commission	1,009	1,002	7				1,009	1,002	7
District Attorney	13,163	11,052	2,111	33,489	31,191	2,298	46,652	42,243	4,409
Office of Campaign and Political Finance	547	545	2				547	545	2
Board of Library Commissioners				2,198	1,729	469	2,198	1,729	469
Comptroller	5,046	5,037	9	525	525		5,571	5,562	9
Administration and finance	757,799	709,412	48,387	216,229	202,356	13,873	974,028	911,768	62,260
Environmental affairs	31,668	28,625	3,043	120,962	111,053	9,909	152,630	139,678	12,952
Communities and development	179,533	172,419	7,114	1,874	1,682	192	181,407	174,101	7,306

(Continued)

Exhibit B-8

COMMONWEALTH OF MASSACHUSETTS

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES – STATUTORY BASIS
BUDGET AND ACTUAL – GENERAL AND BUDGETED SPECIAL REVENUE FUNDS

FISCAL YEAR ENDED JUNE 30, 1993

(Amounts in thousands)

	General Fund			Budgeted Special Revenue Funds			Totals (Memorandum Only)		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
Expenditures (continued):									
Health and human services	3,295,589	3,193,277	102,312	42,354	15,931	26,423	3,337,943	3,209,208	128,735
Transportation and construction	606,500	596,270	10,230	249,252	221,812	27,440	855,752	818,082	37,670
Education	10,745	10,187	558	72,270	71,444	826	83,015	81,631	1,384
Educational affairs	2,374	2,201	173	7,323	7,323		9,697	9,524	173
Higher education	557,799	543,497	14,302	1,611	1,448	163	559,410	544,945	14,465
Public safety	332,089	325,647	6,442	273,778	259,043	14,735	605,867	584,690	21,177
Economic affairs	23,152	21,813	1,339	18,283	15,273	3,010	41,435	37,086	4,349
Elder affairs	123,974	122,323	1,651	3,194	3,188	6	127,168	125,511	1,657
Consumer affairs	26,288	24,957	1,331	4,780	4,322	458	31,068	29,279	1,789
Labor	24,473	22,370	2,103				24,473	22,370	2,103
Direct local aid	5,366	5,318	48	2,549,519	2,541,183	8,336	2,554,885	2,546,501	8,384
Medicaid	3,158,280	3,151,361	6,919				3,158,280	3,151,361	6,919
Pension	350,517	338,460	12,057	532,983	529,694	3,289	883,500	868,154	15,346
Debt service:									
Principal retirement	290,518	290,518		306,888	300,561	6,327	597,406	591,079	6,327
Interest and fiscal charges	361,711	319,674	42,037	257,102	228,770	28,332	618,813	548,444	70,369
Total expenditures	10,452,035	10,168,141	283,894	4,927,243	4,773,984	153,259	15,379,278	14,942,125	437,153
Other financing uses:									
Fringe benefit cost assessment					9,635	(9,635)		9,635	(9,635)
Operating transfers out	37,964	37,964		125,707	125,707		163,671	163,671	0
Stabilization transfer		46,123	(46,123)		30,749	(30,749)		76,872	(76,872)
Other uses					257	(257)		257	(257)
Total other financing uses	37,964	84,087	(46,123)	125,707	166,348	(40,641)	163,671	250,435	(86,764)
Total expenditures and other financing uses	10,489,999	10,252,228	237,771	5,052,950	4,940,332	112,618	15,542,949	15,192,560	350,389
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	(964,499)	(339,863)	624,636	(138,850)	352,992	491,842	(1,103,349)	13,129	1,116,478
Fund balances (deficit) at beginning of year	(361,733)	(361,733)		911,177	911,177		549,444	549,444	
Fund balances (deficit) at end of year	$ (1,326,232)	$ (701,596)	$ 624,636	$ 772,327	$ 1,264,169	$ 491,842	$ (553,905)	$ 562,573	$ 1,116,478

See notes to combined financial statements – statutory basis.

(Concluded)

Exhibit B-9

COMMONWEALTH OF MASSACHUSETTS

COMBINED STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND BALANCES - STATUTORY BASIS -
NONEXPENDABLE TRUST FUNDS AND PENSION TRUST FUNDS

FISCAL YEAR ENDED JUNE 30, 1993

(Amounts in thousands)

	Fiduciary Fund Types		Totals (Memorandum Only)	
	Non-expendable Trust Funds	Pension Trust Funds	1993	1992
Operating revenues:				
Contributions:				
Local pension systems	$ 0	$ 0	$ 0	$ 1,718
Employees		349,531	349,531	340,617
Investment earnings		1,301,368	1,301,368	1,136,969
Total operating revenues		1,650,899	1,650,899	1,479,304
Other financing sources:				
Operating transfers in		76,489	76,489	101,554
Total operating revenues and other financing sources		1,727,388	1,727,388	1,580,858
Operating expenses:				
Administration		3,276	3,276	2,947
Payments to beneficiaries and cities and towns		177,194	177,194	196,516
Total operating expenses		180,470	180,470	199,463
Other financing uses:				
Operating transfers out	12	76,489	76,501	101,559
Total operating expenses and other financing uses	12	256,959	256,971	301,022
Net income (deficit)	(12)	1,470,429	1,470,417	1,279,836
Fund balances at beginning of year	5,854	9,626,070	9,631,924	8,352,088
Fund balances at end of year	$ 5,842	$ 11,096,499	$ 11,102,341	$ 9,631,924

See notes to combined financial statements - statutory basis.

Exhibit B-10

COMMONWEALTH OF MASSACHUSETTS

NOTES TO COMBINED FINANCIAL STATEMENTS - STATUTORY BASIS

FISCAL YEAR ENDED JUNE 30, 1993

1. Financial Statement Presentation:

Introduction -

The accompanying combined financial statements - statutory basis of the Commonwealth of Massachusetts (the Commonwealth) are presented to fulfill part of the requirements of Section 12 of Chapter 7A of the Massachusetts General Laws. Concurrently, the Office of the Comptroller publishes the Commonwealth's Comprehensive Annual Financial Report (CAFR) which is prepared on the basis of generally accepted accounting principles (GAAP) for governments as prescribed by the Governmental Accounting Standards Board, the authoritative standard-setting body for establishing governmental accounting and financial reporting principles.

The combined financial statements - statutory basis include all budgeted and non-budgeted funds and account groups of the Commonwealth, as recorded by the Office of the Comptroller in compliance with Massachusetts General Laws and in accordance with the Commonwealth's budgetary principles. The non-appropriated funds of the Commonwealth's public institutions of higher education are also presented, as directed by special statute.

The combined financial statements - statutory basis are not intended to include independent authorities or other organizations included in the Commonwealth's reporting entity as it would be defined under GAAP.

Fund Accounting -

The Commonwealth reports its statutory basis financial position and results of operations in funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a set of self-balancing accounts that comprise its assets, liabilities, fund balances, revenues and expenditures. Transactions between funds within a fund type, if any, have not been eliminated.

Account groups are accounting entities used to provide accountability for the Commonwealth's general fixed assets and long-term obligations. They are not considered funds because they do not report expendable available financial resources and related liabilities.

1. Financial Statement Presentation (Continued):

These fund types and account groups are organized as follows:

Governmental Fund Types -

Governmental Funds support the governmental functions of the Commonwealth.

General Fund - is the primary operating fund of the Commonwealth. It is used to account for all governmental transactions, except those which state finance law or other statutes require to be accounted for in another fund. Certain activities reported in Special Revenue Funds in the combined financial statements - statutory basis are included in the General Fund under GAAP.

Special Revenue Funds - are established by law to account for specific revenue sources that have been segregated from the General Fund to support specific governmental activities. As discussed in Note 3, many of the Special Revenue Funds are included in the annual appropriation process and are considered budgeted funds.

The major budgeted Special Revenue Funds are the Highway and Local Aid Funds which, with the General Fund, are often identified as the operating funds of the Commonwealth. The Federal Grants and Lotteries Funds are examples of non-budgeted funds which support governmental activity.

Capital Projects Funds - are used to account for financial resources used to acquire or construct major capital assets and to finance local capital projects. These resources are derived primarily from proceeds of general obligation bonds, which are generally received after the expenditure has been incurred, and from federal reimbursements. Therefore, deficit balances in Capital Projects Funds represent amounts to be financed.

Fiduciary Fund Types -

Fiduciary Funds are used to account for assets held by the Commonwealth in a trustee capacity (Trust Funds), or as an agent (Agency Funds) for individuals, private organizations, other governmental units, and/or other funds.

Expendable Trust Funds - account for trusts whose principal and investment income may be expended for their designated purpose. The Unemployment Compensation Fund accounts for unemployment taxes collected from employers, interest earned or paid on the trust fund balance and the payment of benefits to the unemployed.

1. Financial Statement Presentation (Continued):

Fiduciary Fund Types (continued) -

Nonexpendable Trust Funds - account for trusts whose principal cannot be spent. Within this fund type, the Massachusetts School Fund's principal balance of $5,000,000 earned investment income of $101,000, which was credited directly to the Local Aid Fund for expenditure during fiscal year 1993, as required by statute.

Pension Trust Funds - are used to account for the assets, liabilities and fund balances held in trust for the State Employees' and Teachers' Annuities Funds and the Pension Reserve Fund.

Agency Funds - are custodial in nature (assets equal liabilities) and do not involve measurement of the results of operations.

Account Groups -

Account Groups establish control and accountability over the Commonwealth's general fixed assets and long-term obligations, primarily its bonded debt.

General Fixed Assets Account Group - is used to account for the general fixed assets of the Commonwealth.

General Long-term Obligations Account Group - is used to account for long-term bonds and notes payable as well as obligations under lease/purchase agreements.

Non-appropriated Higher Education Funds -

The non-appropriated funds of the Commonwealth's public institutions of higher education have been recorded as a separate fund type which combines a variety of statutory basis financial activities to report in compliance with Section 339 of Chapter 138, Acts of 1991.

2. Summary of Significant Accounting Policies:

Statutory basis of accounting -

The Statutory Basis Financial Report is prepared from the Commonwealth's books and records and other official reports which are maintained on the basis of accounting used in the preparation of the Commonwealth's legally adopted annual budget (statutory basis). The statutory basis emphasizes accountability and the budgetary control of appropriations, and the Statutory Basis Financial Report is not intended to present the Commonwealth's financial condition and results of operations in conformity with GAAP.

Revenues are generally recognized when cash is received. However, revenues receivable for federal grants and reimbursements are recognized when related expenditures are incurred, and amounts due from certain political subdivisions of the Commonwealth are recognized when considered measurable and available at year end. GAAP requires that revenues be recognized when measurable and available.

Expenditures generally are recorded when the related cash disbursement occurs. At year end, payroll is accrued and payables are recognized, to the extent of approved encumbrances, for goods or services received by June 30. Costs incurred under the federally-sponsored Medicaid program, amounts required to settle claims and judgments against the Commonwealth, and certain other liabilities are not recognized until they are encumbered or otherwise processed for payment. Under GAAP, liabilities are recognized to the extent of costs incurred, without regard to statutory encumbrance limitations.

The accounting policies followed in preparing the accompanying combined financial statements - statutory basis are described as follows.

Cash and short-term investments and investments -

The Commonwealth follows the practice of pooling the cash and cash equivalents of its Governmental and Fiduciary Funds. Cash equivalents consist of short-term investments which are stated at cost. Interest earned on pooled cash is allocated to the General Fund and Expendable Trust Funds and to certain Special Revenue Funds when so directed by law.

2. Summary of Significant Accounting Policies (Continued):

Cash and short-term investments and investments (Continued) -

Investments of the Pension Trust Funds are stated at market. The Massachusetts State Teachers and Employees Retirement Systems Trust (the Trust) and the Pension Reserves Investment Trust Fund (the Fund), collectively the Pension Trust Funds have acquired investments in real estate, venture capital funds, real estate funds, limited partnerships, futures pools, international hedge pools, commodities pools, balanced pools, leverage buyouts, private placements and other alternative investments. The structure, risk profile, return potential and marketability of these investments differ from traditional equity and fixed income investments. The estimated values, determined by management with input from the investment managers, of these alternative investments were $487,529,832 in the Trust and $588,502,887 in the Fund.

Other investments are stated at cost.

Receivables -

Receivables are stated net of estimated allowances for uncollectible accounts. Reimbursements due to the Commonwealth for its expenditures on federally-funded reimbursement and grant programs are reported as "Due from federal government."

Advances to related entity -

The Commonwealth periodically provides working capital advances to the Massachusetts Bay Transportation Authority (MBTA) to fund its net cost of service. A portion of these advances is financed by sales of short-term notes which are repaid through subsequent appropriations by the Legislature and assessments to cities and towns for their respective shares of the MBTA's net cost of service.

Inventories -

Purchases of materials and supplies are recorded as expenditures. No inventories are reported on the statutory basis.

2. Summary of Significant Accounting Policies (Continued):

General fixed assets -

General fixed asset acquisitions are recorded as expenditures in the Governmental Fund Types and Expendable Trust Funds. They are also capitalized in the General Fixed Assets Account Group in the year of purchase. General fixed assets are capitalized at historical cost, or at estimated historical cost if actual historical cost is not available. Donated fixed assets are recorded at fair market value at the time of donation.

The Commonwealth capitalizes all land. It capitalizes buildings and equipment, including computer software, with costs in excess of fifteen thousand dollars at the date of acquisition and with expected useful lives greater than one year. Infrastructure (roads, bridges, tunnels, dams, water and sewer systems, etc.) is not capitalized. No depreciation is provided on general fixed assets.

Interfund/intrafund transactions -

During the course of its operations, the Commonwealth records transactions between funds and/or between departments. On the statutory basis, transactions between Governmental and Fiduciary Fund Types are recorded as adjustments to the funds' cash accounts. As a result, a fund may report a deficiency in cash and short-term investments.

Transactions of a buyer/seller nature between departments within a fund are not eliminated. GAAP requires that such transactions within a fund be eliminated.

Risk financing -

The Commonwealth does not insure for workers' compensation, casualty, theft, tort claims and other losses, and such liabilities are not recognized on the statutory basis until encumbered and/or processed for payment. For workers' compensation, the Commonwealth assumes the full risk of claims filed under a program managed by the Public Employee Retirement Administration. For personal injury or property damages, Chapter 258 of the Massachusetts General Laws limits the risk assumed by the Commonwealth to $100,000 per occurrence, in most circumstances. The Group Insurance Commission administers contributory health care and other insurance programs for the Commonwealth's employees and retirees.

2. Summary of Significant Accounting Policies (Continued):

Encumbrances -

Encumbrance accounting is utilized in the Governmental Fund Types as a significant aspect of budgetary control. The full amounts of purchase orders, contracts and other commitments of appropriated resources are encumbered and recorded as deductions from appropriations prior to actual expenditure, ensuring that such commitments do not exceed appropriations. Encumbrances outstanding at year end for goods or services received on or before June 30 are reported as statutory basis liabilities and expenditures; excess encumbrances are lapsed.

Fringe benefit cost recovery -

The Commonwealth appropriates and pays the fringe benefit costs of its employees and retirees through the General Fund and a budgeted Special Revenue Fund. These fringe benefits include the costs of employees' health insurance, pensions, unemployment compensation, and other costs necessary to support the state work force. As directed by Chapter 29, Sections 5D and 6B(f) of the Massachusetts General Laws, these costs are assessed to other funds based on their payroll costs, net of credits for direct payments. Since these fringe benefit costs are not separately appropriated or otherwise provided for in these funds, the required assessment creates unfavorable budget variances at year end.

Compensated absences -

Employees are granted vacation and sick leave in varying amounts based on collective bargaining agreements and state laws. Upon retirement, termination or death, certain employees are compensated for unused vacation and sick leave (subject to certain limitations) at their then-current rate of pay. Vacation and sick leave are recorded as expenditures when paid.

Fund balances -

In the Governmental Fund Types, fund balances are reported as reserved where legally restricted for a specific future use. Otherwise, these balances are considered unreserved.

2. Summary of Significant Accounting Policies (Continued):

Fund balances (Continued) -

Fund balance has been reserved as follows:

"Reserved for continuing appropriations" - identifies unexpended amounts in appropriations which the Legislature has specifically authorized to be carried into the next fiscal year.

"Reserved for Commonwealth stabilization" - identifies amounts set aside according to Section 5C of Chapter 29 of the Massachusetts General Laws, which limits to 0.5% of tax collections the amount of undesignated fund balance in the General, Highway, and Local Aid Funds that can be carried forward to the next fiscal year. Any amount in excess of that limit is transferred to the Commonwealth Stabilization Fund, from which appropriations may be made for purposes specified in Section 2H of Chapter 29B.

"Reserved for debt service" - identifies amounts held by fiscal agents to fund future debt service obligations pertaining to the Commonwealth Fiscal Recovery Loan Act of 1990, and to Special Obligation Revenue Bonds authorized under Section 20 of Chapter 29 of the Massachusetts General Laws and Chapter 33, Acts of 1991.

"Reserved for pension benefits" - identifies amounts invested to finance the Commonwealth's public employee retirement systems.

Unreserved fund balance is segregated into two components:

"Designated for specific purpose" - identifies all unreserved fund balances for which the Legislature or Executive has evidenced an intention to restrict for a specific purpose.

"Undesignated" - consists of cumulative surpluses or deficits of the Governmental Fund Types not otherwise designated.

Total columns - memorandum only -

Total and subtotal columns on the combined financial statements - statutory basis are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present consolidated financial position, results of operations or changes in financial position. Interfund eliminations have not been made in the aggregation of this data.

2. Summary of Significant Accounting Policies (Continued):

Restatement -

The Commonwealth has redefined the Non-appropriated Higher Education Fund Type to include the University of Massachusetts Medical School - Group Practice Plan. This change was made to include activity that, while reported in a separate entity, is an integral part of the University of Massachusetts Medical School. The effect of the change was to increase July 1, 1992 fund balance in the Non-appropriated Higher Education Fund Type by $13,821,000.

In fiscal year 1993, the Commonwealth has also reported agency activity within the Higher Education Non-appropriated Fund Type as changes in assets and liabilities. Such activity was previously reported as revenues and expenditures. This change was made to more appropriately represent the Commonwealth's custodial responsibility for such agency accounts. The effect on the Higher Education Non-appropriated Fund Type was to decrease July 1, 1992 fund balance by $3,116,000.

Reclassification -

Certain reclassifications have been made to the 1992 balances to conform to the presentation used in 1993.

3. Budgetary Control:

Chapter 29B of the Massachusetts General Laws requires that a balanced budget be approved by the Governor and the Legislature. The Governor presents an annual budget to the Legislature which includes estimates of revenues, expenditures and other financing sources and uses anticipated during the coming fiscal year. The Legislature, which has full authority to amend the budget, adopts an expenditure budget by appropriating monies and estimating revenues and other financing sources available to support the expenditures.

Before signing the appropriation act, the Governor may veto or reduce any item, subject to legislative override. Further changes to the budget established in the annual appropriation act may be made via supplemental appropriation acts or other legislative acts. These must also be signed by the Governor and are subject to the line item veto.

3. Budgetary Control (Continued):

The majority of the Commonwealth's appropriations are non-continuing accounts which lapse at the end of each fiscal year. Others are continuing accounts for which the Legislature has authorized that an unspent balance from the prior fiscal year be carried forward and made available for current spending. In addition, the Legislature may direct that certain revenues be retained and made available for spending within an appropriation account.

Generally, expenditures may not exceed the level of spending authorized for an appropriation account. Certain interfund assessments to allocate fringe benefits and other costs, however, are mandated by Sections 5D and 6B(f) of Chapter 29 of the Massachusetts General Laws. These allocations are not itemized in the appropriation process and are not separately budgeted.

The original fiscal year 1993 appropriation act was Chapter 133, Acts of 1992, which authorized $13,840,981,000 in direct appropriations, $547,426,000 in authorizations to retain and expend certain non-tax revenues and $175,766,000 of interagency chargebacks. Chapter 133 included projections of $9,685,000,000 in tax revenues and approximately $4,754,600,000 in non-tax revenues. With these revenues (exclusive of chargebacks) projected to total approximately $14,439,600,000, and with unreserved balances of approximately $82,878,000 carried forward from fiscal year 1992, the budget as presented in this original appropriation act was considered to be in balance.

During fiscal year 1993, the Legislature also passed and the Governor signed, with some modification through veto, Chapters 152, 165, 218, 248, 267 and 289, Acts of 1992, and Chapters 19, 20, 50 and 78, Acts of 1993, which included numerous supplemental budgetary appropriations. These added approximately $412,636,000 in direct appropriations and $35,397,000 in additional retained revenue authorizations.

Subsequent to June 30, 1993, the Legislature passed and the Governor signed with modification through veto, Chapter 151, Acts of 1993, which included approximately $76,383,000 in additional supplemental appropriations. This raised the total of fiscal year 1993 budgetary appropriations and retained revenue authorizations to approximately $15,088,589,000. Appropriations continued from fiscal year 1992 totaled approximately $231,030,000, and certain intrafund and interfund transfers, directed by statute, totaled approximately $223,330,000.

Because revenue budgets are not updated subsequent to the original appropriation act, the comparison of the initial revenue budget to the subsequent, and often modified, expenditure budget can be misleading.

