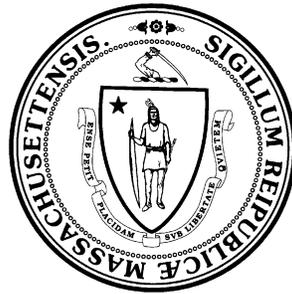


**THE  
COMMONWEALTH  
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MASSACHUSETTS**



**INFORMATION STATEMENT SUPPLEMENT**

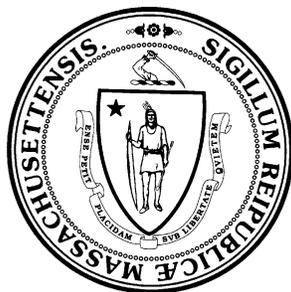
**Dated September 12, 2011**

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**THE COMMONWEALTH OF MASSACHUSETTS**



**CONSTITUTIONAL OFFICERS**

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

**LEGISLATIVE OFFICERS**

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

**THE COMMONWEALTH OF MASSACHUSETTS**  
**INFORMATION STATEMENT SUPPLEMENT**

**September 12, 2011**

This supplement (“Supplement”) to the Information Statement of The Commonwealth of Massachusetts (the “Commonwealth”) dated March 15, 2011 (the “March Information Statement”) is dated September 12, 2011 and contains information which updates the information contained in the March Information Statement. The March Information Statement has been filed with the Municipal Securities Rulemaking Board. This Supplement and the March Information Statement must be read collectively and in their entirety in order to obtain the appropriate fiscal, financial and economic information concerning the Commonwealth through September 12, 2011. All capitalized terms not otherwise defined in this Supplement shall have the meanings ascribed to them in the March Information Statement.

The March Information Statement, as supplemented hereby, includes three exhibits. Exhibit A is the Statement of Economic Information, which sets forth certain economic, demographic and statistical information concerning the Commonwealth. Exhibits B and C are, respectively, the Commonwealth’s Statutory Basis Financial Report for the year ended June 30, 2010 and the Commonwealth’s Comprehensive Annual Financial Report, reported in accordance with generally accepted accounting principles (GAAP), for the year ended June 30, 2010. The Commonwealth’s independent auditor has not been engaged to perform, and has not performed, since the respective dates of its reports included herein, any procedures on the financial statements addressed in such reports, nor has said independent auditor performed any procedures relating to the official statement of which this Supplement is a part. Specific reference is made to said Exhibits A, B and C, copies of which have been filed with the Municipal Securities Rulemaking Board. The financial statements are also available at the web site of the Comptroller of the Commonwealth located at <http://www.mass.gov/osc> by clicking on “Publications and Reports” and then “Financial Reports.”

**RECENT DEVELOPMENTS**

**Fiscal 2011**

Fiscal 2011 ended on June 30, 2011, but, as is customary, the final fiscal 2011 appropriations bill has not yet been enacted. To date, the Governor has approved fiscal 2011 supplemental appropriations legislation totaling \$1.511 billion. After accounting for offsetting revenues (primarily federal Medicaid reimbursements), the net value of the spending is \$661.3 million. The fiscal 2011 supplemental funding amount is somewhat larger than is typical, because it includes the expenditure of a significant amount of enhanced FMAP funds that were made available by the federal government after the Governor approved the original fiscal 2011 budget. Most of the supplemental funding was necessary to support state safety net programs and services affected by increased caseloads and utilization as a result of the economic downturn, such as the MassHealth program and the emergency family shelters program at the Department of Housing and Community Development. This supplemental funding also included \$42 million for costs associated with providing legal representation to indigent persons in criminal and civil court cases and \$21.1 million for increased caseloads at the Department of Transitional Assistance. There were also other unanticipated costs, such as increased funding for snow and ice removal, that required supplemental funding.