3. Budgetary Control (Continued):

In conducting the budget process, the Executive Office for Administration and Finance excludes those interfund transactions that by their nature have no impact on the combined fund balance of the budgeted funds. The following table isolates this interfund activity from the budgeted sources and uses to align more clearly forecasts prepared during the budget process to the detailed fund accounting of the Commonwealth's annual financial statements (amounts in thousands):

	Revenues and other financing sources	Expenditures and other financing uses
As presented in the combined budget and actual statement - statutory basis:	$15,205,689	$15,192,560
Adjustments to revenues and expenditures:		
Municipal transit assessments	(137,383)	(137,383)
School choice	(10,857)	(10,833)
Charges from the Intragovernmental Service Fund	(102,626)	(102,626)
Adjustments to other financing sources and uses:		
MBTA subsidy transfer from the Highway Fund to the General Fund	(58,890)	(58,890)
Early retirement reserve transfers	(86,988)	(86,988)
Fringe benefit cost assessments to budgeted funds	(9,635)	(9,635)
Transfer from the Intragovernmental Service Fund to the General Fund	(11,445)	(11,445)
Other operating transfers	(1,396)	(1,396)
Stabilization transfers	(76,872)	(76,872)
As presented on budgetary documents:	$14,709,597	$14,696,492

3. Budgetary Control (Continued):

The enacting or supplemental legislation determines the budgeted fund or funds to which the appropriation is assigned. If no Special Revenue Fund is specified, the appropriation is considered part of the General Fund. For these budgeted funds, the combined financial statements - statutory basis include a combined budget and actual statement.

The budgeted Special Revenue Funds are the Highway Fund, Local Aid Fund, Commonwealth Stabilization Fund, certain administrative control funds (Intragovernmental Service, Maximization and Commonwealth Fiscal Recovery) several environmental funds (Natural Heritage and Endangered Species, Mosquito and Greenhead Fly Control, Inland Fisheries and Game, Environmental Challenge, Toxics Use Reduction, Clean Environment, Environmental Permitting and Compliance Assurance, Underground Storage Tank Petroleum Product Cleanup, Environmental Law Enforcement, Public Access, Harbors and Inland Waters Maintenance, Marine Fisheries, Watershed Management and Low Level Radioactive Waste Management Funds), and various other funds (Antitrust Law Enforcement, Victim and Witness Assistance, Intercity Bus Capital Assistance, State Transportation Building Management, Springfield State Office Building Management, Motorcycle Safety, Re-Employment and Job Placement, Trust Fund for the Head Injury Treatment Services, Massachusetts Tourism, Health Care Access, Ponkapoag Recreational, Division of Insurance and Health Protection Funds).

The Child Care Affordability Scholarship Assistance Fund, established as a budgeted fund in fiscal 1991, and the Asbestos Cost Recovery Fund, established in fiscal year 1993, have had no appropriations or revenues.

The Office of the Comptroller has the responsibility to ensure that budgetary control is maintained on an individual appropriation account basis. Encumbrances or expenditures will not be approved by the Comptroller if they exceed the account's total spending authorization, based on appropriations, balances carried forward from the prior year and retained revenues. In the combined budget and actual statement, the expenditure budget amounts represent this total spending authority.

4. Deposits and Investments:

The Commonwealth maintains a cash and short-term investment pool that is available for use by all funds. Each fund type's net equity in this pool is displayed on the combined balance sheet as either "Cash and short-term investments" or "Deficiency in cash and short-term investments". The investments of the Pension Trust Funds are held and managed in separate and pooled trusts.

4. Deposits and Investments (Continued):

The Office of the Treasurer and Receiver-General (the Treasury) manages the Commonwealth's short-term investment pool. Statutes authorize investment in obligations of the U.S. Treasury, authorized bonds of all states, banker's acceptances, certificates of deposit, commercial paper rated within the three highest classifications established by Standard & Poor's Corporation and Moody's Commercial Paper Record and repurchase agreements that any of these obligations secure. Such investments are carried at cost, which approximates market.

The pooled cash and short-term investments at June 30, 1993, are as follows (amounts in thousands):

	Carrying Value
Cash	$ 241,702
Certificates of deposit	1,100
	242,802
Short-term investments:	
U.S. Treasury obligations	28,717
Commercial paper	99,019
Short-term investment pool	308,156
Repurchase agreements	720,000
	1,398,694
Non-appropriated Higher Education Fund Type cash managed at the campus level	92,380
Total	$1,491,074

4. Deposits and Investments (Continued):

The Pension Trust Funds have invested a significant portion of their portfolios in two pooled trusts which account for their operations in a manner similar to a mutual fund. The trusts are permitted to invest in equity securities, fixed income securities, real estate and other alternative investments. These investments are carried at market value. At June 30, 1993, they are as follows (amounts in thousands):

Investments:	
Equity securities	$ 5,672,501
U.S. government and government agency securities	2,261,656
Fixed income securities	1,460,943
Real estate	685,001
Commercial paper	8,673
Money market investments	593,108
Mutual funds	16,858
Alternative investments	336,393
Foreign government treasury obligations	183,218
Other	37,179
Subtotal	11,255,530
Net noninvestment assets and liabilities of pooled trusts	80,327
Total	$11,335,857

5. Short-term Financing and Credit Agreements:

Section 47 of Chapter 29 of the Massachusetts General Laws authorizes the Treasurer to issue temporary notes in anticipation of revenue or bond financing. When this short-term debt does not meet long-term refinancing criteria, it is classified among fund liabilities.

General Fund -

As authorized by Chapter 161A of the Massachusetts General Laws, the Commonwealth issues short-term notes to finance working capital advances from the Treasury to the MBTA. The Commonwealth retires these notes through subsequent appropriations and assessments to cities and towns. The notes outstanding at June 30, 1993, totaled $240,000,000, with an interest rate of 3.0%, and matured in November, 1993. The Commonwealth subsequently issued comparable notes, also in the amount of $240,000,000, with an interest rate of 3.4%, maturing in November, 1994.

5. Short-term Financing and Credit Agreements (Continued):

General Fund (continued) -

The balance of other revenue anticipation notes outstanding fluctuates during the fiscal year but must be reduced to zero at June 30. During fiscal year 1993, amounts outstanding ranged from zero to $370,000,000. Such borrowings were subject to a guarantee of up to $700,000,000 through letter of credit agreements.

Capital Projects Funds -

The Commonwealth has issued five-year term minibonds, which are redeemable upon demand, to finance its capital projects. At June 30, 1993, minibonds outstanding in the Capital Projects Funds totaled $84,433,000, with interest rates ranging from 5.0% to 9.7%.

The Commonwealth may issue bond anticipation notes to temporarily finance its capital projects, but it must reduce the balance to $200,000,000 at June 30. No such notes outstanding at June 30, 1993.

Letter of credit agreements -

During fiscal year 1993, the Commonwealth maintained letter of credit agreements with several banks to borrow up to $700,000,000 as a combination of advances and guarantees to provide credit and liquidity support for its commercial paper program. These agreements expire October 29, 1993 through September 30, 1994, and the average costs are approximately 0.3% on unutilized amounts and approximately 0.4% on utilized amounts.

Advances were available, subject to certain limitations and bearing interest at the bank rate as defined, in anticipation of revenue or bond proceeds and repayable by the following September 30, or convertible to term advances, at the Commonwealth's option. No such advances were drawn during the fiscal year ended June 30, 1993, or subsequent thereto.

During fiscal year 1993 the guarantee feature was utilized, and related fees totaled approximately $2,031,000.

Subsequent to June 30, 1993, expiring letters of credit totaling $300,000,000 were renewed, in the same aggregate amount, through October 28, 1994, with more favorable fees on both utilized and unutilized amounts.

5. Short-term Financing and Credit Agreements (Continued):

Line of credit agreement -

The Commonwealth maintained a revolving line of credit agreement with a bank through June 30, 1993, in the amount of $150,000,000. Under this agreement, interest was charged at the lesser of the federal funds rate plus 1.5%, or prime, with commitment fees payable quarterly on the excess of the commitment amount over the average daily outstanding principal amount drawn. This line of credit agreement was not utilized during fiscal year 1993; commitment fees totaled $75,000.

6. Long-term Bonds:

Under the Constitution of the Commonwealth of Massachusetts, 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, including 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 the payment of principal or interest on bonds and notes of the Commonwealth may also be subject to the provisions of federal or Commonwealth statutes, if any, enacted to extend the time for payment or impose other constraints upon enforcement.

6. Long-term Bonds (Continued):

As of June 30, 1993, the Commonwealth had three types of bonds outstanding: general obligation bonds, dedicated income tax bonds, and special obligation bonds. The general obligation bonds are authorized and issued primarily to provide funds for state-owned capital projects and local government improvements. They are backed by the full faith and credit of the Commonwealth and paid from the Governmental Funds, in which debt service principal and interest payments are appropriated. Section 49 of Chapter 29 of the Massachusetts General Laws provides for the allocation of bond proceeds to these authorizations in arrears, as expenditures are made, unless the proceeds are allocated at the time of issuance.

During fiscal year 1991, dedicated income tax bonds were issued as authorized by Chapter 151, Acts of 1990, to finance the combined net undesignated fund deficit in the General and Local Aid Funds at June 30, 1990. These bonds are designated Fiscal Recovery Loan, Act of 1990, and they are secured by the pledge of certain dedicated income tax revenues and the investment earnings thereon.

During fiscal year 1992, the Commonwealth issued special obligation revenue bonds as authorized under Section 20 of Chapter 29 of the Massachusetts General Laws. These bonds are secured by all or a portion of revenues credited to the Highway Fund and are not general obligations of the Commonwealth. Chapter 33, Acts of 1991, authorized the issuance of such special obligation bonds in an aggregate amount not to exceed $1,125,000,000, in fiscal years 1992 through 1994. At June 30, 1993, the Commonwealth had outstanding $103,770,000 of such special obligation bonds, secured by a pledge of 2 cents of the 21-cent motor fuel excise tax imposed on gasoline.

For financial reporting purposes, long-term bonds are carried at their face amount, which includes discount and any issuance costs financed. The outstanding amount represents the total principal to be repaid; for capital appreciation bonds, it represents total principal and interest to be repaid. When short-term debt has been refinanced on a long-term basis it is reported as outstanding at its face amount.

6. Long-term Bonds (Continued):

The amount of bonds authorized but unissued is measured in accordance with the statutory basis of accounting, with only the net proceeds (exclusive of discount and costs of issuance) deducted from the total authorized by the Legislature.

General and special obligation long-term bonds outstanding and bonds authorized-unissued at June 30, 1993, are as follows (amounts in thousands):

	Outstanding		Authorized -unissued
Purpose	Amount	Maturity dates	Amount
Deficit reduction:			
Fiscal recovery	$1,044,865	1994 - 1998	$ 57,274
Capital projects:			
General	5,652,564	1994 - 2019	2,260,330
Highway	1,583,804	1994 - 2013	1,388,369
Local aid	759,466	1994 - 2013	840,283
Other	190,759	1994 - 2015	68,111
Capital projects bonds	8,186,593		4,557,093
Total	$9,231,458		$4,614,367

Interest rates on the Commonwealth's bonded debt outstanding at June 30, 1993 ranged from 1.1% to 9.6%.

6. Long-term Bonds (Continued):

Changes in long-term bonds outstanding and bonds authorized-unissued for the year ended June 30, 1993, are as follows (amounts in thousands):

	Bonds outstanding	Authorized -unissued
Balance, July 1, 1992	$9,264,430	$6,393,833
General and special obligation bonds:		
Principal less discount and issuance costs	418,567	(418,567)
Discount and issuance costs	8,118	
General obligation refunding bonds:		
Principal less discount and issuance costs	1,891,468	
Discount and issuance costs	26,182	
Bonds retired	(2,327,107)	
Increase in bonds authorized		141,100
Expiration of authorizations		(1,552,199)
Retirement of bond anticipation notes	(50,200)	50,200
Balance, June 30, 1993	$9,231,458	$4,614,367

At June 30, 1993, debt service requirements to maturity for principal (including discount, capital appreciation and issuance costs) and interest are as follows (amounts in thousands):

Year ending June 30	Principal	Interest	Total
1994	$ 599,695	$ 503,141	$1,102,836
1995	630,269	465,497	1,095,766
1996	643,831	429,277	1,073,108
1997	670,380	387,169	1,057,549
1998	593,332	346,126	939,458
1999 and thereafter	6,093,951	2,235,888	8,329,839
Total	$9,231,458	$4,367,098	$13,598,556

In connection with the issuance of bonds and notes, the Commonwealth's fiscal year 1993 costs for legal counsel and underwriting fees were approximately $712,000 and $12,734,000, respectively.

6. Long-term Bonds (Continued):

Subsequent to June 30, 1993, the Commonwealth issued $842,995,000 in general obligation refunding bonds, as authorized by Section 53A of Chapter 29 of the Massachusetts General Laws, with interest rates ranging from 4.1% to 6.0%, and $200,000,000 in general obligation bonds, with interest rates ranging from 3.5% to 4.875%.

Advance refundings and defeased bonds

As authorized by Section 53A of Chapter 29 of the Massachusetts General Laws, the Commonwealth advance refunded certain general obligation and other bonds through the issuance of $1,917,650,000 of general obligation refunding bonds during fiscal year 1993. Proceeds totaling approximately $1,890,000,000 were used to purchase U.S. Government securities which, with a cash deposit of approximately $1,194,000, were deposited in irrevocable trusts with an escrow agent to provide for all future debt service payments of the refunded bonds. As a result, the refunded bonds are considered to be defeased, and the liabilities therefor have been removed from the General Long-term Obligations Account Group. As a result of these advance refundings, the Commonwealth decreased its current year debt service payments and has taken advantage of lower interest rates, and it has decreased its aggregate debt service payments by approximately $102,732,000 over the next 20 years and incurred an economic gain (the difference between the present values of the debt service payments of the refunded and refunding bonds) of approximately $95,150,000. At June 30, 1993, approximately $1,270,000,000 of the bonds so refunded remain outstanding and are considered defeased.

In prior years, the Commonwealth also defeased certain general obligation and other bonds by placing the proceeds of refunding bonds in irrevocable trusts to provide for all future debt service payments on the refunded bonds. Accordingly, the trust account assets and the liabilities for the defeased bonds are not included in the financial statements. At June 30, 1993, approximately $1,543,000,000 of bonds outstanding from advance refundings in prior fiscal years are considered defeased.

6. Long-term Bonds (Continued):

Statutory debt limit -

In fiscal years 1990 and 1991, Section 60A of Chapter 29, of the Massachusetts General Laws was amended to establish a limit on the amount of direct debt outstanding, effective at the beginning of fiscal year 1991. By statutorily limiting the Commonwealth's ability to issue direct debt, these amendments provide a control on annual capital spending. The first-year limit was $6,800,000,000, with an increase of 5% allowed in each successive fiscal year. The direct debt limit for fiscal year 1993 was $7,497,000,000.

For purposes of determining compliance with the limit, direct debt is defined to include general obligation bonds and minibonds at the amount of their original net proceeds. It excludes discount and issuance costs, if any, financed by these bonds. It also excludes dedicated income tax bonds issued under Chapter 151, Acts of 1990, special obligation bonds issued under Section 20 of Chapter 29 of the Massachusetts General Laws, refunded bonds, refunding bonds issued under Section 5 of Chapter 5, Acts of 1991, and bond anticipation notes. Outstanding direct debt, as defined, totaled approximately $7,304,584,000 at June 30, 1993.

7. Obligations under Lease and Lease/Purchase Agreements:

In order to finance the acquisition of equipment, the Commonwealth has entered into various lease/purchase agreements, including tax-exempt lease purchase (TELP) agreements, which are accounted for as capital leases. These agreements are for various terms, and contain clauses indicating that their continuation is subject to appropriation by the Legislature.

A telecommunications system has been acquired for the University of Massachusetts (UMass) through a capital lease. The lease was financed, under a trust agreement, through the issuance of certificates of participation for approximately $18,700,000, which bear interest at an average rate of 7.38% and mature in varying semiannual installments through 2000. Lease payments are funded from UMass student fees and approximate the trustee's payments to certificate holders.

7. Obligations under Lease and Lease/Purchase Agreements (Continued):

At June 30, 1993, the Commonwealth's aggregate outstanding liability under capital leases, the present value of the net minimum lease payments, totals $64,780,000. This liability is reported in the General Long-term Obligations Account Group. Equipment acquired under capital leases and included in the General Fixed Assets Account Group totaled approximately $111,750,000.

The Commonwealth leases real property and equipment under numerous operating lease agreements for varying terms. These agreements contain clauses which indicate that their continuation is subject to appropriation by the Legislature. Rental expense for the fiscal year ended June 30, 1993 was approximately $86,903,000.

The following is a schedule of future minimum payments under non-cancellable leases as of June 30, 1993 (amounts in thousands):

	Capital leases			Operating
Year ending June 30	Commonwealth	UMass	Total	leases
1994	$18,205	$ 8,055	$26,260	$79,098
1995	10,908	6,741	17,649	60,259
1996	5,387	5,527	10,914	43,271
1997	1,562	4,757	6,319	8,844
1998	947	4,490	5,437	4,109
1999 and thereafter	2,661	11,181	13,842	9,520
Total	39,670	40,751	80,421	$205,101
Less: Amount representing interest	(5,709)	(9,932)	(15,641)	
Present value of minimum lease payments	$33,961	$30,819	$64,780	

8. Individual Fund Deficits:

The General Fund and certain Special Revenue and Capital Projects Funds included in the combined totals have fund deficits at June 30, 1993, as follows (amounts in thousands):

Fund	
General	$ 701,596
Budgeted Special Revenue:	
Environmental:	
Natural Heritage and Endangered Species	32
Environmental Permitting and Compliance Assurance	5,267
Other:	
Antitrust Law Enforcement	905
Victim and Witness Assistance	2,276
Intercity Bus Capital Assistance	8,705
Non-budgeted Special Revenue:	
Other:	
Government Land Bank	20,259
Federally-assisted Housing	9,078
Capital Projects:	
General	158,440
Highway	119,343
Local Aid:	
Community Development Action Grants	20,901
Lockup Facilities Improvements	179
County Correctional Facilities	519
Local Infrastructure	87
Water Pollution Control	11,562
Other:	
State Recreation Areas	1,508
Metropolitan Parks	7,352
Intercity Bus Capital Assistance	7
Total	$1,068,016

8. Individual Fund Deficits (Continued):

In order to resolve the deficits in the budgeted General and Special Revenue Funds, the Comptroller has recommended the authorization of transfers from other budgeted funds with surplus balances or a plan of fund consolidation. For the non-budgeted Special Revenue Funds, the Comptroller has recommended similar budgeted transfers to subsidize and resolve the deficits, or their consolidation into budgeted funds. Such steps require legislative action.

In the Capital Projects Funds, the recognition of minibonds as fund liabilities accounts for $84,433,000 of the reported fund deficits. The remaining deficits to be financed, approximately $235,465,000, reflect the time lag between capital expenditures and the receipt or allocation of proceeds from the sale of related bonds. During the fiscal year ended June 30, 1993, the Commonwealth continued its policy of reducing the time elapsed between those events. Certain restrictions within Section 20 of Chapter 29 limit the Commonwealth's ability to sell special obligation bonds which would finance approximately $76,428,000 of the deficit in the Highway Capital Projects Fund. Legislative changes have been requested to eliminate these restrictions. If legislative changes are not enacted and bonds are not sold prior to March 1, 1994, then the Commonwealth could lose the ability to reimburse its Treasury for all or a portion of these funds.

9. Medicaid Costs:

The Commonwealth provides medical care for low-income, elderly and other residents who qualify for such assistance under the federally-sponsored Medical Assistance Program, known as Medicaid. The Commonwealth pays the full cost of care and is reimbursed by the federal government for 50% of that cost. For the fiscal year ended June 30, 1993, the General Fund includes $3,151,361,000 in expenditures for Medicaid claims processed for payment.

The combined financial statements - statutory basis include Medicaid claims processed but unpaid at June 30, 1993, as accounts payable of approximately $6,093,000. In addition, the Commonwealth estimates its liability, as determined in accordance with generally accepted accounting principles at $931,000,000. This amount includes estimates of both the cost of care provided as of June 30, 1993, for which claims have not been processed, and the cost associated with nursing home and hospital rate settlements and other costs. Of this amount, 50% is expected to be reimbursed by the federal government.

9. Medicaid Costs (Continued):

Subsequent to June 30, 1993, the Commonwealth reached settlements with certain hospitals, and it also certified disputed nursing home rates on a retroactive basis. These actions are expected to reduce the Commonwealth's Medicaid liability in fiscal year 1994.

10. Retirement Systems:

The Commonwealth is responsible for the pension benefits of Commonwealth employees (members of the State Employees' Retirement System) and the teachers of its cities, towns, regional school districts and Quincy College (members of the Teachers' Retirement System, except for 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 systems do not participate in the Social Security System. The Commonwealth has also assumed responsibility for payment of cost-of-living adjustments (COLA) for the separate (non-teacher) retirement systems of its cities, towns and counties.

Employees of certain independent authorities and agencies, such as the MBTA, and of counties, cities and towns (other than teachers) are covered by separate retirement systems. Also, certain Commonwealth employees and current retirees employed prior to the establishment of the State Employees' Retirement System are covered on a "pay-as-you-go" basis.

Plan descriptions -

State Employees' Retirement System (SERS) is a single employer defined benefit public employee retirement system (PERS), covering substantially all employees of the Commonwealth and certain employees of the independent authorities and agencies.

Teachers' Retirement System (TRS) is an agent multiple employer defined benefit PERS. The Commonwealth is a non-employer contributor and is responsible for all contributions and future benefit requirements of TRS. The TRS covers certified teachers in cities (except the City of Boston), towns, regional school districts and Quincy College.

10. Retirement Systems (Continued):

Plan descriptions (continued) -

State - Boston Retirement System (SBRS) is an agent multiple employer defined benefit PERS. SBRS provides pension benefits to all full-time employees upon commencement of employment with any of the various government agencies covered by SBRS. The Commonwealth is a non-employer contributor and is only responsible for the actual cost of pension benefits for SBRS participants who serve in the City of Boston's School Department in a teaching capacity. The cost of pension benefits of the other participants is the responsibility of the City of Boston.

The Commonwealth has assumed financial responsibility for the COLA granted to participants in the 104 retirement systems of its cities, towns and counties. Any future COLA granted by the Legislature to employees of these plans will also be the responsibility of the Commonwealth. The individual employer governments are responsible for the basic pension benefits.

Membership -

Membership in SERS, TRS and SBRS as of January 1, 1993 is as follows:

	SERS	TRS	SBRS
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	45,419	30,168	2,186
Current employees:			
Vested	36,398	44,782	3,522
Nonvested	47,114	17,206	2,126
Subtotal	83,512	61,988	5,648
Total	128,931	92,156	7,834

Benefit provisions -

Chapter 32 of the Massachusetts General Laws establishes uniform benefit and contribution requirements for all contributory PERS. The statute provides for retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation. Benefit payments are based upon a member's age, length of creditable service, level of compensation, and group classification.

10. Retirement Systems (Continued):

Benefit provisions (Continued) -

The retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total contributions and a portion of the interest they generate constitute the annuity. The differential between the total retirement benefit and the annuity is the pension. The average retirement benefit is approximately 80%-85% pension and 15%-20% annuity.

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65; for certain hazardous duty and public safety positions, normal retirement is at age 55.

Contributions required and contributions made -

The retirement systems' funding policies have also been established by Chapter 32 of the Massachusetts General Laws. The annuity portion of the SERS, TRS and SBRS retirement allowance is funded by employees, who contribute a percentage of their regular compensation - 5% for those hired before January 1, 1975, 7% for those hired from January 1, 1975, through December 31, 1983, and 8% for those hired on or after January 1, 1984, plus an additional 2% of compensation above $30,000 per year for those hired on or after January 1, 1979.

The Commonwealth's contribution for the pension benefit portion of the retirement allowance of SERS and TRS and required payments to cover SBRS and COLA contributions was originally established on a "pay-as-you-go" basis. As a result, amounts were appropriated each year to pay current benefits, without a systematic provision to fully fund future liabilities already incurred. In fiscal year 1988, with the adoption of Chapter 697, Acts of 1987 (Chapter 697), the Commonwealth addressed the unfunded liabilities of SERS, TRS and its participation in SBRS and its COLA obligation. Chapter 697 requires systematic funding on a current basis, including amortizing the unfunded liabilities and liabilities for future COLA payments to local systems, over 40 years.

10. Retirement Systems (Continued):

Contributions required and contributions made (continued) -

Chapter 697 also directs the Secretary for Administration and Finance to prepare a funding schedule to meet these requirements, and to update this funding schedule every three years on the basis of new actuarial valuation reports prepared under the Secretary's direction. Any such schedule is subject to legislative approval. If a schedule is not so approved, payments are to be made in accordance with the most recently approved schedule. Chapter 697 further provides that if, during the first 10 years of scheduled payments, the pension benefits paid exceed the scheduled contribution, the Commonwealth's contribution shall equal these benefits payments.

The current approved funding schedule, based on the January 1, 1990 valuation, was filed with the Legislature on March 1, 1991. It required contributions by the Commonwealth of $763,749,000 during the fiscal year ended June 30, 1993. Because total pay-as-you-go benefits exceeded this amount, no additional Commonwealth contribution was required.

Actual contributions for the year ended June 30, 1993, are as follows (amounts in thousands):

	Employee contributions	Commonwealth contributions
SERS	$191,604	$418,217
TRS	157,927	302,988
SBRS	14,758	27,184
COLA	-	96,673
Total	$364,289	$845,062

During fiscal year 1993, the Commonwealth also made payments totaling approximately $23,092,000 to retirees employed prior to the establishment of the current plans and to non-contributory plans.

Chapter 22, Acts of 1992, established an early retirement incentive program under which eligible state employees could elect to receive enhanced pension benefits in exchange for retiring as of July 1, 1992. The effect of this incentive program was to increase the SERS portion of the Commonwealth's pension liability by approximately $193,000,000.

10. Retirement Systems (Continued):

Postretirement health care and life insurance benefits -

In addition to providing pension benefits, the Commonwealth is statutorily 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 is comparable to contributions required from employees. The Commonwealth is reimbursed for the cost of benefits to retirees of the eligible authorities and agencies.

The Commonwealth recognizes its share of the cost of providing these benefits when paid. These payments totaled approximately $118,108,000 for the fiscal year ended June 30, 1993.

11. Commitments and Contingencies:

Under Chapters 161A and 161B of the Massachusetts General Laws, the Commonwealth is obligated to pay a portion of the debt service and the net costs of service of MBTA and certain regional transit authorities. The Commonwealth recovers a portion of these payments through assessments to the cities and towns served. Fiscal year 1993 net expenditures were $467,922,000 and $31,108,000, respectively. For fiscal year 1994, the Commonwealth has appropriated $493,251,000 and $31,856,000 to the MBTA and regional transit authorities, respectively. These appropriations cover net costs of service for the calendar year ended December 31, 1992.

The Commonwealth is also statutorily obligated to provide contract assistance for debt service obligations of to the Massachusetts Convention Center Authority (MCCA) and the Government Land Bank. Such assistance totaled $11,842,000 in fiscal year 1993. For fiscal year 1994, appropriations for this purpose total $16,546,000.

At June 30, 1993, the aggregate outstanding debt for which the Commonwealth is obligated to provide contract assistance support totaled approximately $2,306,887,000. In addition, the Commonwealth guarantees the debt of certain local governments and public higher education building authorities. The guaranteed debt outstanding at June 30, 1993, was approximately $242,949,000.

11. Commitments and Contingencies (Continued):

At June 30, 1993, the Commonwealth had commitments approaching $1,027,136,000 for various construction projects. The majority of these construction commitments relate to a major infrastructure project known as the Central Artery Project in which Federal participation is anticipated. The remainder relate to a wide range of building construction projects.

A number of lawsuits are pending or threatened against the Commonwealth which arose from the ordinary course of operations. These include claims for property damage and personal injury, breaches of contract, condemnation proceedings and other alleged violations of law. For those cases in which it is probable that a loss will be incurred and the amount of the potential judgment can be reasonably estimated, the Attorney General estimates the liability to be approximately $100,200,000. Of this amount approximately $66,200,000 is expected to be paid during fiscal year 1993; approximately $34,000,000 is expected to be paid thereafter. No accrual has been made for these amounts in the combined financial statements - statutory basis.

Various cases are currently before the Appellate Tax Board, involving approximately $560,000,000 of taxes and related interest. For those cases in which it is probable that a loss will be incurred, the Department of Revenue estimates the Commonwealth's liability to be approximately $80,700,000. Approximately $60,700,000 is expected to be settled during fiscal year 1993 and is included within fund liabilities; the remaining $20,000,000 is expected to be paid after June 30, 1993 and is included with the general long-term debt account group. No accrual has been made for these amounts in the combined financial statements - statutory basis.

Workers' compensation costs are recognized when claims are presented and paid. The Commonwealth's outstanding liability for such claims at June 30, 1993, is estimated to be $359,200,000, of which approximately $57,500,000 is expected to be recognized during fiscal year 1994. No accrual has been made for these amounts in the combined financial statements - statutory basis.

11. Commitments and Contingencies (Continued):

The Commonwealth receives significant financial assistance from the federal government. Entitlement to these resources is generally conditional upon compliance with terms and conditions of the grant or reimbursement agreements and with applicable federal regulations, including the expenditure of the resources for eligible purposes. Substantially all federal financial assistance is subject to financial and compliance audits. Any disallowances become liabilities of the fund which received the assistance. At June 30, 1993, the Commonwealth estimates that liabilities, if any, which may result from such audits are not material.

Chapter 200A of the Massachusetts General Laws, the Commonwealth's Abandoned Property Law, requires deposit of certain unclaimed assets into a managed Agency Fund. The statute requires the excess amount over $500,000 each June 30 to be remitted to the General Fund, where it is included as miscellaneous revenue. Amounts remitted during fiscal year 1993 totaled $148,962,000. Since inception, approximately $430,400,000 has been remitted. This represents a contingency, because claims for refunds can be made by the owners of the property. No material amounts have been repaid.

12. Non-tax Revenue Initiatives:

Chapter 653, Acts of 1989, amended Chapter 29 of the Massachusetts General Laws, by adding Sections 29D and 29E, which authorize certain non-tax revenue initiatives and require reporting thereon, as follows.

Debt collection -

Private debt collectors were engaged, with fees to be paid, on a contingent basis, from the proceeds collections. Collections and fees paid during fiscal year 1993 were as follows (amounts in thousands):

Debt Collector	Collections	Fees
Associated Credit Services, Inc.	$115	$20
Credit Control Services, Inc.	16	3
Glenn Associates, Inc.	7	2
Payco-American Corporation	23	4
	$161	$29

12. Non-tax Revenue Initiatives (Continued):

No amounts were collected by the following, and no fees were paid: Allen Daniel Associates, Inc., Bristol Associates, Capital Credit Corporation, Coldata, Inc., Collection Company of America, Credit Management Associates, Delta Management Associates, Inc., Financial Collection Agency, Osborne Associates, Inc., and Walker Associates, Inc.

Under a similar program for the Commonwealth's public institutions of higher education, the following amounts were collected and fees paid (amounts in thousands):

Debt Collector	Collections	Fees
Allen Daniel Associates, Inc.	$1,108	$203
Coldata, Inc.	1	
Collection Company of America	661	235
Delta Management Associates, Inc.	51	12
Glenn Associates, Inc.	306	72
Payco-American Corporation	664	159
	$2,791	$681

Revenue maximization -

Contractors were engaged to assist several of the Commonwealth's departments in the identification and collection of federal and other revenues. During fiscal year 1993, approximately $5,306,000 was collected through such efforts, which included approved billing of third parties responsible for patients in Commonwealth-operated hospitals. After contractor fees were paid, on a contingent basis, the Commonwealth received approximately $4,762,000.

13. Pension Reserves Investment Management Board Expenditures:

In compliance with Section 61 of Chapter 153, Acts of 1992, the Board recorded expenditures totaling approximately $19,647,000. The expenditures recorded in the Massachusetts Management Accounting and Reporting System (MMARS), by subsidiary code, are as follows (amounts in thousands):

Subsidiary	Title	Annual Expenditures
AA	Regular employee compensation	$ 329
BB	Regular employee related expenses	44
DD	Pension and insurance-related expenditures	180
EE	Administrative expenses	114
GG	Energy costs and space rental expenses	132
HH	Consultant services (to departments)	18,778
JJ	Operational services	18
KK	Equipment purchase	51
LL	Equipment lease-purchase lease and rental maintenance and repair	1
		$19,647

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COMMONWEALTH OF MASSACHUSETTS -

GENERAL PURPOSE FINANCIAL STATEMENTS

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Independent Auditors' Report

Mr. William Kilmartin, Comptroller
The Commonwealth of Massachusetts

We have audited the accompanying general purpose financial statements of the Commonwealth of Massachusetts as of June 30, 1993, and for the year then ended. These general purpose financial statements are the responsibility of the management of the Commonwealth of Massachusetts. Our responsibility is to express an opinion on these general purpose financial statements based on our audit. We did not audit the financial statements of the University of Massachusetts, Massasoit Community College and the State College Building Authority, which statements reflect 72 percent of the total assets and 81 percent of the revenues of the University and College Fund Type. We did not audit the financial statements of the Pension Reserves Investment Trust which is an investment vehicle for certain of the Commonwealth of Massachusetts' Pension Trust Funds, the financial statements which reflect 24 percent of the total assets and 23 percent of the revenues of the Fiduciary Fund Type. Except for the Massachusetts Technology Development Corporation and the Massachusetts Convention Center Authority, which represents 2 percent of assets and revenues, we did not audit the financial statements of the entities which comprise the Proprietary Fund Type. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the University and College Fiduciary and Proprietary Funds Types referred to above, is based solely on the reports of the other auditors.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based upon our audit and the reports of the other auditors, such general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Commonwealth of Massachusetts as of June 30, 1993, and the results of its operations and cash flows of its Proprietary Fund Type and Nonexpendable Trust Fund for the year then ended in conformity with generally accepted accounting principles.

As discussed in Note 16 to the general purpose financial statements, the Commonwealth of Massachusetts has changed its method of reporting the activities of Commonwealth of Massachusetts institutions of higher education and the institutions' affiliated entities.

As discussed in Note 1, the Fiduciary Fund Type includes investments representing 6.5 percent of the assets of the Fiduciary Fund Types, whose values have been estimated by management in the absence of readily ascertainable market values. The procedures used by management in arriving at the estimated value of such investments and the underlying documentation have been reviewed and inspected by us and by the other auditors' and, in the circumstances, we believe and the other auditors' report states their belief, that the procedures of management are reasonable and the documentation appropriate. However, determination of the value of these investments involves subjective judgment because the actual market value can be determined only by negotiation between the parties in a sales transaction. The estimated values of the investments may differ from the values that would have been used had a ready market existed for the investments.

Our audit was made for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The required supplementary information on the public employee retirement systems is presented for the purpose of additional analysis and is not a required part of the general purpose financial statements of the Commonwealth of Massachusetts. The supplementary information is the responsibility of the management of the Commonwealth of Massachusetts. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

Deloitte & Touche

December 28, 1993

COMMONWEALTH OF MASSACHUSETTS

COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS

JUNE 30, 1993

(Amounts in thousands)

	Governmental Fund Types			Proprietary Fund Types	Fiduciary Fund Types	University and College Fund Type	Account Groups		Totals (Memorandum Only)	
ASSETS AND OTHER DEBITS	General	Special Revenue	Capital Projects	Enterprise	Trust and Agency	University and Colleges	General Fixed Assets	General Long-term Obligations	1993	1992 (As restated)
Cash and short-term investments	$ 0	$ 935,257	$ 0	$ 229,498	$ 1,278,555	$ 139,251	$ 0	$ 0	$ 2,582,561	$ 2,290,056
Deposits						49,506			49,506	
Investments				118,776	11,335,857	235,352			11,689,985	9,958,012
Restricted investments				767,408					767,408	1,146,634
Investments of deferred compensation plan					895,768				895,768	764,696
Annuity contracts					975,442				975,442	937,249
Assets held in trust					1,518,389				1,518,389	1,583,758
Receivables, net of allowance for uncollectibles:										
Taxes	662,981	454,726			339,610				1,457,317	1,345,561
Due from federal government	565,456	112,373	87,209	179,132	1,009	12,739			957,918	968,006
Loans				171,752	8,151	43,546			223,449	105,965
Other receivables	184,460	53,668	457	29,199	71,352	131,367			470,503	308,707
Due from cities and towns	203,709	1,457							205,166	185,737
Due from other funds	15,884	313,139	57,353	385,485	409	26,320			798,590	443,692
Inventory				40,160		13,633			53,793	40,316
Fixed assets				8,251,859		2,022,031	3,012,230		13,286,120	10,767,764
Restricted and other assets				128,931		9,625			138,556	122,163
Amounts to be provided for retirement of general long-term obligations								14,031,267	14,031,267	13,512,105
Total assets and other debits	$ 1,632,490	$ 1,870,620	$ 145,019	$ 10,302,200	$ 16,424,542	$ 2,683,370	$ 3,012,230	$ 14,031,267	$ 50,101,738	$ 44,480,421

(Continued)

Exhibit C-4

COMMONWEALTH OF MASSACHUSETTS

COMBINED BALANCE SHEET – ALL FUND TYPES AND ACCOUNT GROUPS

JUNE 30, 1993

(Amounts in thousands)

LIABILITIES, FUND EQUITY AND OTHER CREDITS	Governmental Fund Types			Proprietary Fund Types	Fiduciary Fund Types	University and College Fund Type	Account Groups		Totals (Memorandum Only)	
	General	Special Revenue	Capital Projects	Enterprise	Trust and Agency	University and Colleges	General Fixed Assets	General Long-term Obligations	1993	1992 (As restated)
Liabilities:										
Accounts payable	$ 1,269,207	$ 283,175	$ 242,144	$ 204,126	$ 92,075	$ 39,942	$ 0	$ 0	$ 2,130,669	$ 1,888,486
Accrued payroll	54,576	13,410	1,432	32,354	333	64,829			166,934	72,810
Compensated absences	93,474	44,679	3,031		412	103,188		76,280	321,064	244,492
Tax refunds and abatements payable	317,096	209,941			7,123				534,160	664,516
Due to cities and towns					12,710				12,710	16,410
Due to other funds	486,318	94,983	174,716		3,685	38,890			798,590	443,692
Due to federal government	13,000				269,429				282,429	308,033
Deferred revenue	136,364	66,357	437	211,976	28,568	5,136			448,838	360,336
Prizes payable					975,442				975,442	937,249
Deferred compensation benefits payable					895,768				895,768	764,696
Agency liabilities					2,883,236	9,186			2,892,422	2,957,494
Claims and judgments	143,995	79,466	1,150		136	67,487		401,864	694,098	599,960
Deposits and unearned revenue						5,776			5,776	
Other accrued liabilities		70,040	2,966	211,140		51,307			335,453	336,133
Capital leases						12,687		33,329	46,016	37,252
Bonds, notes payable and certificates of participation	240,000		84,434	4,667,297		274,481		9,231,458	14,497,670	13,923,144
School construction grants								1,926,082	1,926,082	1,616,485
Unfunded pension costs								2,362,254	2,362,254	2,117,685
Total liabilities	2,754,026	862,051	510,310	5,326,893	5,168,917	672,909		14,031,267	29,326,375	27,288,873
Fund equity and other credits:										
Investment in general fixed assets							3,012,230		3,012,230	2,979,943
Contributed capital				5,046,901					5,046,901	5,078,131
Retained earnings:										
Reserved for investment programs				19,168					19,168	17,394
Unreserved				(90,762)					(90,762)	(68,352)
Fund balances (deficit):										
Unrestricted						129,230			129,230	
Restricted						83,907			83,907	
Unexpended plant funds						27,868			27,868	
Renewals and replacements						15,647			15,647	
Retirement of indebtedness						19,351			19,351	
Net investment in plant						1,734,458			1,734,458	
Reserved for pension benefits					11,121,148				11,121,148	9,648,666
Reserved for specific purpose					5,779				5,779	5,779
Unreserved	(1,121,538)	1,008,569	(365,291)		128,698				(349,562)	(470,013)
Total fund equity (deficit) and other credits	(1,121,538)	1,008,569	(365,291)	4,975,307	11,255,625	2,010,461	3,012,230		20,775,363	17,191,548
Total liabilities, fund equity and other credits	$ 1,632,490	$ 1,870,620	$ 145,019	$ 10,302,200	$ 16,424,542	$ 2,683,370	$ 3,012,230	$ 14,031,267	$ 50,101,738	$ 44,480,421

See notes to general purpose financial statements

(Concluded)

Exhibit C-5

COMMONWEALTH OF MASSACHUSETTS

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES – ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUNDS

FISCAL YEAR ENDED JUNE 30, 1993

(Amounts in thousands)

	Governmental Fund Types			Fiduciary Fund Type	Totals (Memorandum Only)	
	General	Special Revenue	Capital Projects	Expendable Trust	1993	1992 (As restated)
Revenues:						
Taxes	$ 6,215,150	$ 3,805,616	$ 0	$ 1,073,002	$ 11,093,768	$ 10,320,163
Assessments	192,072	404,778		2,565	599,415	788,552
Federal grants and reimbursements	2,616,844	1,157,020	720,007	636,309	5,130,180	4,512,512
Departmental	517,912	2,791,133	553	3,054	3,312,652	2,821,271
Miscellaneous	347,558	35,012	264	63,124	445,958	458,360
Total revenues	9,889,536	8,193,559	720,824	1,778,054	20,581,973	18,900,858
Other financing sources:						
Proceeds of general obligation bonds			368,367		368,367	720,847
Proceeds of special obligation bonds						100,000
Proceeds of refunding bonds			1,891,468		1,891,468	574,313
Proceeds of capital leases	13,297				13,297	17,507
Operating transfers in	353,563	715,507	108,090	2,768	1,179,928	1,030,517
Other	20,278		26,104		46,382	54,379
Total other financing sources	387,138	715,507	2,394,029	2,768	3,499,442	2,497,563
Total revenues and other financing sources	10,276,674	8,909,066	3,114,853	1,780,822	24,081,415	21,398,421
Expenditures:						
Current:						
Legislature	40,798				40,798	44,569
Judiciary	87,829	217,773		2,179	307,781	314,956
Inspector General	1,304				1,304	979
Governor and Lieutenant Governor	3,680				3,680	3,611
Secretary of the Commonwealth	11,955	2,149		7	14,111	11,747
Treasurer and Receiver – General	104,224	1,555,247		19	1,659,490	1,379,284
Auditor of the Commonwealth	9,394	717		347	10,458	10,401
Attorney General	33,969	2,420		672	37,061	18,861
Ethics Commission	1,003				1,003	870
District Attorney	11,087	33,017		3,039	47,143	42,306
Office of Campaign and Political Finance	539				539	516
Board of Library Commissioners	51	4,568		1	4,620	4,004
Comptroller	5,546				5,546	5,536
Administration and finance	575,926	106,364		1,169	683,459	829,928

(Continued)

Exhibit C-6

COMMONWEALTH OF MASSACHUSETTS

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES – ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUNDS

FISCAL YEAR ENDED JUNE 30, 1993

(Amounts in thousands)