On August 25, 2011, the Governor filed supplemental budget legislation that proposes that \$300 million, or approximately two-thirds of a \$460 million estimated surplus, be deposited in the Stabilization Fund. When combined with the already authorized deposit to the Stabilization Fund (equal to 0.5% of fiscal 2011 tax collections), the total fiscal 2011 transfers to the Stabilization Fund will equal \$400 million, bringing the fiscal 2011 year-end balance to \$1.070 billion. The legislation also provides for the use of approximately \$95 million of fiscal 2011 surplus funds to make a number of one-time job-related investments, including \$45 million for infrastructure development, \$35 million for workforce training initiatives and \$15 million for a new Innovation Investment and Access Fund. The legislation also includes \$10 million for cities and towns impacted by the June 1, 2011 tornado for costs not reimbursed through the Federal Emergency Management Agency. The legislation further provides

\$6.2 million to reimburse cities and towns for a portion of the costs incurred in responding to the December, 2008 ice storm. The legislation is currently being considered by the House Committee on Ways and Means. Enactment of the final supplemental appropriations bill normally occurs in September or October.

Preliminary tax revenues for fiscal 2011 totaled approximately \$20.506 billion, approximately \$722.7 million above the January 18, 2011 estimate of \$19.784 billion. See “COMMONWEALTH REVENUES AND EXPENDITURES – Fiscal 2010, Fiscal 2011 and Fiscal 2012 Tax Revenues; *Fiscal 2011*.”

See the March Information Statement under the heading “FISCAL 2011 AND FISCAL 2012 – Fiscal 2011.”

## **Fiscal 2012**

The House of Representatives approved its version of the fiscal 2012 budget on April 28, 2011, the Senate approved its version on May 26, 2011, and a legislative conference committee released its report on June 30, 2011. The budget was enacted by the Legislature on July 1, 2011 and approved by the Governor on July 11, 2011. A \$1.250 billion interim budget for the first ten days of fiscal 2012 had been enacted by the Legislature and approved by the Governor on June 27, 2011. Total spending in the final fiscal 2012 budget approved by the Governor amounts to approximately \$30.598 billion. The budget assumes tax revenues of \$20.615 billion, reflecting the fiscal 2012 consensus tax estimate of \$20.525 billion, which was adjusted for the impact of revenue initiatives enacted as part of the budget (most notably a one-year delay of the FAS 109 deductions (additional \$45.9 million), enhanced tax enforcement initiatives (additional \$61.5 million) and the impact of a two-day sales tax holiday held on August 13-14, 2011 (reduction of \$20.6 million). The fiscal 2012 budget authorizes a \$200 million withdrawal from the Stabilization Fund, the use of fiscal 2012 interest earnings on the Stabilization Fund and an additional \$103.7 million in savings achieved by suspending the statutorily required deposit into the Stabilization Fund of 0.5% of total tax revenue. The fiscal 2012 budget projections contained in this Supplement assume a transfer of \$185 million from the Stabilization Fund rather than the authorized \$200 million. On that assumption the Stabilization Fund is projected to have a \$884.9 million balance at the end of fiscal 2012.

The Executive Office for Administration and Finance has launched its annual spending plan process with state agencies for fiscal 2012. State agencies are required to submit detailed spending and revenue projections for the fiscal year and identify any projected surpluses or deficiencies they may anticipate. Upon completion of its review of agency spending plans in September, 2011, the Executive Office for Administration and Finance will identify any potential funding or revenue exposures in fiscal 2012.

See the March Information Statement under the heading “FISCAL 2011 AND FISCAL 2012 –Fiscal 2012 Budget Proposals.”

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## COMMONWEALTH REVENUES AND EXPENDITURES