	Governmental Fund Types			Fiduciary Fund Type	Totals (Memorandum Only)	
	General	Special Revenue	Capital Projects	Expendable Trust	1993	1992 (As restated)
Expenditures (continued):						
Current (continued):						
Environmental affairs	29,230	132,397		5,666	167,293	148,128
Communities and development	172,354	191,260		1,167	364,781	399,145
Health and human services	3,149,776	884,106		51,370	4,085,252	4,030,490
Transportation and construction	47,394	226,097		779	274,270	92,883
Education	10,098	458,598		1,190	469,886	393,865
Educational affairs	2,212	7,390			9,602	16,926
Higher education	67,128	2,167		164	69,459	32,723
Public safety	335,147	275,681		2,254	613,082	659,660
Economic affairs	20,625	189,604		1,497,867	1,708,096	1,872,862
Elder affairs	122,300	27,394		23	149,717	136,572
Consumer affairs	24,822	4,959		2,541	32,322	29,523
Labor	22,337	1,999		24,322	48,658	50,121
Direct local aid	5,318	2,541,183			2,546,501	2,278,426
Medicaid	3,151,361				3,151,361	2,852,674
Capital outlay:						
Local aid			104,876		104,876	87,145
Capital acquisition and construction			1,132,549		1,132,549	1,102,236
Pension	347,676	545,762			893,438	751,519
Debt service:						
Principal retirement	482,643	109,850			592,493	342,282
Interest and fiscal charges	390,083	160,091			550,174	558,784
Total expenditures	9,267,809	7,680,793	1,237,425	1,594,776	19,780,803	18,503,532
Other financing uses:						
Payments to refunded bond escrow agent			1,891,468		1,891,468	574,313
Operating transfers out	604,389	993,112	122,891	4,087	1,724,479	2,187,669
Transfers of appropriations	617,374	1,443			618,817	
Transfers of bond proceeds			24,796		24,796	
Other uses		257			257	
Total other financing uses	1,221,763	994,812	2,039,155	4,087	4,259,817	2,761,982
Total expenditures and other other financing uses	10,489,572	8,675,605	3,276,580	1,598,863	24,040,620	21,265,514
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	(212,898)	233,461	(161,727)	181,959	40,795	132,907
Fund balances (deficit) at beginning of year	(988,296)	775,108	(203,564)	(53,261)	(470,013)	(602,920)
Residual equity transfer	79,656				79,656	
Fund balances (deficit) at end of year	$ (1,121,538)	$ 1,008,569	$ (365,291)	$ 128,698	$ (349,562)	$ (470,013)

See notes to general purpose financial statements

(Concluded)

Exhibit C-7

COMMONWEALTH OF MASSACHUSETTS

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - STATUTORY BASIS
BUDGET AND ACTUAL - GENERAL AND BUDGETED SPECIAL REVENUE FUNDS

FISCAL YEAR ENDED JUNE 30, 1993

(Amounts in thousands)

	General Fund			Budgeted Special Revenue Funds			Totals (Memorandum Only)		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
Revenues:									
Taxes	$ 5,796,200	$ 5,906,225	$ 110,025	$ 3,888,800	$ 4,023,669	$ 134,869	$ 9,685,000	$ 9,929,894	$ 244,894
Assessments		190,595	190,595		7,913	7,913		198,508	198,508
Federal grants and reimbursements	2,648,600	2,662,268	13,668	5,600	11,808	6,208	2,654,200	2,674,076	19,876
Departmental	729,800	478,429	(251,371)	482,900	542,003	59,103	1,212,700	1,020,432	(192,268)
Miscellaneous		322,522	322,522		36,489	36,489		359,011	359,011
Total revenues	9,174,600	9,560,039	385,439	4,377,300	4,621,882	244,582	13,551,900	14,181,921	630,021
Other financing sources:									
Fringe benefit cost recovery		138,296	138,296					138,296	138,296
Operating transfers in	305,900	197,780	(108,120)	536,800	594,569	57,769	842,700	792,349	(50,351)
Stabilization transfer					76,872	76,872		76,872	76,872
Other sources	45,000	16,250	(28,750)		1	1	45,000	16,251	(28,749)
Total other financing sources	350,900	352,326	1,426	536,800	671,442	134,642	887,700	1,023,768	136,068
Total revenues and other financing sources	9,525,500	9,912,365	386,865	4,914,100	5,293,324	379,224	14,439,600	15,205,689	766,089
Expenditures:									
Legislature	54,028	41,123	12,905				54,028	41,123	12,905
Judiciary	86,179	84,185	1,994	228,570	221,825	6,745	314,749	306,010	8,739
Inspector General	1,289	1,279	10				1,289	1,279	10
Governor and Lieutenant Governor	4,253	3,651	602				4,253	3,651	602
Secretary of the Commonwealth	11,825	11,705	120	1,401	1,395	6	13,226	13,100	126
Treasurer and Receiver - General	108,657	102,883	5,774	1,207	807	400	109,864	103,690	6,174
Auditor of the Commonwealth	9,469	9,466	3	717	717		10,186	10,183	3
Attorney General	18,195	17,884	311	734	712	22	18,929	18,596	333
Ethics Commission	1,009	1,002	7				1,009	1,002	7
District Attorney	13,163	11,052	2,111	33,489	31,191	2,298	46,652	42,243	4,409
Office of Campaign and Political Finance	547	545	2				547	545	2
Board of Library Commissioners				2,198	1,729	469	2,198	1,729	469
Comptroller	5,046	5,037	9	525	525		5,571	5,562	9
Administration and finance	757,799	709,412	48,387	216,229	202,356	13,873	974,028	911,768	62,260
Environmental affairs	31,668	28,625	3,043	120,962	111,053	9,909	152,630	139,678	12,952
Communities and development	179,533	172,419	7,114	1,874	1,682	192	181,407	174,101	7,306

(Continued)

Exhibit C-8

COMMONWEALTH OF MASSACHUSETTS

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - STATUTORY BASIS
BUDGET AND ACTUAL - GENERAL AND BUDGETED SPECIAL REVENUE FUNDS

FISCAL YEAR ENDED JUNE 30, 1993

(Amounts in thousands)

	General Fund			Budgeted Special Revenue Funds			Totals (Memorandum Only)		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
Expenditures (continued):									
Health and human services	3,295,589	3,193,277	102,312	42,354	15,931	26,423	3,337,943	3,209,208	128,735
Transportation and construction	606,500	596,270	10,230	249,252	221,812	27,440	855,752	818,082	37,670
Education	10,745	10,187	558	72,270	71,444	826	83,015	81,631	1,384
Educational affairs	2,374	2,201	173	7,323	7,323		9,697	9,524	173
Higher education	557,799	543,497	14,302	1,611	1,448	163	559,410	544,945	14,465
Public safety	332,089	325,647	6,442	273,778	259,043	14,735	605,867	584,690	21,177
Economic affairs	23,152	21,813	1,339	18,283	15,273	3,010	41,435	37,086	4,349
Elder affairs	123,974	122,323	1,651	3,194	3,188	6	127,168	125,511	1,657
Consumer affairs	26,288	24,957	1,331	4,780	4,322	458	31,068	29,279	1,789
Labor	24,473	22,370	2,103				24,473	22,370	2,103
Direct local aid	5,366	5,318	48	2,549,519	2,541,183	8,336	2,554,885	2,546,501	8,384
Medicaid	3,158,280	3,151,361	6,919				3,158,280	3,151,361	6,919
Pension	350,517	338,460	12,057	532,983	529,694	3,289	883,500	868,154	15,346
Debt service:									
Principal retirement	290,518	290,518		306,888	300,561	6,327	597,406	591,079	6,327
Interest and fiscal charges	361,711	319,674	42,037	257,102	228,770	28,332	618,813	548,444	70,369
Total expenditures	10,452,035	10,168,141	283,894	4,927,243	4,773,984	153,259	15,379,278	14,942,125	437,153
Other financing uses:									
Fringe benefit cost assessment					9,635	(9,635)		9,635	(9,635)
Operating transfers out	37,964	37,964		125,707	125,707		163,671	163,671	0
Stabilization transfer		46,123	(46,123)		30,749	(30,749)		76,872	(76,872)
Other uses					257	(257)		257	(257)
Total other financing uses	37,964	84,087	(46,123)	125,707	166,348	(40,641)	163,671	250,435	(86,764)
Total expenditures and other financing uses	10,489,999	10,252,228	237,771	5,052,950	4,940,332	112,618	15,542,949	15,192,560	350,389
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	(964,499)	(339,863)	624,636	(138,850)	352,992	491,842	(1,103,349)	13,129	1,116,478
Fund balances (deficit) at beginning of year	(361,733)	(361,733)		911,177	911,177		549,444	549,444	
Fund balances (deficit) at end of year	$ (1,326,232)	$ (701,596)	$ 624,636	$ 772,327	$ 1,264,169	$ 491,842	$ (553,905)	$ 562,573	$ 1,116,478

See notes to general purpose financial statements.

(Concluded)

Exhibit C-9

COMMONWEALTH OF MASSACHUSETTS

COMBINED STATEMENT OF REVENUES, EXPENSES,
CHANGES IN RETAINED EARNINGS/FUND BALANCES AND CHANGES IN CONTRIBUTED CAPITAL -
ALL PROPRIETARY FUND TYPES AND SIMILAR TRUST FUNDS

FISCAL YEAR ENDED JUNE 30, 1993

(Amounts in thousands)

	Proprietary Fund Type	Fiduciary Fund Types		Totals (Memorandum Only)	
	Enterprise Funds	Nonexpendable Trust Funds	Pension Trust Funds	1993	1992 (As restated)
Operating revenues:					
Contributions	$ 0	$ 0	$ 1,072,789	$ 1,072,789	$ 967,133
Investment income			1,301,368	1,301,368	1,136,969
Charges for services	488,771			488,771	434,157
Donations	533			533	915
Other	2,519			2,519	2,179
Total operating revenues	491,823		2,374,157	2,865,980	2,541,353
Operating expenses:					
Cost of services and administration	798,435		3,276	801,711	778,860
Retirement benefits and refunds			898,399	898,399	825,511
Depreciation	260,460			260,460	230,434
Total operating expenses	1,058,895		901,675	1,960,570	1,834,805
Operating income (loss)	(567,072)		1,472,482	905,410	706,548
Nonoperating revenues (expenses):					
Operating grants	19,850			19,850	20,254
Interest income	61,286			61,286	46,158
Other revenues	3,839			3,839	2,336
Interest expense	(264,187)			(264,187)	(216,696)
Other expenses	(43,728)			(43,728)	(49,932)
Nonoperating revenues (expenses), net	(222,940)			(222,940)	(197,880)
Income (loss) before operating transfers and extraordinary item	(790,012)		1,472,482	682,470	508,668
Transfers and extraordinary item:					
Operating transfers in	617,246			617,246	606,439
Extraordinary item - loss on defeasance					(41,305)
Total transfers and extraordinary item	617,246			617,246	565,134
Net income (loss)	(172,766)		1,472,482	1,299,716	1,073,802

(Continued)

COMMONWEALTH OF MASSACHUSETTS

COMBINED STATEMENT OF REVENUES, EXPENSES,
CHANGES IN RETAINED EARNINGS/FUND BALANCES AND CHANGES IN CONTRIBUTED CAPITAL -
ALL PROPRIETARY FUND TYPES AND SIMILAR TRUST FUNDS

FISCAL YEAR ENDED JUNE 30, 1993

(Amounts in thousands)

	Proprietary Fund Type	Fiduciary Fund Types		Totals (Memorandum Only)	
	Enterprise Funds	Nonexpendable Trust Funds	Pension Trust Funds	1993	1992 (As restated)
Add: Depreciation of fixed assets acquired from contributed capital	152,130			152,130	136,083
Transfer of extraordinary item to contributed capital					41,305
Increase (decrease) in retained earnings/fund balances	(20,636)		1,472,482	1,451,846	1,251,190
Retained earnings/fund balances at beginning of year	(50,958)	5,779	9,648,666	9,603,487	8,352,297
Retained earnings/fund balances at end of year	$ (71,594)	$ 5,779	$ 11,121,148	$ 11,055,333	$ 9,603,487
Contributed capital at beginning of year	$ 5,078,131	$ 0	$ 0	$ 5,078,131	$ 4,959,299
Add: Capital contributions	200,976			200,976	296,220
Less: Depreciation of fixed assets acquired from contributed capital	(152,130)			(152,130)	(136,083)
Residual equity transfer	(79,656)			(79,656)	
Loss on defeasance					(41,305)
Other	(420)			(420)	
Contributed capital at end of year	$ 5,046,901	$ 0	$ 0	$ 5,046,901	$ 5,078,131

See notes to general purpose financial statements.

(Concluded)

Exhibit C-11

COMMONWEALTH OF MASSACHUSETTS

COMBINED STATEMENT OF CASH FLOWS -
ALL PROPRIETARY FUND TYPES AND NONEXPENDABLE TRUST FUND

FISCAL YEAR ENDED JUNE 30, 1993

(Amounts in thousands)

	Proprietary Fund Type	Fiduciary Fund Type	Totals (Memorandum Only)	
	Enterprise funds	Nonexpendable Trust Funds	1993	1992 (As restated)
Cash flows from operating activities:				
Operating loss	$ (567,072)	$ 0	$ (567,072)	$ ($569,096)
Adjustments to reconcile operating loss to net cash provided by (used for) operating activities:				
Depreciation	260,460		260,460	230,434
Gain on sale of equipment	(379)		(379)	
Other nonoperating revenues	3,839		3,839	2,336
Other nonoperating expenses	(43,728)		(43,728)	(49,932)
Other	(420)		(420)	
Change in assets and liabilities:				
Due from federal government	(13,522)		(13,522)	(93,081)
Loans	(74,723)		(74,723)	(77,668)
Other receivables	17,681		17,681	(14,366)
Due from other funds	(46,092)		(46,092)	(45,493)
Inventory	156		156	7,760
Restricted and other assets	(7,685)		(7,685)	25,023
Accounts payable	31,824	3	31,827	40,021
Accrued payroll	2,200		2,200	37,662
Deferred revenue	31,303		31,303	30,597
Other accrued liabilities	4,939		4,939	(19,929)
Total adjustments	165,853	3	165,856	73,364
Net cash used for operating activities	(401,219)	3	(401,216)	(495,732)
Cash flows from noncapital financing activities:				
Operating grants	19,850		19,850	20,254
Operating transfers	617,246		617,246	606,439
Residual equity transfers	(79,656)		(79,656)	
Net cash provided by noncapital financing activities	557,440		557,440	626,693
Cash flows from capital and related financing activities:				
Acquisition and construction of capital assets	(711,624)		(711,624)	(789,120)
Proceeds from the issuance of bonds and notes	2,894,761		2,894,761	2,941,272
Interest on bonds and notes	(264,187)		(264,187)	(216,696)
Capital contributions	200,976		200,976	296,220
Principal payments on bonds and notes	(1,427,890)		(1,427,890)	(1,452,448)
Amortization of bond discount	10,109		10,109	1,429
Loss on refunding	(206,960)		(206,960)	(41,305)
Proceeds from sale of equipment	771		771	
Payment to escrow agent	(1,786,938)		(1,786,938)	(147,006)
Receipts from capital grants				600
Net cash provided by (used for) capital and related financing activities	(1,290,982)		(1,290,982)	592,946

(Continued)

COMMONWEALTH OF MASSACHUSETTS

COMBINED STATEMENT OF CASH FLOWS -
ALL PROPRIETARY FUND TYPES AND NONEXPENDABLE TRUST FUND

FISCAL YEAR ENDED JUNE 30, 1993

(Amounts in thousands)

	Proprietary Fund Type	Fiduciary Fund Type	Totals (Memorandum Only)	
	Enterprise funds	Nonexpendable Trust Funds	1993	1992 (As restated)
Cash flows from investing activities:				
Purchases of investments	(1,430,792)		(1,430,792)	(3,292,350)
Sales and maturities of investments	2,613,243		2,613,243	2,537,104
Interest income	61,286		61,286	46,158
Net cash provided by investing activities	1,243,737		1,243,737	(709,088)
Net increase in cash and cash equivalents	108,976	3	108,979	14,819
Cash and cash equivalents at beginning of year	120,522	5,779	126,301	111,482
Cash and cash equivalents at end of year	$ 229,498	$ 5,782	$ 235,280	$ 126,301
Reconciliation:				
Cash and cash equivalents at end of year	$ 229,498	$ 5,782	$ 235,280	$ 126,301
Cash and cash equivalents at end of year, Pension Trust, Expendable Trust and Agency		1,272,773	1,272,773	1,205,289
Cash and cash equivalents per the Combined Balance Sheet	$ 229,498	$ 1,278,555	$ 1,508,053	$ 1,331,590

See notes to general purpose financial statements

(Concluded)

COMMONWEALTH OF MASSACHUSETTS

STATEMENT OF CHANGES IN FUND BALANCES – UNIVERSITY AND COLLEGE FUND

FISCAL YEAR ENDED JUNE 30, 1993

(Amounts in thousands)

	Current Funds					
	Unrestricted	Restricted	Loan Fund	Endowment and Similar Funds	Plant Funds	Total
Revenues and other additions:						
Unrestricted current funds revenues	$ 975,642	$ 0	$ 0	$ 0	$ 0	$ 975,642
Federal appropriations		7,277				7,277
Federal grants and contracts		176,228	1,353		329	177,910
State grants and contracts		6,594	62			6,656
Local grants and contracts		2,481				2,481
Private gifts, grants and contracts		53,340	3	408	8,147	61,898
Investment income		588	21	56	2,223	2,888
Interest on loans receivable			813			813
Net realized gain (loss) on investments				618		618
Reimbursed loan cancellations			27			27
Other income		358	61		104	523
Expended for plant facilities					71,887	71,887
Retirement of indebtedness					12,219	12,219
Other additions		119	4,578	369	3,263	8,329
Total revenue and other additions	975,642	246,985	6,918	1,451	98,172	1,329,168
Expenditures and other deductions:						
Educational and general expenditures	1,043,259	258,794				1,302,053
Auxiliary enterprises expenditures	124,027					124,027
Indirect costs recovered		32,669				32,669
Hospital expenditures	218,583					218,583
Group practice plan expenditures	99,603					99,603
Refunded to grantors and donors		222	15			237
Loan cancellations and write-offs			1,165			1,165
Administrative and collection costs			615	286	1,920	2,821
Retirement of indebtedness					12,219	12,219
Interest on indebtedness					19,936	19,936
Expended for plant facilities					41,268	41,268
Depreciation and amortization					11,539	11,539
Disposal of plant facilities					11,538	11,538
Other deductions			21		3,581	3,602
Total expenditures and other deductions	1,485,472	291,685	1,816	286	102,001	1,881,260
Mandatory transfers:						
Principal and interest	(32,896)				32,896	
Renewals and replacements	(1,381)				1,381	
Student loan fund matching		(397)	397			
Other mandatory transfers	(72,695)					(72,695)
Nonmandatory transfers:						
Transfers of appropriation	579,888	35,809			3,120	618,817
Transfers of bond proceeds		8,744			16,052	24,796
Unexpended plant funds	(4,000)				4,000	
Renewals and replacements	(7,922)	(117)			8,039	
Other nonmandatory transfers	(274)	(479)	(48)	43	758	
Total transfers	460,720	43,560	349	43	66,246	570,918
Net increase (decrease) for the year	(49,110)	(1,140)	5,451	1,208	62,417	18,826
Fund balances at the beginning of year	172,087	22,921	41,952	19,768	1,734,907	1,991,635
Fund balances at end of year	$ 122,977	$ 21,781	$ 47,403	$ 20,976	$ 1,797,324	$ 2,010,461

See notes to general purpose financial statements.

Exhibit C-14

COMMONWEALTH OF MASSACHUSETTS

COMBINED STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES, AND OTHER CHANGES – UNIVERSITY AND COLLEGE FUND

FISCAL YEAR ENDED JUNE 30, 1993

(Amounts in thousands)

	Current Funds		
	Unrestricted	Restricted	Total
Revenues and other additions:			
Tuition and fees	$ 379,069	$ 0	$ 379,069
Federal appropriations		7,158	7,158
Federal grants and contracts	377	154,084	154,461
State grants and contracts	671	5,301	5,972
Local grants and contracts	26	2,221	2,247
Private gifts, grants and contracts	37,758	44,301	82,059
Endowment income	204		204
Sales and service, educational	10,333		10,333
Sales and service, auxiliary enterprises	121,366		121,366
Sales and service, hospital	225,165		225,165
Sales and service, group practice plan	84,517		84,517
Recovery of indirect costs	32,652	17	32,669
Other investment income	15,610	791	16,401
Other	67,894	460	68,354
Total current funds revenues	975,642	214,333	1,189,975
Expenditures:			
Instruction	483,392	38,585	521,977
Research	37,754	87,299	125,053
Public service	14,819	28,057	42,876
Academic support	101,987	12,353	114,340
Student services	87,514	5,998	93,512
Institutional support	143,393	2,368	145,761
Operation and maintenance of plant	136,088	2,766	138,854
Scholarships and fellowships	38,312	81,368	119,680
Auxiliary enterprises	124,027		124,027
Hospital	218,583		218,583
Group practice plan	99,603		99,603
Total current funds expenditures	1,485,472	258,794	1,744,266
Transfers and other changes:			
Mandatory tranfers:			
Principal and interest	(32,896)		(32,896)
Renewals and replacements	(1,381)		(1,381)
Student loan fund matching		(397)	(397)
Other	(72,695)		(72,695)
Nonmandatory transfers and other changes:			
Transfers of appropriation	579,888	35,745	615,633
Transfers of bond proceeds		8,716	8,716
Unexpended plant funds	(3,800)		(3,800)
Renewals and replacements	(7,922)	(289)	(8,211)
Other nonmandatory transfers	(474)	(479)	(953)
Refunds to grantors		(222)	(222)
Excess of transfers to revenue over restricted receipts		247	247
Total transfers and other changes	460,720	43,321	504,041
Total decrease in fund balances	$ (49,110)	$ (1,140)	$ (50,250)

See notes to general purpose financial statements.

Exhibit C-15

COMMONWEALTH OF MASSACHUSETTS

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 1993

1. Summary of Significant Accounting Policies:

The accompanying financial statements of the Commonwealth of Massachusetts (the Commonwealth) have been prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Commonwealth's accounting policies are described below.

a. Reporting Entity -

The financial statements include the departments, agencies, boards, and commissions governed by the legislative, judicial and constitutional offices of the Commonwealth, the public institutions of higher education, and the State Employees' and Teachers' Retirement Systems. Also reported are the independent authorities and other organizations over which oversight authority is exercised. These authorities, which are reported as Enterprise Funds, were included based on the following criteria:

- Commonwealth's ability to exercise oversight responsibility, evidenced by:

  - Financial interdependency
  - Selection of governing authority
  - Designation of management
  - Ability to significantly influence operations
  - Accountability for fiscal matters

- Scope of public service. Application of this criterion involves considering whether the activity benefits the government and/or its citizens, or whether the activity is conducted within the geographic boundaries of the government and is generally available to its citizens.

- Existence of special financing relationships, regardless of whether the government exercises oversight responsibility.

The following authorities are included in the reporting entity:

Massachusetts Bay Transportation Authority (MBTA)
Massachusetts Convention Center Authority (MCCA)
Massachusetts Water Resources Authority (MWRA)
Bay State Skills Corporation
Government Land Bank
Massachusetts Community Development Finance Corporation
Massachusetts Industrial Finance Agency

1. Summary of Significant Accounting Policies (Continued):

a. Reporting Entity (Continued) -

Massachusetts Technology Development Corporation
Massachusetts Technology Park Corporation
Massachusetts Water Pollution Abatement Trust (WPAT)

The following authorities are excluded from the reporting entity:

The Massachusetts Turnpike Authority - Board members are appointed by the Governor for staggered three-year terms but do not maintain a significant relationship with the Commonwealth. The Turnpike Authority is financially independent of the Commonwealth because it establishes its own rates, issues debt and sets budgets without Commonwealth oversight. Debt is supported solely from its revenues.

The Massachusetts Port Authority - Board members are appointed by the Governor for staggered seven-year terms, but the Port Authority is considered financially independent of the Commonwealth because it selects management staff, sets user charges, issues debt, establishes budgets and controls aspects of general aviation and other transportation management and development without oversight by the Commonwealth. The Commonwealth provides no funding, and the Port Authority's debt is supported solely by its own revenues.

Massachusetts Home Finance Agency, Massachusetts Housing Finance Agency and Massachusetts Health and Educational Facilities Authority (MHEFA) - The Commonwealth does not have the ability to significantly influence operations of these entities, nor does it guarantee their debt. Therefore, the Commonwealth does not exercise oversight responsibility over them. The Commonwealth maintains no special financing relationships with these entities.

1. Summary of Significant Accounting Policies (Continued):

b. Fund Accounting -

The Commonwealth reports its financial position and results of operations in funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures/expenses. Transactions between funds within a fund type, if any, have not been eliminated.

Account groups are accounting entities used to provide accountability for the Commonwealth's general fixed assets and general long-term obligations. They are not considered funds because they do not report expendable available financial resources and related liabilities.

The Commonwealth has established the following fund categories, fund types and account groups:

Governmental Funds - account for the general governmental functions of the Commonwealth.

The General Fund is the primary operating fund of the Commonwealth. It is used to account for all governmental transactions, except those required to be accounted for in another fund.

Special Revenue Funds are used to account for specific revenue sources, other than expendable trusts or major capital financing, that have been segregated according to state finance law to support specific governmental activities.

Capital Projects Funds are used to account for financial resources used to acquire or construct major capital assets and to finance local capital projects. These resources are derived primarily from proceeds of general obligation bonds, which are generally received after the expenditure has been incurred, and from federal reimbursements.

1. Summary of Significant Accounting Policies (Continued):

b. Fund Accounting (Continued) -

Proprietary Funds - are used to account for activities similar to those found in the private sector where net income and capital maintenance are measured.

Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises. Costs of providing goods and services to the general public on a continuing basis, including depreciation, are financed or recovered primarily through user charges.

Fiduciary Funds - are used to account for assets held by the Commonwealth in a trustee capacity, or as an agent for individuals, private organizations, other governmental units, and/or other funds.

Expendable Trust Funds are used to account for trusts whose principal and income may be expended for their designated purpose.

Nonexpendable Trust Funds are used to account for trusts whose principal cannot be spent.

Pension Trust Funds are used to account for the assets, liabilities and fund equities held in trust for the State Employees' and Teachers' Retirement Systems.

Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of the results of operations.

University and College Fund - is used to account for the activities specific to the operation of the Commonwealth's public institutions of higher education, including its medical school, and related Hospital, Group Practice Plan and building authorities.

Current Funds are used to account for unrestricted funds which may be used at the discretion of the individual institutions' governing bodies and for restricted funds which must be utilized for specific purposes established by others.

Loan funds account for resources available to make loans to students, facility and staff.

1. Summary of Significant Accounting Policies (Continued):

b. Fund Accounting (Continued) -

University and College Fund (Continued) -

Endowment and Similar Funds are comparable to trust funds, in that they must be administered according to the terms of specific agreements.

Plant Funds are used to account for resources that have been or will be invested to acquire or repair fixed assets or for the related debt service.

Account Groups - establish control and accountability over the Commonwealth's general fixed assets and general long-term obligations.

The General Fixed Assets Account Group is used to account for general fixed assets of the Commonwealth, which exclude the fixed assets of the Enterprise and University and College Funds.

The General Long-term Obligations Account Group is used to account for general and special obligation long-term bonds and notes issued by the Commonwealth, obligations under capital leases, certificates of participation, unpaid pension costs, compensated absences, claims and judgments and other long-term obligations, except for the liabilities of the Enterprise and University and College Funds.

c. Basis of Accounting -

Governmental and Expendable Trust Funds are accounted for using a flow of current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they become both measurable and available. "Available" means expected to be collectible 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, federal reimbursements and other reimbursements for use of materials and services. Revenues from other sources are recognized when received. Expenditures are recorded in the period in which the related fund liability is incurred. Principal and interest on general long-term obligations are recorded as fund liabilities when due.

1. Summary of Significant Accounting Policies (Continued):

c. Basis of Accounting (Continued) -

Enterprise, Nonexpendable Trust and Pension Trust Funds are reported using a flow of economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Agency Fund assets and liabilities are reported using the modified accrual basis of accounting.

University and College Fund activities are reported using the accrual basis of accounting, except that depreciation is recorded only for those plant fund assets related to the hospital and group practice plan.

Statutory (Budgetary) Accounting -

The Commonwealth's budgets are adopted in accordance with a statutory basis of accounting which is not in accordance with GAAP. Revenues are generally recognized when cash is received. However, revenues receivable for federal grants and reimbursements are recognized when related expenditures are incurred. Amounts due from certain political subdivisions of the Commonwealth are recognized when considered measurable and available at year end.

Expenditures generally are recorded when the related cash disbursement occurs. At year end, payroll is accrued and payables are recognized, to the extent of approved encumbrances, provided that the goods or services have been received by June 30. Other encumbrances are lapsed. Costs incurred under the federally-sponsored Medicaid program, amounts required to settle claims and judgments against the Commonwealth, and certain other liabilities are not recognized until they are encumbered or otherwise processed for payment.

Under the statutory basis of accounting, the Commonwealth uses encumbrance accounting to record the full amount of purchase orders, contracts and other commitments of appropriated resources as deductions from the appropriation prior to actual expenditure. In the Governmental Funds, encumbrance accounting is a significant aspect of budgetary control.

1. Summary of Significant Accounting Policies (Continued):

d. Cash and Short-term Investments and Investments -

The Commonwealth follows the practice of pooling cash and cash equivalents for all of its Governmental and Fiduciary Funds. Cash equivalents consist of short-term investments with an original maturity of three months or less and are stated at cost. Because this cash is pooled, an individual Governmental or Fiduciary fund may have a cash deficit. In these instances, the fund with the cash deficit will borrow from another fund. These interfund borrowings are reported as "Due from other funds" and "Due to other funds" on the balance sheet. Interest earned on pooled cash is allocated to the General Fund, Expendable Trust Funds and to certain Special Revenue Funds when so directed by law.

Equity securities of the Pension Trust Funds and deferred compensation plan investments are stated at market. The Massachusetts State Teachers and Employees Retirement Systems Trust (MASTERS) and the Pension Reserves Investment Trust Fund (PRIT), collectively the Pension Trust Funds have acquired investments in real estate, venture capital funds, real estate funds, limited partnerships, futures pools, international hedge pools, commodities pools, balanced pools, leverage buyouts, private placements and other alternative investments. The structure, risk profile, return potential and marketability differ from traditional equity and fixed income investments. As of June 30, 1993, the estimated values, determined by management with input from the investment managers, of these alternative investments were $487,529,832 in the Trust and $588,502,887 in the Fund.

Investments of the University of Massachusetts (UMass) are stated at the lower-of-cost or market (except for debt instruments to be held to maturity which are carried at amortized cost). Other investments are stated at cost or amortized cost.

Annuity contracts represent guaranteed investment contracts and are carried at present value.

e. Receivables -

Receivables are stated net of estimated allowances for uncollectible accounts. Reimbursements due to the Commonwealth for its expenditures on federally-funded reimbursement and grant programs are reported as "Due from federal government." The receivables in the Proprietary and University and College Funds are amounts that have arisen in the normal course of business.

1. Summary of Significant Accounting Policies (Continued):

f. Inventories -

The costs of materials and supplies are recorded as expenditures in Governmental Funds when purchased. Such inventories are not material in total to the financial statements.

Inventories included within Enterprise and the University and College Funds are stated at the lower of cost, using the first-in, first-out method, or market.

g. Fixed Assets -

For Governmental Funds, general fixed asset acquisitions are recorded as expenditures in the acquiring fund and capitalized in the General Fixed Assets Account Group in the year purchased. General fixed assets are recorded at historical cost, or at estimated historical cost if actual historical cost is not available. Donated fixed assets are recorded at fair market value at the time of the donation.

The Commonwealth capitalizes all land. It capitalizes buildings and equipment, including computer software, with costs in excess of fifteen thousand dollars at the date of acquisition and expected useful lives of greater than one year. Interest incurred during construction is not material and it is not capitalized. Infrastructure (roads, bridges, tunnels, dams, water and sewer systems, etc.) is not capitalized. No depreciation is provided on general fixed assets.

Fixed assets of the Enterprise Funds are capitalized upon purchase and depreciated on a straight-line basis over the estimated useful lives of the assets. Interest incurred during construction is capitalized. The estimated useful lives of fixed assets are as follows:

Structures and improvements	3 - 100 years
Equipment, furniture, fixtures and vehicles	3 - 25 years

Fixed assets of the University and College Fund are recorded at cost when purchased or constructed. Major construction projects financed through the issuance of Commonwealth bonds are not recognized as additions to investment in plant until completed. For fixed assets related to the hospital and group practice plan, depreciation is recorded on a straight line basis over the estimated useful lives of the assets.

1. Summary of Significant Accounting Policies (Continued):

h. Interfund/Intrafund Transactions -

During the course of its operations, the Commonwealth records transactions between funds and/or between departments. Transactions of a buyer/seller nature between departments within a fund are not eliminated from the individual fund statements. Receivables and payables resulting from transactions between funds are classified as "Due from other funds" or "Due to other funds" on the balance sheet.

i. Fringe Benefit Cost Recovery -

The Commonwealth appropriates and pays the fringe benefit costs of its employees and retirees through the General Fund. These fringe benefits include the costs of employees' health insurance, pensions, unemployment compensation and other costs necessary to support the state workforce. As directed by Massachusetts General Laws, these costs are assessed to other funds based on their payroll costs, net of credits for direct payments. Since these fringe benefit costs are not separately appropriated or otherwise provided for in these funds, the required assessment creates an unfavorable budget variance in the budgeted funds.

j. School Construction Grants -

The Commonwealth is committed to reimburse certain cities, towns and regional school districts for a portion of their debt service costs for school construction and renovation. This liability is recorded in the General Long-term Obligations Account Group.

k. Compensated Absences -

Employees are granted vacation and sick leave in varying amounts based on collective bargaining agreements and state laws. Upon retirement, termination or death, certain employees are compensated for unused vacation and sick leave (subject to certain limitations) at their then-current rate of pay.

For Governmental Funds and Expendable Trust Funds, vested or accumulated vacation and sick leave that are expected to be liquidated with expendable available financial resources are reported as expenditures and fund liabilities. Amounts that are not expected to be so liquidated are reported in the General Long-term Obligations Account Group.

1. Summary of Significant Accounting Policies (Continued):

k. Compensated Absences (Continued) -

In the Enterprise and the University and College Funds, employees' accumulated vacation and sick leave are recorded as an expense and liability as the benefits accrue.

l. Lottery Revenue and Prizes -

Ticket revenues and prizes awarded by the Massachusetts Lottery Commission are recognized as drawings are held. For certain prizes payable in installments, the Commonwealth purchases annuities in the Commonwealth's name, which are recorded as annuity contracts and prizes payable in the Agency Funds. The Commonwealth retains the risk related to such annuities.

m. Risk Financing -

The Commonwealth does not insure for workers' compensation, casualty, theft, tort claims and other losses. Such losses, including estimates of amounts incurred but not reported, are included as accrued liabilities in the accompanying financial statements when the claim is incurred. For workers' compensation, the Commonwealth assumes the full risk of claims filed under a program managed by the Public Employee Retirement Administration. For personal injury or property damages, Massachusetts General Laws limit the risk assumed by the Commonwealth to $100,000 per occurrence, in most circumstances. The Group Insurance Commission administers health care and other insurance for the Commonwealth's employees and retirees.

n. Total Columns - Memorandum Only -

Total columns on the combined financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present consolidated financial position, results of operations or cash flows. Interfund eliminations have not been made in the aggregation of this data.

1. Summary of Significant Accounting Policies (Continued):

o. Reclassifications -

For the fiscal year ended June 30, 1993, certain reclassifications have been made to the 1992 balances to conform to the presentation used in 1993.

The presentation of the separately issued Enterprise Funds financial statements has been reclassified to conform to the accounting classifications used by the Commonwealth.

p. Future Adoption of Accounting Pronouncements -

The GASB has issued the following statements which the Commonwealth has not yet adopted and which require adoption subsequent to June 30, 1993:

Statement No.		Adoption required in fiscal year
14	The Financial Reporting Entity	1994
16	Accounting for Compensated Absences	1994
18	Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs	1994
20	Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting	1995
21	Accounting for Escheat Property	1995
22	Accounting for Taxpayer-Assessed Tax Revenues in Governmental Funds	1995

The impact of these statements has not yet been determined.

2. Budgetary Control:

State finance law requires that a balanced budget be approved by the Governor and the Legislature. The Governor presents an annual budget to the Legislature which includes estimates of revenues, expenditures and other financing sources and uses anticipated during the coming fiscal year. The Legislature, which has full authority to amend the budget, adopts an expenditure budget by appropriating monies, at the individual appropriation account level, in an annual appropriation act.

For fiscal year 1993, the Legislature enacted a provision requiring that the general appropriation act include a revenue budget to show the estimates of amounts expected to be available to finance appropriated expenditures.

Before signing the appropriation act, the Governor may veto any specific item, subject to legislative override. Further changes to the budget established in the annual appropriation account may be made via supplemental appropriation acts or other legislative acts. These also must be approved by the Legislature and signed by the Governor and are subject to the line item veto.

The majority of the Commonwealth's appropriations are non-continuing accounts which lapse at the end of each year. Others are continuing accounts for which the Legislature has authorized that an unspent balance from the prior year be carried forward and made available for current spending. In addition, the Legislature may direct that certain revenues be retained and made available for spending within a specific appropriation account.

Generally, expenditures may not exceed the level of spending authorized for an individual appropriation account. However, the Commonwealth is statutorily required to pay debt service, regardless of whether such amounts are appropriated. Certain interfund assessments to allocate fringe benefits and other costs are mandated by state finance law but not itemized in the appropriation process or separately budgeted. In addition, Massachusetts General Laws authorize the Commissioner of Administration, with the approval of the Governor, to withhold allotment of appropriated funds, effectively reducing the account's expenditure budget, upon determination that available revenues will be insufficient to meet authorized expenditures.

2. Budgetary Control (Continued):

The original fiscal year 1993 appropriation act authorized a total of $13,840,981,000 in direct appropriations, $547,426,000 in authorizations to retain and expend certain non-tax revenues and $175,766,000 of interagency chargebacks. The act also included estimates of $9,685,000,000 in tax revenues and approximately $4,754,600,000 in non-tax revenues. With these revenues (exclusive of chargebacks) projected to total approximately $14,439,600,000, and with unreserved balances of approximately $82,878,000 carried forward from fiscal year 1992, the budget as presented in this original appropriation act was considered to be in balance.

During fiscal year 1993, the Legislature also passed and the Governor signed, with some modification through veto, several supplemental budgetary appropriations. These amounts added approximately $412,636,000 in direct appropriations and $35,397,000 in additional retained revenue authorizations.

Subsequent to June 30, 1993, the Legislature passed and the Governor signed, with modification through veto, approximately $76,383,000 in additional supplemental appropriations. These actions raised to approximately $15,088,589,000 the total of appropriations and retained revenue authorizations. Appropriations continued from fiscal year 1992 totaled approximately $231,030,000, and certain intrafund and interfund transfers and expenditures, directed by statute, totaled approximately $223,330,000.

Because a practice of legally updated revenue budgets is not in place, the revenue projections included in the original appropriation act are used as the budgeted revenues in the Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Statutory Basis - Budget and Actual - General and Budgeted Special Revenue Funds (combined budget and actual statement). As a result, the comparison of the initial revenue budget to the subsequent, and often modified, expenditure budget can be misleading.

2. Budgetary Control (Continued):

Appropriations are enacted for the General Fund and certain Special Revenue Fund activities. For these funds, a Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Statutory Basis - Budget and Actual - General and Budgeted Special Revenue Funds is included. The Budgeted Special Revenue Funds presented are the Highway, Local Aid, Commonwealth Stabilization, Administrative Control, Environmental and Other.

The Office of the Comptroller has the responsibility to ensure that budgetary spending control is maintained on an individual appropriation account basis. Budgetary control is exercised through the Massachusetts Management Accounting and Reporting System (MMARS). MMARS ensures that encumbrances or expenditures are not processed if they exceed the appropriation account's total available spending authorization, which is considered its budget. However, the Legislature has directed certain interfund transfers which are not budgeted. This results in unfavorable budget to actual variances in both "Other financing sources" and "Other financing uses."

A MMARS report, internally identified as RPT226, is used by management and the Office of the Comptroller to monitor spending against budget. This report provides information at the individual appropriation account level, which is the legal level of budgetary control and it is available from the Office of the Comptroller. For financial reporting, the Commonwealth groups these appropriation accounts by character and secretariat to conform to its organizational structure.

On the statutory basis, the Commonwealth Stabilization and Administrative Control Funds are segregated from the General Fund and reclassified as budgeted Special Revenue Funds to reflect the intent of the Legislature, which established statutory funds for specific appropriated activities. These accounts are included in the General Fund in the combined financial statements, consistent with their presentation in prior fiscal years.

2. Budgetary Control (Continued):

The following is a reconciliation of the statutory basis excess of revenues and other financing sources over expenditures and other financing uses of the General and budgeted Special Revenue Funds to the GAAP basis presented in the financial statements (amounts in thousands):

	General	Special Revenue
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses (statutory basis)	($339,863)	$352,992
Entity differences:		
Excess (deficiency) of revenues and other sources over expenditures and other uses for:		
Non-budgeted Special Revenue Funds		(36,218)
Perspective differences:		
Certain activities treated as Special Revenue Funds for statutory and as part of the General Fund for GAAP	66,936	(66,936)
Basis of accounting differences:		
Residual equity transfer	(79,656)	
Net increase in taxes receivable	66,401	37,823
Net decrease in due from federal government	(32,424)	(2,251)
Net increase (decrease) in other receivables and other assets	270,221	(2,686)
Net decrease in tax refunds and abatements payable	42,608	29,060
Net increase in accounts payable and other liabilities	(207,121)	(78,323)
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses (GAAP basis)	($212,898)	$233,461

3. Deposits and Investments:

Cash and Short-term Investments -

The Commonwealth maintains a cash and short-term investment pool which is utilized by the Governmental and Fiduciary Fund types.

As of June 30, 1993, the carrying amount of the Commonwealth's total cash and short-term investments was $366,083,000, and the corresponding bank balances were $77,459,000. Bank deposits in the amount of $19,120,000 were insured by the Federal Deposit Insurance Corporation, and $58,339,000 were uninsured and uncollateralized.

Investments -

The Commonwealth maintains an investment pool, the Massachusetts Municipal Depository Trust (MMDT), that is available for use by all funds. The deposits and investments of the Enterprise and the University and College Funds and the investments of the Pension Trust Funds are held separately from those of other state funds, with the exception of their investments in MMDT.

Statutes authorize the Commonwealth to invest in obligations of the U.S. Treasury, authorized bonds of all states, banker's acceptances, certificates of deposit, commercial paper rated within the three highest classifications established by Standard & Poors Corporation and Moody's Commercial Paper Record and repurchase agreements that any of these obligations secure. Investments in the MMDT are carried at cost, which approximates market. The investment policies of the entities included in the Enterprise Funds are the same as the Commonwealth's, except that they permit investment in equity securities. The Pension Trust Funds are permitted to make investments in equity securities, fixed income securities, real estate and other alternative investments. In the following table, these alternative investments, venture capital and futures pools are classified as other investments.

3. Deposits and Investments (Continued):

Investments (Continued) -

Short-term investments and investments are classified as to collateral risk into the following three categories:

Category 1: Insured or registered, or securities held by the Commonwealth or its agent in the Commonwealth's name.

Category 2: Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the Commonwealth's name.

Category 3: Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the Commonwealth's name.

Investments at June 30, 1993, are as follows (amounts in thousands):

	Carrying amount				
Investment	Category 1	Category 2	Category 3	Total	Market value
Repurchase agreements	$ 823,191	$ 2,447	$ 68,543	$ 894,181	$ 894,181
U.S. Treasury obligations	558,695	30,590	36,795	626,080	626,697
Commercial paper	839,044		8,830	847,874	847,874
Government obligations	2,335,375	136,165	12,413	2,483,953	2,485,802
Equity securities	5,694,745	14,709	7,214	5,716,668	5,717,362
Fixed income securities	1,457,036	53,818	1,494	1,512,348	1,512,944
Eurodollar contracts		54,908		54,908	54,272
Asset backed investments	14,141	41,366		55,507	55,552
Notes		7,997	3,962	11,959	17,594
	11,722,227	342,000	139,251	12,203,478	12,212,278
Money market investments				1,106,768	1,107,068
Mutual fund investments				18,345	18,345
Deferred compensation plan mutual funds				895,768	895,768
Annuity contracts				975,442	975,442
Guaranteed income contracts				318,753	318,753
Real estate				703,031	703,031
Assets held in trust				1,518,389	1,518,389
Other				373,002	373,002
Total				$18,112,976	$18,122,076

3. Deposits and Investments (Continued):

Investments (Continued) -

The Pension Trust Funds hold approximately 85% of the investments in Category 1, the Enterprise Funds hold 33% and 51% of the investments in Categories 2 and 3, and the University and College Fund holds 67% and 32% of Categories 2 and 3, respectively.

The following is a reconciliation of the two different investment amounts at June 30, 1993 (amounts in thousands):

Investments as summarized above	$13,112,976
Less: Short-term investments reported in the combined balance sheet as cash and short-term investments	2,265,984
Restricted investments reported separately in the combined balance sheet	767,408
Deferred compensation plan mutual funds reported separately in the combined balance sheet	895,768
Assets held in trust reported separately in the combined balance sheet	1,518,389
Annuity contracts reported separately in the combined balance sheet	975,442
Investments as reported on the combined balance sheet	$11,689,985

The following is a reconciliation of the balance of cash and short-term investments at June 30, 1993 (amounts in thousands):

Carrying amount of cash and cash equivalents	$ 366,083
Short-term investments	2,265,984
Cash and short-term investments as reported on the combined balance sheet	$2,632,067

4. Receivables:

The following schedule details the taxes, federal, loans and other receivables presented in the various funds (amounts in thousands):

	Taxes	Due from federal government	Loans	Other	Allowance for uncollectibles	Net receivable
General Fund	$ 897,581	$ 597,131	$ 0	$ 808,876	($ 890,691)	$1,412,897
Special Revenue Funds	611,126	112,983		90,767	(194,109)	620,767
Capital Projects Funds		87,209		721	(264)	87,666
Enterprise Funds		179,132	175,584	29,291	(3,924)	380,083
Trust and Agency	369,548	1,338	8,151	251,535	(210,950)	420,122
University and College Fund		34,929	48,855	134,614	(30,746)	187,652
Subtotal	1,878,255	1,013,222	232,590	1,315,804		
Less: Allowance for uncollectible accounts	(420,938)	(55,304)	(9,141)	(845,301)	($1,330,684)	
Net receivable	$1,457,317	$ 957,918	$223,449	$ 470,503		$3,109,187

5. Interfund Transactions:

Interfund receivables and payables at June 30, 1993 are summarized as follows (amounts in thousands):

	Due from	Due to
General Fund:		
Special Revenue Funds:		
Local Aid	$ 0	$237,938
Enterprise Funds:		
MBTA		242,065
MCCA		6,290
Economic Development Authorities		23
Trust and Agency Funds:		
Pension Trust	3,276	
University and College Fund:		
Current - Unrestricted	12,608	
Subtotal	15,884	486,316
Special Revenue Funds:		
General Fund	237,938	
Capital Projects Funds:		
Highway	74,704	
Enterprise Funds:		
MBTA		94,448
University and College Fund:		
Current - Unrestricted	497	535
Subtotal	313,139	94,983
Capital Projects Funds:		
Special Revenue Funds:		
Local Aid		74,704
Capital Projects Funds:		
General		39,937
Highway		3,749
Federal Highway Contstruction	57,295	
Local Aid		13,667
Other	58	
Enterprise Funds:		
Economic Development Authorities		31,059
MWRA		11,600
Subtotal	57,353	174,716

5. Interfund Transactions (Continued):

	Due from	Due to
Enterprise Funds:		
General Fund	248,378	
Special Revenue:		
Highway Fund	94,448	
Capital Projects Funds:		
General	13,450	
Local Aid	29,209	
Subtotal	385,485	0
Fiduciary Funds:		
Expendable Trust Funds:		
Expendable Trust	409	
Unemployment Compensation		409
Pension Trust Funds:		
General		3,276
Subtotal	409	3,685
University and College Fund:		
General Fund		12,608
Special Revenue Funds:		
Other	535	497
University and College Fund:		
Current - Unrestricted		51
Current - Restricted	25,785	25,664
Plant		70
Subtotal	26,320	38,890
Total	$798,590	$798,590

6. Fixed Assets:

General Fixed Assets -

The following schedule shows the changes in general fixed assets by category at June 30, 1993, as restated for the removal of assets related to the University and College Fund Type (amounts in thousands):

	June 30, 1992 (as restated)	Additions and adjustments	Retirements and adjustments	June 30, 1993
Land	$ 376,873	$ 31,178	$ 147	$ 407,904
Buildings	2,090,893	53,901	32,639	2,112,155
Machinery and equipment	323,497	47,453	23,911	347,039
Construction in progress	188,680	5,191	48,739	145,132
Total	$2,979,943	$137,723	$105,436	$3,012,230

Fixed assets reported in the Commonwealth's Enterprise Funds consist of the following at June 30, 1993 (amounts in thousands):

	Amount
Land and improvements	$ 294,692
Structures and improvements	6,804,621
Equipment, furniture, fixtures and vehicles	1,318,602
Total at cost	8,417,915
Less accumulated depreciation	1,631,944
Net fixed assets	6,785,971
Property held for expansion	7,439
Construction in progress	1,458,449
Total	$8,251,859

6. Fixed Assets (Continued):

General Fixed Assets (Continued) -

Fixed assets of the University and College Fund Type consist of the following at June 30, 1993:

Land and improvements	$ 40,993
Buildings	1,612,431
Equipment	461,210
Construction in progress	9,958
	2,124,592
Less: accumulated depreciation (hospital and group practice plan)	(102,561)
Total	$2,022,031

7. Short-term Financing and Credit Agreements:

The Commonwealth has issued short-term notes in anticipation of revenue or bond financing. When this short-term debt does not meet the long-term refinancing criteria, it is classified among fund liabilities.

General Fund -

The Commonwealth issues short-term notes to provide working capital to the MBTA. The Commonwealth retires these notes through subsequent appropriations and assessments to cities and towns. The notes outstanding at June 30, 1993, totaled $240,000,000 with an interest rate of 3.0%, and matured in November, 1993. The Commonwealth subsequently issued comparable notes, also in the amount of $240,000,000, with an interest rate of 3.4%, maturing in November, 1994.

Capital Projects Funds -

The Commonwealth has issued five-year term minibonds, which are redeemable upon demand, to finance capital projects. At June 30, 1993, minibonds outstanding in the Capital Projects Funds totaled $84,434,000, with interest rates ranging from 5.0% to 9.7%.

The Commonwealth may issue bond anticipation notes to temporarily finance its capital projects, but it must reduce the balance to $200,000,000 at June 30. No such notes were outstanding at June 30, 1993.

7. Short-term Financing and Credit Agreements (Continued):

Letter of Credit Agreements -

During fiscal year 1993, the Commonwealth maintained letter of credit agreements with several banks to borrow up to $700,000,000 as a combination of advances and guarantees to provide credit and liquidity support for its commercial paper program. These agreements expire October 29, 1993 through September 30, 1994, and the average costs are approximately 0.3% on unutilized amounts and approximately 0.4% on utilized amounts.

Advances were available, subject to certain limitations and bearing interest at the bank rate as defined, in anticipation of revenue or bond proceeds and repayable by the following September 30, or convertible to term advances, at the Commonwealth's option. No such advances were drawn during the fiscal year ended June 30, 1993, or subsequent thereto.

During fiscal year 1993 the guarantee feature was utilized, and related fees totaled approximately $2,031,000.

Subsequent to June 30, 1993, expiring letters of credit totaling $300,000,000 were renewed, in the same aggregate amount, through October 28, 1994. The fees on both utilized and unutilized amounts were more favorable than those in existence in 1993.

Line of Credit Agreement -

The Commonwealth maintained a revolving line of credit agreement with a bank through June 30, 1993, in the amount of $150,000,000. Under this agreement, interest was charged at the lesser of the federal funds rate plus 1.5%, or prime, with commitment fees payable quarterly on the excess of the commitment amount over the average daily outstanding principal amount drawn. This line of credit agreement was not utilized during fiscal year 1993; commitment fees totaled $75,000.

7. Short-term Financing and Credit Agreements (Continued):

Enterprise Funds -

MBTA short-term notes payable outstanding at June 30, 1993 totaled $365,000,000. Of this amount, $170,000,000 are due October 1, 1993 with an interest rate of 3.5% and $195,000,000 mature March 2, 1994 with an interest rate of 2.8%.

The MBTA also issued commercial paper to act as financing for capital expenditures. At June 30, 1993, $52,000,000 of this commercial paper was outstanding.

During fiscal year, 1993 Massachusetts Technical Park Corporation obtained a $1,850,000 line of credit with an interest rate of prime plus 1% per annum. Borrowings at June 30, 1993 totaled $805,000 and were subsequently repaid.

University and College Funds -

In December, 1990, the UMass Medical School Teaching Hospital Trust obtained a $11,000,000 line of credit to finance the construction of a building. At June 30, 1993, it had drawn down the entire amount.

8. Long-term Debt:

Under the Constitution of the Commonwealth, 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.

8. Long-term Debt (Continued):

The Commonwealth has waived its sovereign immunity and consented to be sued on contractual obligations, including 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 the payment of principal or interest on bonds and notes of the Commonwealth may also be subject to the provisions of federal or Commonwealth statutes, if any, enacted to extend the time for payment or impose other constraints upon enforcement.

As of June 30, 1993, the Commonwealth had three types of bonds outstanding: general obligation, dedicated income tax, and special obligation. The general obligation bonds are authorized and issued primarily to provide funds for state-owned capital projects and local government improvements. They are backed by the full faith and credit of the Commonwealth and paid from the Governmental Funds, in which debt service principal and interest payments are appropriated. Massachusetts General Laws provide for the allocation of bond proceeds to these authorizations in arrears, as expenditures are made, unless the proceeds are allocated at the time of issuance.

The dedicated income tax bonds relate entirely to the deficit financing authorization of fiscal year 1990. As a remedy to that financial situation, the Legislature authorized these bonds, to be repaid from tax revenues within seven years.

During fiscal year 1992, the Commonwealth issued special obligation revenue bonds as authorized under Massachusetts General Laws. Such bonds may be secured by all or a portion of revenues credited to the Highway Fund and are not general obligations of the Commonwealth. The issuance of such special obligation bonds is authorized in an aggregate amount not to exceed $1,125,000,000, in fiscal years 1992 through 1994. At June 30, 1993, the Commonwealth had outstanding $103,770,000 of such bonds, secured by a pledge of 2 cents of the 21-cent motor fuel excise tax collected on gasoline.

For financial reporting purposes, long-term bonds are carried at their face amount, which includes discount and any issuance costs financed. The outstanding amount represents the total principal to be repaid; for capital appreciation bonds, it represents total principal and interest to be repaid. When short-term debt has been refinanced on a long-term basis, it is reported as outstanding as its face amount.

8. Long-term Debt (Continued):

The amount of bonds authorized but unissued is measured in accordance with Commonwealth statutes. Only the net proceeds of bonds (exclusive of discount and costs of issuance) are deducted from the total authorized by the Legislature.

General obligation, dedicated income tax and special obligation long-term bonds outstanding (including discount and issuance costs) and bonds authorized-unissued at June 30, 1993, are as follows (amounts in thousands):

Purpose	Outstanding amount	Maturity dates	Authorized -unissued
Deficit reduction:			
Fiscal recovery	$1,044,365	1994-1998	$ 57,274
Capital projects:			
General	5,652,564	1994-2019	2,260,330
Highway	1,583,804	1994-2013	1,388,369
Local aid	759,466	1994-2013	840,283
Other	190,759	1994-2025	68,111
Subtotal	8,186,593		4,557,093
Total	$9,231,458		$4,614,367

Interest rates on the Commonwealth's bonded debt outstanding at June 30, 1993 ranged from 1.1% to 9.6%.

Changes in long-term bonds (including discount and issuance costs) and bonds authorized unissued for the year ended June 30, 1993, are as follows (amounts in thousands):

	Bonds outstanding	Authorized -unissued
Balance, July 1, 1992	$9,264,430	$6,393,333
General and special obligation bonds:		
Principal less discount and issuance costs	418,567	(418,567)
Discount and issuance costs	8,118	
General obligation refunding bonds:		
Principal less discount and issuance costs	1,891,468	
Discount and issuance costs	26,182	
Bonds retired (excluding minibonds)	(2,327,107)	
Increase in bonds authorized		141,100
Expiration of authorizations		(1,552,199)
Retirement of long-term bond anticipation notes	(50,200)	50,200
Balance, June 30, 1993	$9,231,458	$4,614,367

8. Long-term Debt (Continued):

At June 30, 1993, debt service requirements to maturity for principal (including discount and issuance costs) and interest are as follows (amounts in thousands):

Year ending June 30	Principal	Interest	Total
1994	$ 599,695	$ 503,141	$ 1,102,836
1995	630,269	465,497	1,095,766
1996	643,831	429,277	1,073,108
1997	670,380	387,169	1,057,549
1998	593,332	346,126	939,458
1999 and thereafter	6,093,951	2,235,888	8,329,839
Total	$9,231,458	$4,367,098	$13,598,556

Subsequent to June 30, 1993, the Commonwealth issued $842,995,000 in general obligation refunding bonds and $200,000,000 in general obligation bonds, with interest rates ranging from 4.1% to 6.0% and from 3.5% to 4.875%, respectively.

Statutory Debt Limit -

In fiscal year 1990, Massachusetts General Laws were amended to establish a limit on the amount of direct debt outstanding, effective at the beginning of fiscal year 1991. By statutorily limiting the Commonwealth's ability to issue direct debt, these amendments provide a control on annual capital spending. The first-year limit was $6,800,000,000, with an increase of 5% allowed in each successive fiscal year. The statutory debt limit for fiscal year 1993 was $7,497,000,000.

For purposes of determining compliance with the limit, direct debt is defined to include general obligation bonds and minibonds at the amount of their original net proceeds. It excludes discount and issuance costs, if any, financed by these bonds. It also excludes dedicated income tax bonds, certain special obligation bonds, refunded bonds, certain refunding bonds and bond anticipation notes. Outstanding direct debt, as defined, totaled approximately $7,304,584,000 at June 30, 1993.

8. Long-term Debt (Continued):

Advance Refundings and Defeased Bonds -

As authorized by the Massachusetts General Laws, the Commonwealth advance refunded certain general obligation and other bonds through the issuance of $1,917,650,000 of general obligation refunding bonds during fiscal year 1993. Proceeds totaling approximately $1,891,000,000 were used to purchase U.S. Government securities which, with a cash deposit of $1,194,000, were deposited in irrevocable trusts with an escrow agent to provide for all future debt service payments of the refunded bonds. As a result, the refunded bonds are considered to be defeased, and the liabilities therefore have been removed from the General Long-term Obligations Account Group. As a result of these advance refundings, the Commonwealth decreased current year debt service payments and has taken advantage of lower interest rates, and it has decreased its aggregate debt service payments by approximately $102,732,000 over the next 20 years and incurred an economic gain (the difference between the present values of the debt service payments of the refunded and refunding bonds) of approximately $95,150,000. At June 30, 1993, approximately $1,270,000,000 of the bonds refunded remain outstanding and are considered defeased.

In prior years, the Commonwealth also defeased certain general obligation and other bonds by placing the proceeds of bonds in irrevocable trusts to provide for all future debt service payments on the refunded bonds. Accordingly, the trust account assets and the liabilities for the defeased bonds are not included in the financial statements. At June 30, 1993, approximately $1,543,000,000 of bonds outstanding from advance refundings in prior fiscal years are considered defeased.

Changes in General Long-term Obligations -

The Commonwealth records its liability for long-term bonds in the General Long-term Obligations Account Group. Other general long-term obligations recognized by the Commonwealth are its obligations under capital lease agreements (Note 13), school construction grants to partially reimburse cities and towns for their debt service payments on bonds issued to finance construction of local or regional schools (Note 1), compensated absences (Note 1), unfunded pension costs (Note 11) and claims and judgments related to workers' compensation, lawsuits or other claims pending or threatened (Notes 1, 14 and 15).

B. Long-term Debt (Continued):

Changes in General Long-term Obligations (Continued) -

During the year ended June 30, 1993, the following changes occurred in liabilities reported in the General Long-term Obligations Account Group (amounts in thousands):

	Long-term bonds	Capital leases	School construction grants	Compensated absences	Unfunded pension costs	Claims, judgments and other	Total
Balance, July 1, 1992 (As restated)	$9,264,430	$37,252	$1,616,485	$86,818	$2,117,685	$389,435	$13,512,105
Bond issuances	2,310,035						2,310,035
Bond discount	34,300						34,300
Bond principal payments (excluding minibonds)	(2,327,107)						(2,327,107)
Long-term bond anticipation notes payable	(50,200)						(50,200)
Excess of total pension contributions required over total contributions made					244,569		244,569
Net increase (decrease)		(3,923)	309,597	(10,538)		12,429	307,565
Balance, June 30, 1993	$9,231,458	$33,329	$1,926,082	$ 76,280	$2,362,254	$401,864	$14,031,267

University and College Fund -

Building authorities related to UMass and the state colleges have issued bonds for construction of higher education facilities and equipment. Such bonds are guaranteed by the Commonwealth in an aggregate amount not to exceed $100,000,000. The bond agreements generally provide that net revenues from student fees are pledged as collateral on the bonds and establish bond reserve funds, bond funds, and maintenance reserve funds. UMass has also entered into various loan agreements as a participant in MHEFA's ongoing capital asset program to finance construction projects and equipment.

8. Long-term Debt (Continued):

University and College Fund (Continued) -

University and College Fund long-term debt outstanding at June 30, 1993 was as follows (amounts in thousands):

Purpose	Interest rates	Amount	Maturity dates
MHEFA capital asset program	Variable	$ 11,597	1994 - 2006
Building authorities	3.0% - 9.9%	243,562	1994 - 2018
		$255,159	

Maturities of principal are as follows (amounts in thousands):

Year ending June 30	Amount
1994	$ 7,981
1995	8,010
1996	8,618
1997	9,026
1998	9,744
1999 and thereafter	211,780
Total	$255,159

Changes in bonds outstanding reported in the University and College Fund Type are as follows (amounts in thousands):

	Amount
Balance July 1, 1992	$253,049
Principal less discount and issuance costs	7,903
Bonds retired, net of amortization of discount	(5,793)
Balance, June 30, 1993	$255,159

8. Long-term Debt (Continued):

University and College Fund (Continued) -

UMass acquired a telecommunications system through non-lease debt financing made under a trust agreement, through the issuance of certificates of participation which bear interest at an average rate of 7.38% and mature in varying semi-annual installments through fiscal year 2000. Lease payments are funded from UMass student fees and approximate the trustee's payments to certificate holders.

Changes in non-cancellable certificates of participation for the University and College Fund Type are as follows (amounts in thousands):

Year ending June 30	Amount
1994	$ 3,627
1995	3,625
1996	3,617
1997	3,615
1998	3,612
1999 and thereafter	6,681
Total payments	24,777
Less: Amount representing interest	(5,455)
Minimum non-lease debt financing	$19,322

At June 30, 1993, approximately $77,865,000 of bonds outstanding from prior years' advance refundings of the University and College Fund building authorities are considered defeased.

8. Long-term Debt (Continued):

Enterprise Funds -

Bonds and notes outstanding at June 30, 1993, net of unamortized discount of $194,337 and unamortized deferred loss on refunding of $205,196, are as follows (amounts in thousands):

Purpose	Interest rates	Amount	Maturity dates
MBTA:			
General transportation system	3.62% - 7.71%	$1,871,114	1994-2023
Boston Metropolitan District	1.60% - 9.28%	54,353	1994-2025
MCCA:			
Current interest serial bonds	3.80% - 6.00%	116,440	1994-1999
Compound interest serial bonds	6.40% - 6.80%	47,099	2000-2005
MWRA:			
General revenue bonds	2.00% - 7.25%	1,905,907	1994-2022
Economic Development:			
Serial bonds	2.00% - 5.35%	105,705	1994-2008
Term bonds	5.45%	42,870	2013
Total		$4,143,488	

Maturities of principal are as follows (amounts in thousands):

Year ending June 30	MBTA	MCCA	MWRA	Economic Development	Total
1994	$ 53,046	$ 4,250	$ 39,110	$ 5,950	$ 102,356
1995	55,456	16,245	142,795	5,145	219,641
1996	64,846	17,085	52,075	5,305	139,311
1997	67,651	18,050	39,525	5,480	130,706
1998	70,287	19,100	41,705	5,680	136,772
1999 and thereafter	1,758,472	88,939	1,845,809	121,015	3,814,235
Total	$2,069,758	$163,669	$2,161,019	$148,575	$4,543,021

The amounts above represent the face amount of bonds and notes outstanding and may differ from the amounts included in the combined balance sheet due to treatment of original issue discount in the general purpose financial statements.

8. Long-term Debt (Continued):

Enterprise Funds (Continued) -

During the fiscal year ended June 30, 1993, the following changes occurred in bonds, notes payable and certificates of participation, reported in the Enterprise Funds (amounts in thousands):

	MBTA	MCCA	MWRA	Economic Development	Total
Balance, July 1, 1992 (as restated)	$2,345,158	$163,525	$1,796,993	$ 2,500	$4,308,176
Principal less discount and issuance costs	1,086,170		1,207,213	148,575	2,441,958
Debt retired, net of amortization of discount	(528,742)	14	(174,134)	(2,500)	(705,362)
Deferred loss on refunding	(105,200)		(101,760)		(206,960)
Defeased debt	(765,915)		(822,405)		(1,588,320)
Balance, June 30, 1993	$2,031,471	$163,539	$1,905,907	$148,575	$4,249,492

MBTA -

The legislation under which the MBTA was established provides that if, at any time, the MBTA is unable to meet any interest or principal payments due on its debt, sufficient funds will be remitted by the Commonwealth to meet such obligations.

The MBTA issued certificates of participation in the amounts of $28,565,000 on December 15, 1988 and $85,795,000 on August 30, 1990 to finance the purchase of commuter rail coaches. Under the terms of the applicable agreement, the MBTA's obligation to make the annual payments on the certificates is subject to the Commonwealth's appropriation of necessary funds in its annual budget. The certificates bear interest at rates ranging from 6.1% to 7.8% and mature as follows (amounts in thousands):

Year ending June 30	Amount
1994	$ 2,670
1995	2,770
1996	2,875
1997	2,990
1998	3,110
1999 and thereafter	92,325
	106,740
Less: Unamortized discount	(736)
Total	$106,004

8. Long-term Debt (Continued):

Enterprise Funds (Continued) -

During fiscal year 1993, the MBTA raised $887,420,000 through the issuance of refunding bonds to advance refund $765,915,000 of its outstanding general transportation system bonds. Net proceeds of $861,600,000 plus an additional $1,173,000 were used to purchase U.S. Government securities which were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds. As a result, the MBTA's refunded bonds are considered to be defeased, and the liability for those bonds has been removed from the Enterprise Funds. This advance refunding resulted a loss on defeasance of $105,200,000, which is being amortized as a component of interest cost in accordance with the requirements of GASB Statement No. 23, "Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities". As a result of the advance refunding, the MBTA reduced its aggregate debt service payments by approximately $43,500,000 from fiscal year 1993 to 2022 and achieved an economic gain of approximately $44,800,000.

MWRA -

The MWRA's bonds are collateralized by a lien and pledge on certain of its revenues and other monies. Discount and issuance costs are being amortized over the life of the bonds.

During fiscal year 1993, the MWRA raised $972,965,000 through the issuance of general revenue refunding bonds to advance refund $822,405,000 of its outstanding bonds. Net proceeds of $924,165,000 were used to purchase U.S. Government securities which were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds. As a result, the MWRA's refunded bonds are considered to be defeased, and the liability for those bonds has been removed from the Enterprise Funds. The MWRA advance refunding resulted in a loss on defeasance of $101,760,000 which is being amortized as a component of interest cost in accordance with the requirements of GASB Statement No. 23 for the year ended June 30, 1993. As a result of the advance refunding, the MWRA reduced its aggregate debt service payments by approximately $39,495,000 over the period from fiscal year 1993 to 2022 and achieved an economic gain of approximately $25,552,000.

MCCA -

The legislation which authorizes the issuance of MCCA debt securities provides for participation by the Commonwealth in the full payment of the annual debt service costs.

8. Long-term Debt (Continued):

Enterprise Funds (Continued) -

Economic Development -

In prior fiscal years, these entities defeased portions of their bonds by placing the proceeds of new bonds in trusts to provide for future debt service payments on the refunded bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Enterprise Funds. At June 30, 1993, $182,625,000 of such bonds outstanding are considered defeased.

9. Individual Fund Deficits:

The General Fund and certain Special Revenue and Capital Projects Funds included in the combined totals have fund deficits at June 30, 1993, as follows (amounts in thousands):

Fund	Amount
General	$1,121,538
Special Revenue:	
Federal Grants	17,732
Lotteries	1,992
Capital Projects:	
General	172,531
Highway	122,596
Local Aid	65,430
Other	8,819

The deficit in the General Fund reflects the accrual of liabilities for Medicaid claims at June 30, 1993, and for subsidies to transit authorities for operating deficits incurred but not yet funded. These liabilities will be paid in subsequent periods as the Legislature appropriates funds. Deficits in the non-budgeted Federal Grants and Lotteries Funds also reflect the impact of accruals. However, these deficits are created essentially by timing differences, which reverse in the next fiscal year.

9. Individual Fund Deficits (Continued):

In the Capital Projects Funds, the recognition of minibonds as fund liabilities accounts for $84,434,000 of the reported fund deficits. The remaining deficits to be financed reflect the time lag between capital expenditures and the receipt or allocation of proceeds from the sale of related bonds. During the fiscal year ended June 30, 1993, the Commonwealth continued its policy of reducing the time elapsed between those events. Subsequent to June 30, 1993, the Commonwealth issued $200,000,000 in general obligation bond related to the capital projects funds. Certain restrictions within Section 20 of Chapter 29 limit the Commonwealth's ability to sell special obligation bonds which would finance approximately $76,428,000 of the deficit in the Highway Capital Projects Fund. Legislative changes have been requested to eliminate these restrictions. If legislative changes are not enacted and bonds are not sold prior to March 1, 1994, then the Commonwealth could lose the ability to issue such bonds as exempt from U.S. taxes.

10. Segment Information - Enterprise Funds:

Selected financial information with respect to various segment activities included in the Enterprise Funds is as follows (amounts in thousands):

	Segments			
	Transportation	Conventions and Parking	Water Supply and Waste Disposal	Economic Development
Operating revenues	$ 186,572	$ 8,204	$ 294,670	$ 2,377
Depreciation	145,944	8,397	101,777	4,342
Operating income (loss)	(571,723)	(15,331)	40,484	(20,502)
Operating grants	17,643			2,207
Nonoperating revenues (expenses), net	(113,836)	(10,228)	(112,077)	13,201
Operating transfers	584,478	20,875		11,893
Net income (loss)	(101,081)	(4,684)	(71,593)	4,592
Current capital contributions	74,416		49,973	76,587
Fixed asset additions	207,833	1,323	502,297	171
Total assets	4,984,776	235,077	4,456,584	625,763
Bonds, notes payable and certificates of participation	2,448,471	163,539	1,905,907	149,380
Net working capital	(154,578)	7,930	428,643	323,627
Total retained earnings (deficit)	(161,820)	3,049		87,177

11. Retirement Systems:

The Commonwealth is statutorily responsible for the pension benefits for Commonwealth employees (members of the State Employees' Retirement System) and for teachers of the cities, towns, regional school districts throughout the Commonwealth and Quincy College (members of the Teachers' Retirement System, except for teachers in the Boston public schools, who are members of the State-Boston Retirement System but whose pensions are also the responsibility of the Commonwealth). Employees of certain independent authorities and agencies, such as the MBTA, and of counties, cities and towns (other than teachers) are covered by separate retirement systems. The members of the retirement systems do not participate in the Social Security System. The Commonwealth has also assumed responsibility for payment of cost-of-living adjustments (COLA) for the separate (non-teacher) retirement systems of its cities, towns and counties.

Certain Commonwealth employees and current retirees employed prior to the establishment of the State Employees' Retirement System are covered on a "pay-as-you-go" basis.

Plan Descriptions -

State Employees' Retirement System (SERS) is a single employer defined benefit public employee retirement system (PERS), covering substantially all employees of the Commonwealth and certain employees of the independent authorities and agencies. The SERS is administered by the Commonwealth and is part of the reporting entity.

Teachers' Retirement System (TRS) is an agent multiple employer defined benefit PERS. The Commonwealth is a non-employer contributor and is responsible for all contributions and future benefit requirements of the TRS. The TRS covers certified teachers in cities (except the City of Boston), towns, regional school districts and Quincy College. The TRS is administered by the Commonwealth and is part of the reporting entity.

State - Boston Retirement System (SBRS) is an agent multiple employer defined benefit PERS. SBRS provides provision benefits to all full-time employees upon commencement of employment with any of the various government agencies covered by SBRS. The Commonwealth is a non-employer contributor and is only responsible for the actual cost of pension benefits for SBRS participants who serve in the City of Boston's School Department in a teaching capacity. The cost of pension benefits of the other participants is the responsibility of the City of Boston. SBRS is not administered by the Commonwealth, and it is not part of the reporting entity.

11. Retirement Systems (Continued):

Plan Descriptions (Continued) -

The Commonwealth has assumed financial responsibility for the COLA granted to participants in the retirement systems of cities, towns and counties. Any future COLA granted by the Legislature to employees of these plans will also be the responsibility of the Commonwealth. The individual employer governments are responsible for the basic pension benefits. The retirement systems are not administered by the Commonwealth and are not part of the reporting entity.

Membership -

Current membership in SERS, TRS and SBRS as of January 1, 1993 is as follows:

	SERS	TRS	SBRS
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	45,419	30,168	2,186
Current employees:			
Vested	36,398	44,782	3,522
Nonvested	47,229	18,210	2,148
Subtotal	83,627	62,992	5,670
Total	129,046	93,160	7,856

The covered payroll for employees of the Commonwealth covered by SERS was $2,918,971,000. The covered payroll for employees of the cities and towns covered by TRS is $2,427,836,000. The covered payroll for employees of the City of Boston covered by SBRS is $205,621,000. The covered payroll amounts approximate the employer payroll.

Benefit Provisions -

Massachusetts General Laws establish uniform benefit and contribution requirements for all contributory PERS. These requirements provide for retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation. Benefit payments are based upon a member's age, length of creditable service, and group classification.

11. Retirement Systems (Continued):

Benefit Provisions (Continued) -

The retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total deductions and a portion of the interest they generate constitute the annuity. The differential between the total retirement benefit and the annuity is the pension. The average retirement benefit is approximately 80-85% pension and 15-20% annuity.

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65; for certain hazardous duty and public safety positions, normal retirement is at age 55.

Funding Status and Progress -

The amounts shown below as the pension benefit obligation are a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure is intended to help users assess the funding status of the System on an ongoing basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among employers. The measure is the actuarially determined present value of credited projected benefits and is independent of the funding method used to determine contributions to the System.

The SERS, TRS and SBRS pension benefit obligations were computed as part of the actuarial valuation as of January 1, 1993. Significant actuarial assumptions used in the calculation of contribution requirements and pension benefit obligation include (a) rates of return on investments of present and future assets of 8% per year for SERS and TRS and SBRS (b) projected salary increases of 6% per year for SERS and TRS and SBRS (c) cost of living increases of 3% per year and (d) interest rate credited to the annuity savings fund of 5.5% per year.

11. Retirement Systems (Continued):

Funding Status and Progress (Continued) -

The total unfunded pension benefit obligation is as follows (amounts in millions):

	SERS	TRS	SBRS	COLA	Total
Pension benefit obligation:					
Retirees and others currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	$4,429	$3,238	$285	$1,432	$ 9,385
Current employees:					
Accumulated employee contributions including allocated interest	1,661	1,984	170		3,814
Commonwealth financed:					
Non-vested	647	283	35	89	1,055
Vested	1,672	2,934	213	402	5,222
Total pension benefit obligation	8,409	8,440	704	1,923	19,476
Net assets available for benefits, at market	5,071	5,142	370		10,584
Unfunded pension benefit obligation	$3,338	$3,298	$334	$1,923	$8,892

Contributions Required and Contributions Made -

The retirement systems' funding policies have been established by statute. The annuity portion of the SERS, TRS and SBRS retirement allowance is funded by employees, who contribute a percentage of their regular compensation - 5% for those hired before January 1, 1975, 7% for those hired from January 1, 1975, through December 31, 1983, and 8% for those hired on or after January 1, 1984, plus an additional 2% of compensation above $30,000 per year for those hired on or after January 1, 1979.

11. Retirement Systems (Continued):

Contributions Required and Contributions Made (Continued) -

The Commonwealth's contribution for the pension benefit portion of the retirement allowance of SERS and TRS and required payments to cover SBRS and COLA contributions were originally established on a "pay-as-you-go" basis. As a result, amounts were appropriated each year to pay current benefits, without a systematic provision to fully fund future liabilities already incurred. Beginning in fiscal year 1988, the Commonwealth enacted the Pension Reform Act of 1987 and addressed the unfunded liability of SERS, TRS and its participation in SBRS and its COLA obligation. This legislation requires funding on a current basis, including amortizing the unfunded liabilities and liabilities for future COLA payments to local systems, over 40 years.

This legislation also directs the Secretary for Administration and Finance to prepare a funding schedule to meet these requirements, and to update this funding schedule every three years on the basis of new actuarial valuation reports prepared under the Secretary's direction. Any such schedule is subject to legislative approval. If a schedule is not so approved, payments are to be made in accordance with the most recently approved schedule. This legislation further provides that if, during the first ten years of scheduled payments, the pension benefits paid exceed the scheduled contribution, the Commonwealth's contribution shall equal these benefit payments.

The current legislatively approved funding schedule, based on the January 1, 1990 valuation, was filed with the Legislature on March 1, 1991. It required contributions by the Commonwealth of $763,749,000 during the fiscal year ended June 30, 1993. Because total benefit payments exceeded this amount, no additional Commonwealth contribution was required.

GAAP requires that pension expenditures (costs) be based on an acceptable actuarial cost method and that they not be less than:

- Normal cost
- Interest on any unfunded prior service costs
- A provision for vested benefits when the total present value of vested benefits exceeds by 5% or more the value of the plan

11. Retirement Systems (Continued):

Contributions Required and Contributions Made (Continued) -

The funding schedule discussed above follows an acceptable actuarial funding methodology to compute normal cost and the unfunded accrued actuarial liability. However, the amortization of the accrued actuarial liability has been legislatively determined to be significantly lower in the first years of the 40-year funding period. Therefore, the fiscal year 1993 contribution did not cover the minimum expenditure recognition required by GAAP. The difference between the total contributions required and the total contributions made is recorded as a liability in the General Long-term Obligations Account Group.

Contributions required and made based on the minimum expenditure recognition required by GAAP are as follows (amounts in millions):

	SERS	TRS	SBRS	COLA	Total
Minimum contribution requirement:					
Normal cost	$405.7	$302.2	$26.2	$ 48.4	$ 782.5
Amortization of unfunded actuarial liability	158.7	132.2	14.2	40.7	396.2
Interest on unfunded actuarial liability	94.3	105.5	9.9	54.9	264.6
Total contributions required	$658.7	$540.3	$50.3	$194.0	$1,443.3
Contributions made:					
By employees	$191.6	$157.9	$14.8	$ 0	$ 364.3
% of covered payroll	6.5%	6.5%	7.2%	N/A	N/A
By the Commonwealth	418.2	303.0	27.2	96.7	845.1
% of covered payroll	14.3%	12.5%	13.2%	N/A	N/A
Total contributions made	$609.8	$460.9	$42.0	$ 46.8	$1,209.4

The total contributions required for SERS, TRS and SBRS are based on the entry age normal cost method using the same actuarial assumptions used to compute the pension benefit obligation.

During the year ended June 30, 1993, the Commonwealth's pension expenditure also included payments totaling $23,092,000 to current retirees employed prior to the establishment of the current plans and to non-contributory plans.

11. Retirement Systems (Continued):

Contributions Required and Contributions Made (Continued) -

Massachusetts General Laws established an early retirement incentive program under which eligible state employees could elect to receive enhanced pension benefits in exchange for retiring as of July 1, 1992. The effect of this incentive program was to increase the pension liability by approximately $193,000,000.

Trend Information -

The following table presents the required three-year trend information:

	Year	% SERS	% TRS	% SBRS
Net assets available for benefits as a percentage of the pension benefit obligation applicable to employees:	1993	60.3	60.9	52.7
	1992	66.6	58.1	48.5
	1991	59.1	46.2	54.4
Unfunded pension benefit obligation as a percentage of annual covered payroll:	1993	114.4	135.8	161.9
	1992	89.5	169.6	197.2
	1991	121.8	230.8	124.1
Commonwealth's contributions to the pension plan as a percentage of annual covered payroll:	1993	14.3	12.5	13.2
	1992	12.7	14.0	14.4
	1991	13.5	12.9	12.7

Ten-year historical trend information for SERS, TRS and SBRS may be found on pages 151 and 152 of the Commonwealth's Comprehensive Annual Financial Report. This report presents information about progress made in accumulating sufficient assets to pay benefits when due.

11. Retirement Systems (Continued):

Trend Information (Continued) -

Certain information was not available for SERS, TRS and the Commonwealth's participation in SBRS. Total annual payroll for SERS, TRS and SBRS approximates annual covered payroll; however, actual annual total payroll amounts are not available this year, and have not been available in prior years. Annual covered payroll amounts were not available prior to 1990. Ten-year trend data of SBRS for revenues and expenditures is not available in their separately issued report.

Enterprise Funds' Condensed Pension Information -

The following authorities included as Enterprise Funds maintain their own pensions plans. More detailed information concerning these plans is available in the separate financial statements. The pension benefit obligation and net assets available for benefits for each plan are as follows (amounts in thousands):

	Pension benefit obligation	Net assets available for benefits
MBTA	$987,589	$950,367
MWRA	22,218	21,015

The two authorities met their actuarially determined employer contribution requirements.

Postretirement Health Care and Life Insurance Benefits -

In addition to providing pension benefits, the Commonwealth is statutorily 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 is 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.

The Commonwealth recognizes its share of the costs of providing these benefits when paid. These payments totaled approximately $118,108,000 for the fiscal year ended June 30, 1993.

12. Deferred Compensation Plan:

The Commonwealth offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all employees of the Commonwealth and its political subdivisions, permits them to defer a portion of their salaries until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of the Commonwealth (without being restricted to the provision of benefits under the plan), subject only to the claims of the Commonwealth's general creditors and its political subdivisions participating in the plan. Participants' rights under the plan are equal to the fair market value of the deferred account for each participant. All plan assets are stated at market value.

It is the opinion of the Commonwealth that it has no liability for losses under the plan, but it does have the duty of due care which would be required of an ordinary prudent investor. The plan assets are subject to the claims of the Commonwealth's general creditors; however, plan assets have not been used in the past to satisfy such claims.

Of the $895,768,000 in the plan at June 30, 1993, $603,084,000 was applicable to the Commonwealth; the remaining $292,684,000 represents the assets of cities and towns participating in the plan. The assets and liabilities of the deferred compensation plan are included in Agency Funds at June 30, 1993.

13. Capital Leases:

In order to finance the acquisition of equipment, the Commonwealth has entered into various lease/purchase agreements, including tax-exempt lease purchase (TELP) agreements which are accounted for as capital leases. These agreements are for various terms and contain clauses indicating that their continuation is subject to appropriation by the Legislature.

13. Capital Leases (Continued):

At June 30, 1993, the Commonwealth's aggregate outstanding liability under capital leases, the present value of the net minimum lease payments, totals $33,329,000. This liability is reported in the General Long-term Obligations Accounts Group. Equipment acquired under capital leases and included in the General Fixed Assets Account Group totals approximately $68,507,000.

The Commonwealth leases real property and equipment under numerous operating lease agreements for varying terms. These agreements contain clauses which indicate that their continuation is subject to appropriation by the Legislature. Rental expense for the year ended June 30, 1993 was approximately $79,795,000.

The following is a schedule of future minimum lease payments under non-cancellable leases for the Commonwealth as of June 30, 1993 (amounts in thousands):

Year ending June 30	Capital leases	Operating leases
1994	$17,993	$ 72,796
1995	10,739	55,869
1996	5,220	40,235
1997	1,446	8,252
1998	889	4,047
1999 and thereafter	2,661	9,514
Total payments	38,948	$190,715
Less: amount representing interest	(5,619)	
Present value of net minimum lease payments	$33,329	

University and College Fund -

At June 30, 1993, aggregate outstanding liability under capital leases, the present value of the net minimum lease payments, totaled $12,687,000. Equipment acquired under capital leases and included in University and College Fund fixed assets totaled approximately $16,000,000.

The University and College Fund Type leases real property and equipment under numerous operating lease agreements for varying terms. Rental expense for the fiscal year ended June 30, 1993 was approximately $6,943,000.

13. Capital Leases (Continued):

University and College Fund (Continued) -

The following schedule summarizes future minimum payments under non-cancellable leases for the University and College Fund Type (amounts in thousands):

Year ending June 30	Capital leases	Operating leases
1994	$ 4,882	$ 6,340
1995	3,512	4,428
1996	2,226	3,057
1997	1,258	594
1998	936	62
1999 and thereafter	4,500	6
Total payments	17,314	$14,487
Less: amount representing interest	(4,627)	
Present value of minimum lease payments	$12,687	

Enterprise Funds -

The MBTA has entered into several sale-leaseback agreements with major financial institutions, covering equipment and rolling stock, which have been accounted for as operating leases. The leases expire through 2013. Upon termination, the MBTA may purchase the equipment and rolling stock at prices equal to the lesser of a stated percentage (40%-70%) of the lessor's original purchase price or residual fair market value, as defined.

The MWRA leases electric power assets, office space in Boston and other property under long-term operating leases.

The Economic Development Authorities have operating leases for office space.

13. Capital Leases (Continued):

Enterprise Funds (Continued) -

The future minimum rental payments required under operating leases having initial or remaining non-cancellable lease terms in excess of one year are as follows (amounts in thousands):

Year ending June 30	MBTA	MWRA	Economic Development Authorities
1994	$ 12,068	$ 12,531	$ 489,817
1995	12,068	18,696	434,230
1996	12,068	19,825	259,686
1997	12,068	20,223	146,003
1998	13,669	19,874	
1999 and thereafter	188,739	227,423	
Total	$250,680	$318,572	$1,329,736

14. Commitments:

The Commonwealth is obligated to provide annual subsidies to the MBTA and regional transit authorities for contract assistance, debt service assistance and their net cost of service deficiencies. For fiscal year 1993, these subsidies totaled $584,478,000 for the MBTA and $31,108,000 for the regional transit authorities. The net cost of service subsidy is recognized as a current liability of the Commonwealth, but is funded in arrears. At June 30, 1993, the Commonwealth has recorded the unpaid portion as a liability due to the MBTA of $336,513,000. The cities and towns served by the MBTA and regional transit authorities will be assessed their proportionate shares of the net cost of service. A receivable from cities and towns of $188,569,000 is recorded at June 30, 1993, to account for these future reimbursements. The MBTA has also recorded net deferred charges at June 30, 1993, which will be included in the Commonwealth's net cost of service subsidy in future periods. The Commonwealth has recognized its liability for these future costs in the General Long-term Obligations Account Group.

The Commonwealth is also statutorily obligated to provide contract assistance for debt service obligations to the MCCA and the Government Land Bank. Such assistance totaled $11,842,000 in fiscal year 1993.

14. Commitments (Continued):

At June 30, 1993, the aggregate outstanding debt for which the Commonwealth is obligated to provide contract assistance support totaled $2,306,887,000. In addition, the Commonwealth guarantees the debt of certain local governments and of the building authorities included in the University and College Fund. The guaranteed debt outstanding at June 30, 1993, was approximately $242,949,000.

At June 30, 1993, the Commonwealth had commitments approaching $1,027,136,000 for various construction projects. The majority relate to new construction funding for a major infrastructure program known as the Central Artery Project, in which federal participation is anticipated. The remainder relate to a wide range of building construction projects.

Enterprise Funds -

As part of a major capital improvement program, the MWRA has entered into a number of contracts for the design and construction of facilities. At June 30, 1993, commitments under these contracts aggregated approximately $1,100,000,000.

The MWRA is required by a decision of a federal district court to comply with a detailed schedule of actions to achieve and maintain compliance with the requirements of the Clean Water Act. The schedule includes the construction of new primary treatment facilities, commencing December 1990 and finishing by July 1995, and the construction of secondary treatment facilities during 1995 to be completed during 1999. Other matters are still outstanding.

The MWRA has accepted responsibility and legal liability for undertaking measures to control discharges from combined sewer overflows (CSO) into Boston Harbor and adjacent waters, excluding liability for any failure to undertake such measures prior to February 27, 1987. It is in substantial compliance with a federal district court order which provides a schedule for implementation of short-term controls for CSO discharges and planning long-term controls. In fiscal year 1991, the MWRA's recommended plan for the long-term control options, aggregating $1,200,000,000, was approved by the federal district court and regulatory agencies.

14. Commitments (Continued):

Enterprise Funds (Continued) -

The MWRA's operating and construction plans, designed to comply with the federal district court's schedule, anticipate capital expenditures of approximately $6,000,000,000 from fiscal 1990 to 1999 based upon the current design and construction plan. Funding is expected to come from various federal and state grants and from MWRA's debt proceeds. As of August 16, 1993, the federal government authorized $280,000,000 in such grants. From 1988 to 1993, the Commonwealth is authorized to receive $332,000,000 from the federal government for loans from the revolving loan fund.

As of June 30, 1993, the WPAT has entered into binding commitments to provide $149,000,000 in loans to fund four MWRA projects through the revolving loan fund. It has also agreed to provide loans of $494,000,000, with $450,000,000 to be funded with grant awards received through June 30, 1993, and $44,000,000 for approved ineligible costs to be funded from the Commonwealth - capitalized state revolving fund.

The MBTA has entered into several long term contracts to purchase commuter rail coaches, locomotives and rapid transit cars. The unpaid amounts under these contracts total approximately $91,638,000 at June 30, 1993.

The MCCA has entered into a general construction contract for the renovation and rehabilitation of the Boston Common Parking Garage. The total cost, including architectural, engineering and other costs, is expected to be approximately $35,000,000.

As of June 30, 1993, the Government Land Bank had committed to issuing mortgages of $21,102,000.

Pension Trust Funds -

At June 30, 1993, PRIT had outstanding commitments to invest $61,000,000 in real estate, $45,000,000 in venture capital and $181,000,000 in special equity investments.

At June 30, 1993, MASTERS was committed to invest an additional $16,800,000 in certain partnership investments.

14. Commitments (Continued):

University and College Fund Type

The University and College Fund has outstanding purchase commitments under construction contracts which total approximately $320,000,000.

The UMass hospital has agreements with Blue Cross of Massachusetts, Inc., the Social Security Administration under the Medicare program and the Commonwealth of Massachusetts under the Medicaid program that govern payments to the hospital for services rendered to patients covered by these programs and require the hospital to prepare and file settlement reports annually. Provisions have been made in the financial statements for the estimated final settlements with such third party payors.

15. Contingencies:

A number of lawsuits are pending or threatened against the Commonwealth which arose from the ordinary course of operations. These include claims for property damage and personal injury, breaches of contract, condemnation proceedings and other alleged violations of law. For those cases in which it is probable that a loss will be incurred and the amount of the potential judgment can be reasonably estimated, the Attorney General estimates the liability to be approximately $100,200,000. Of this amount approximately $66,200,000, which is expected to be paid during fiscal year 1994, is recorded in fund liabilities; approximately $34,000,000 expected to be paid thereafter, is recorded as a liability in the General Long-term Obligations Account Group.

Various cases are currently before the Appellate Tax Board, involving approximately $560,000,000 of taxes and related interest. For those cases in which it is probable that a loss will be incurred, the Department of Revenue estimates the Commonwealth's liability to be approximately $80,700,000. Approximately $60,700,000, which is expected to be settled during fiscal year 1994, is included among fund liabilities, approximately $20,000,000, which is expected to be settled after June 30, 1994, is recorded as a liability in the General Long-term Obligations Account Group.

15. Contingencies (Continued):

Workers' compensation and group health insurance costs are recognized when claims are incurred. The Commonwealth's outstanding liability for such claims at June 30, 1993, including claims incurred but not reported, is estimated to be $406,500,000. Of this total, approximately $103,700,000 is expected to be paid during fiscal year 1994; $97,800,000 is included among fund liabilities and $5,900,000 is reported in the University and College Fund. Of the remainder, approximately $272,000,000, is recorded as a liability in the General Long-term Obligations Account Group and $30,800,000 is included in the liabilities of the University and College Fund.

The Commonwealth receives significant financial assistance from the federal government. Entitlement to the resources is generally conditional upon compliance with terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of the resources for eligible purposes. Substantially all federal financial assistance is subject to financial and compliance audits. Any disallowances become liabilities of the fund which received the assistance. As of June 30, 1993, the Commonwealth estimates that liabilities, if any, which may result from such audits are not material.

The Commonwealth's abandoned property law requires deposit of certain unclaimed assets into a managed Agency Fund. The statute requires the excess amount over $500,000 each June 30 to be remitted to the General Fund, where it is included in miscellaneous revenue. Amounts remitted during fiscal year 1993 totaled $148,962,000. Since inception, approximately $430,400,000 has been remitted. This represents a contingency, because claims for refunds can be made by the owners of the property. No material amounts have been repaid.

University and College Fund Type -

UMass is contingently liable for $20,050,000 of MHEFA revenue bonds.

Enterprise Funds -

A substantial part of the MWRA's construction programs have become or may become subject to court supervision as a result of a finding of liability for a Clean Water Act violation by the MDC's sewerage operations. In addition, the court has reserved the right to order further remedial action and assess penalties. The MWRA cannot predict whether penalties will be requested by litigants or assessed by the courts in the future. No penalties have been assessed through June 30, 1993.

16. Restatement

For the fiscal year ended June 30, 1993, the Commonwealth changed its method of reporting the activities of its public institutions of higher education, including its medical school, and the related medical center, physician's group practice plan, and building authorities.

In prior years these activities were blended with the appropriate Governmental, Proprietary and Fiduciary Fund Types and Account Groups of the Commonwealth. For the fiscal year ended June 30, 1993, the Commonwealth adopted GASB Statement No. 15, "Governmental College and University Accounting and Financial Reporting Models". These activities are reported in a University and College Fund Type in accordance with the AICPA Industry Audit Guide for Audits of Colleges and Universities. The beginning fund balances and fund equity of the account group of the Commonwealth were restated to reflect this change as follows:

	General	Special Revenue	Capital Projects	Enterprise	Trust and Agency	University and College	General Fixed Assets	Totals
Fund balance (deficit)/equity as previously reported	($821,168)	$776,989	($203,564)	$5,291,625	$9,620,953	$ 0	$4,513,546	$19,178,381
Change in fund classification necessary to establish University and College Fund Type	(167,128)	(1,881)		(264,452)	(19,769)	1,986,833	(1,533,603)	
Change in perspective due to the use of the AICPA College Guide						4,802		4,802
Fund balance (deficit)/equity as restated	($988,296)	$775,108	($203,564)	$5,027,173	$9,601,184	$1,991,635	$2,979,943	$19,183,183

17. Subsequent Events:

Enterprise Funds -

On July 1, 1993, the MCCA raised $30,909,064, net of an original issued discount of $570,936, through the issuance of tax-exempt revenue bonds to fund the renovation and rehabilitation of the Boston Common Parking Garage and the acquisition, construction, renovation and expansion of related or accessory facilities. The Commonwealth committed to pay contract assistance to MCCA in an amount equal to the scheduled principal of, and interest on, the bonds.

In October 1993, Massachusetts Technology Park Corporation entered into an operating lease with an unrelated third party, under the terms of which it leased an intergrated circuit fabrication facility for an initial term of five years commencing on November 1, 1993. The approximate future minimum lease payments for the next five years and thereafter amount to $3,880,000.

On July 15, 1993, the Massachusetts Water Pollution Abatement Trust raised $91,100,000 through the issuance of tax-exempt Water Pollution Abatement Bonds to fund loans to local governments to finance or refinance certain portions of water pollution abatement projects.

In October 1993, the Government Land Bank received a commitment from the Bank of Boston to loan it $15,000,000 to capitalize the Emerging Technology Fund, which will be used to stimulate private financing for specialized manufacturing and research and development facilities.

PUBLIC EMPLOYEE RETIREMENT SYSTEMS -

REQUIRED SUPPLEMENTARY INFORMATION

COMMONWEALTH OF MASSACHUSETTS

PUBLIC EMPLOYEE RETIREMENT SYSTEMS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS

FOR FISCAL YEAR 1993

(Amount in thousands)

Fiscal year	(1) Net assets available for benefits	(2) Pension benefit obligation	(3) % Funded (1)/(2)	(4) Unfunded pension benefit obligation (2) – (1)	(5) Annual covered payroll	(6) Unfunded pension benefit obligation as a percentage of covered payroll (4)/(5)
State Employees' Retirement System						
1993	$5,071,000	$8,409,000	60.30%	$3,338,000	$2,919,000	114.35%
1992	4,699,000	7,061,000	66.55%	2,362,000	2,638,000	89.54%
1991	4,052,000	6,854,000	59.12%	2,802,000	2,300,000	121.83%
Teachers' Retirement System						
1993	$5,142,000	$8,440,000	60.92%	$3,298,000	$2,428,000	135.83%
1992	4,784,000	8,230,000	58.13%	3,446,000	2,032,000	169.59%
1991	4,086,000	8,853,000	46.15%	4,767,000	2,065,000	230.85%
State–Boston Retirement System						
1993	$370,000	$704,000	52.56%	$334,000	$206,000	162.14%
1992	342,000	705,000	48.51%	363,000	184,000	197.28%
1991	301,000	553,000	54.43%	252,000	203,000	124.14%

Analysis of the funding progress is only available as of January 1, 1991, 1992, and 1993, the dates of the most recent actuarial valuations and the interim update

COMMONWEALTH OF MASSACHUSETTS

PUBLIC EMPLOYEE RETIREMENT SYSTEMS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF REVENUES BY SOURCE AND EXPENSES BY TYPE

FOR FISCAL YEARS 1988 THROUGH 1993

(Amounts in thousands)

State Employees' Retirement System

Revenues By Source

Fiscal year	Employee contribution	Employer contribution	Contribution as a percentage of payroll	Investment income	Total
1988	$172,607	$268,993	11.7%	$64,858	$506,458
1989	192,332	271,927	10.6%	487,971	952,230
1990	192,065	292,101	10.4%	298,513	782,679
1991	196,413	313,485	13.6%	111,472	621,370
1992	191,501	333,828	12.7%	497,003	1,022,332
1993	191,604	418,217	14.3%	517,733	1,127,554

Expenses By Type

Fiscal year	Benefits	Administration expenses	Other	Total
1988	$245,573	$2,800	$73,856	$322,229
1989	259,101	2,930	84,185	346,216
1990	288,284	2,595	94,420	385,299
1991	311,433	2,052	107,504	420,989
1992	333,828	1,857	132,828	468,513
1993	418,217	1,910	113,634	533,751

Teachers' Retirement System

Revenues By Source

Fiscal year	Employee contribution	Employer contribution	Contribution as a percentage of payroll	Investment income	Total
1988	$125,223	$243,966	12.6%	$100,537	$469,726
1989	126,004	252,443	14.1%	411,303	789,750
1990	141,645	252,717	11.4%	291,711	686,073
1991	144,173	268,010	13.0%	183,554	595,737
1992	146,637	284,498	14.0%	639,966	1,071,101
1993	159,980	302,988	12.5%	783,635	1,246,603

Expenses By Type

Fiscal year	Benefits	Administration expenses	Other	Total
1988	$224,909	$1,484	$46,539	$272,932
1989	237,332	1,471	49,539	288,342
1990	250,214	1,282	54,355	305,851
1991	266,924	1,086	59,106	327,116
1992	284,498	1,090	63,688	349,276
1993	302,988	1,366	63,560	367,914

Fiscal year 1988 is the first year for which complete revenue and expense information is available
Information for the years prior to 1988 is not available

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HALE AND DORR
COUNSELLORS AT LAW

60 STATE STREET, BOSTON, MASSACHUSETTS 02109
617-526-6000 • FAX 617-526-5000

FORM OF OPINION OF BOND COUNSEL FOR THE BONDS

November __, 1994

The Honorable Joseph D. Malone
Treasurer and Receiver-General
The Commonwealth of Massachusetts
State House, Room 227
Boston, Massachusetts 02133

Re: The Commonwealth of Massachusetts $200,000,000 General Obligation Bonds, Consolidated Loan of 1994, Series C

Dear Treasurer Malone:

We have examined a record of proceedings relating to the issuance by the Commonwealth of Massachusetts (the "Commonwealth") of its $200,000,000 General Obligation Bonds, Consolidated Loan of 1994, Series C, dated November 1, 1994 (the "Bonds"). We have also examined such provisions of applicable law and such other documents as we have deemed necessary in order to render this opinion.

The Bonds mature and bear interest and are subject to optional redemption at such times, in such amount, at such prices and upon such terms and conditions as are set forth in the Bonds. The Bonds are being issued by means of a book-entry system, with certificates immobilized at the Depositary Trust Company, New York, New York ("DTC") and are not available for distribution to the public, with transfers of ownership effected on the records of DTC and its participants pursuant to rules and procedures issued by DTC and its participants.

In rendering our opinions set forth below, we have relied as to questions of fact material to our opinion upon representations of the Commonwealth contained in the certified proceedings and other certifications of public officials (including certifications as to the use, expenditure and investment of the proceeds of the Bonds) furnished to us without undertaking to verify the same by independent investigation.

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

1. The Bonds have been duly authorized and are the legal and valid general obligations of the Commonwealth to which its full faith and credit are pledged for payment of principal and interest when due.

It should be noted, however, that the provisions of Chapter 62F of the Massachusetts General Laws establish a state tax revenue growth limit and do not exclude principal and interest payments on the Bonds and other Commonwealth debt obligations from the scope of the limit. It should be further noted that the provisions of Chapter 29, Section 60B of the Massachusetts General Laws impose an annual limitation on the percentage of total appropriations that may be expended for payment of interest and principal on certain general obligation debt of the Commonwealth, including the Bonds, and that Chapter 151 of the Acts of 1990 dedicates certain state tax revenues for debt service on previously issued Fiscal Recovery Bonds of the Commonwealth. The property of the Commonwealth is not subject to attachment or levy to pay a judgment, and the satisfaction of any judgment against the Commonwealth generally requires legislative appropriation. Enforcement of a claim for payment of principal of or interest on the Bonds may also be subject to the provisions of federal or 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.

2. Under existing statutes and court decisions, interest on the Bonds (including any original issue discount properly allocable to the holder thereof) is excludable from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, but is includable in "adjusted current earnings" of corporate holders of the Bonds and therefore will be taken into account in the computation of the alternative minimum tax applicable to certain corporations.

In rendering the foregoing opinion that interest on the Bonds is, as of the date hereof, excludable from gross income for federal income tax purposes we have assumed the continued compliance by the Commonwealth with certain provisions of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issuance of the Bonds in order that the interest on the Bonds be, or continue to be, excluded from gross income for federal income tax purposes. The Commonwealth has covenanted to comply with each such requirement. Failure to comply with certain of such requirements could cause the inclusion of interest on the Bonds in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds. We express no opinion regarding other federal tax consequences arising with respect to the Bonds.

3. Under existing statutes, the Bonds and the interest thereon (including any original issue discount properly allocable to the holder thereof) are exempt from taxes imposed by the Commonwealth, although the Bonds and said interest may be included in the measure of estate and inheritance taxes and of certain corporate excise and franchise taxes.

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

We are members of the bar of the Commonwealth of Massachusetts and we express no opinion as to laws other than the laws of the Commonwealth and the United States of America.

Very truly yours,

HALE AND DORR

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APPENDIX C

NUTTER, McCLENNEN & FISH

ATTORNEYS AT LAW

ONE INTERNATIONAL PLACE
BOSTON, MASSACHUSETTS 02110-2699

TELEPHONE: 617 439-2000 FACSIMILE: 617 973-9748

[PROPOSED FORM OF OPINION OF BOND COUNSEL]

[Closing Date]

The Commonwealth of Massachusetts
State House
Boston, Massachusetts

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance of $240,000,000 General Obligation Notes, 1994 Series A, dated November 22, 1994 and due June 15, 1995 of The Commonwealth of Massachusetts (the "Notes"). We have examined the law and certain certificates and other papers relating to the Notes.

The Notes are issued in registered form by means of a book-entry system evidencing ownership and transfer of Notes on the records of the Depository Trust Company and its participants.

We are of the opinion that, as of the date hereof and under existing law:

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

(2) The interest on the Notes is excluded from gross income for federal income tax purposes. In addition, the interest on the Notes is not an item of tax preference for purposes of computing the alternative minimum tax imposed on individuals and corporations under the Internal Revenue Code of 1986, as amended (the "Code"). It should be noted, however, that interest on the Notes is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes). The opinions set forth in the preceding sentences of this paragraph are subject to the condition that the Commonwealth comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Notes in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The Commonwealth has covenanted to comply with these requirements. Failure to comply with certain of these requirements may cause the inclusion of interest on the Notes in gross income for federal income tax purposes to be retroactive to the date of issuance of the Notes. We express no opinion regarding any other federal tax consequences arising with respect to the Notes.

(3) Under existing Massachusetts laws, the Notes and the interest thereon are exempt from taxation imposed by the Commonwealth, although the Notes and the interest thereon may be included in the measure of estate and inheritance taxes and of certain corporate excise and franchise taxes.

It is to be understood that the rights of the holders of the Notes and the enforceability thereof may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable and that their enforcement may also be subject to the exercise of judicial discretion in appropriate cases.

Very truly yours,

Nutter, McClennen & Fish

82809

Financial Guaranty Insurance
Company
115 Broadway
New York, NY 10006
(212) 312-3000
(800) 352-0001

A GE Capital Company

FGIC.

APPENDIX D

Municipal Bond
New Issue Insurance Policy

Issuer:

Policy Number:

Control Number:

Bonds:

Premium:

SPECIMEN

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

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

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

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

FGIC is a registered service mark used by Financial Guaranty Insurance Company under license from its parent company, FGIC Corporation.

Financial Guaranty Insurance
Company
115 Broadway
New York, NY 10006
(212) 312-3000
(800) 352-0001

A GE Capital Company

FGIC.

Municipal Bond
New Issue Insurance Policy

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

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

President

Effective Date:

Authorized Representative

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

Authorized Officer

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Financial Guaranty Insurance
Company
115 Broadway
New York, NY 10006
(212) 312-3000
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Endorsement
To Financial Guaranty Insurance Company Insurance Policy

Policy Number: **Control Number:**

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

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

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

President

Effective Date: **Authorized Representative**

Acknowledged as of the Effective Date written above:

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

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