### Statutory Basis Distribution of Budgetary Revenues and Expenditures

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

	<u>Fiscal 2007</u>	<u>Fiscal 2008</u>	<u>Fiscal 2009</u>	<u>Fiscal 2010</u>	<u>Estimated Fiscal 2011</u>	<u>Projected Fiscal 2012<sup>(8)</sup></u>
<b>Budgeted Operating Funds – Statutory Basis (in millions)(1)</b>						
<u>Beginning Fund Balances</u>						
Reserved or Designated	\$947.2	\$351.3	\$171.5	\$68.9	122.0	329.0
Bay State Competitiveness Investment Fund	-	100.0	-	-	-	-
Stabilization Fund	2,154.7	2,335.0	2,119.2	841.3	669.8	1069.9
Undesignated	<u>106.2</u>	<u>114.7</u>	<u>115.1</u>	<u>106.4</u>	<u>111.3</u>	<u>126.0</u>
<b>Total</b>	<b><u>\$3,208.1</u></b>	<b><u>\$2,901.0</u></b>	<b><u>\$2,405.8</u></b>	<b><u>\$1,016.6</u></b>	<b><u>\$903.1</u></b>	<b><u>\$1,524.9</u></b>
<u>Revenues and Other Sources</u>						
Alcoholic Beverages	71.0	71.2	71.9	71.0	72.7	73.6
Banks	340.9	547.8	242.6	234.9	(11.0)	6.7
Cigarettes	438.1	436.9	456.8	456.2	453.6	442.6
Corporations	1,587.6	1,512.2	1,548.6	1,600.3	1,951.4	1,807.3
Deeds	194.1	153.9	105.5	137.9	129.9	130.6
Income	11,399.6	12,483.8	10,583.7	10,110.3	11,576.0	11,767.6
Inheritance and Estate	249.6	254.0	259.7	221.4	309.6	236.6
Insurance	418.6	417.7	356.7	330.0	340.3	351.7
Motor Fuel	676.1	672.2	654.0	654.6	660.8	659.9
Public Utilities	178.3	120.2	(1.7)	(0.3)	(8.8)	6.2
Room Occupancy	111.1	119.2	109.5	101.6	110.4	110.1
Sales:						
Regular	2,927.7	2,952.2	2,799.7	3,282.8	3,477.0	3,523.5
Meals	608.7	632.9	629.6	759.6	813.3	842.0
Motor Vehicles	<u>531.1</u>	<u>501.6</u>	<u>439.3</u>	<u>569.3</u>	<u>614.5</u>	<u>640.45</u>
Sub-Total-Sales	4,067.5	4,086.7	3,868.6	4,611.7	4,904.8	5,006.7
Miscellaneous	<u>3.8</u>	<u>3.1</u>	<u>3.3</u>	<u>14.1</u>	<u>16.6</u>	<u>16.4</u>
<b>Total Tax Revenues</b>	<b><u>\$19,736.3</u></b>	<b><u>\$20,879.2</u></b>	<b><u>\$18,259.5</u></b>	<b><u>\$18,543.7</u></b>	<b><u>\$20,506.3</u></b>	<b><u>\$20,615.2</u></b>
MBTA Transfer	(734.0)	(756.0)	(767.1)	(767.1)	(767.1)	(779.1)
MSBA Transfer	<u>(557.4)</u>	<u>(634.7)</u>	<u>(702.3)</u>	<u>(605.2)</u>	<u>(654.7)</u>	<u>(678.9)</u>
WTF Transfer(2)	-	-	-	-	-	<u>(19.9)</u>
<b>Total Budgeted Operating Tax Revenues</b>	<b><u>\$18,444.9</u></b>	<b><u>\$19,488.5</u></b>	<b><u>\$16,790.0</u></b>	<b><u>\$17,171.4</u></b>	<b><u>\$19,085.0</u></b>	<b><u>\$19,150.5</u></b>
Federal Reimbursements	6,167.6	6,429.5	8,250.9	8,548.8	9,054.70	7,805.50
Departmental and Other Revenues	2,218.4	2,355.9	2,326.2	2,800.9	3,051.11	2,976.50
Inter-fund Transfers from Non-budgeted Funds and other sources (3)	<u>1,785.0</u>	<u>2,039.3</u>	<u>1,850.3</u>	<u>1,788.8</u>	<u>1,758.93</u>	<u>1,971.10</u>
<b>Budgeted Revenues and Other Sources</b>	<b><u>\$28,615.9</u></b>	<b><u>\$30,313.2</u></b>	<b><u>\$29,217.4</u></b>	<b><u>\$30,310.0</u></b>	<b><u>\$32,949.74</u></b>	<b><u>\$31,903.6</u></b>
Inter-fund Transfers	<u>552.9</u>	<u>2,226.3</u>	<u>1,963.8</u>	<u>770.8</u>	<u>701.95</u>	<u>640.94</u>
<b>Total Budgeted Revenues and Other Sources</b>	<b><u>\$29,168.8</u></b>	<b><u>\$32,539.5</u></b>	<b><u>\$31,181.2</u></b>	<b><u>\$31,080.8</u></b>	<b><u>\$33,651.69</u></b>	<b><u>\$32,544.54</u></b>
<u>Expenditures and Uses</u>						
Direct Local Aid	4,805.2	5,040.5	4,723.6	4,837.4	4,784.69	4,929.92
Medicaid (4)	7,550.4	8,246.3	8,679.2	9,287.6	10,240.08	10,397.28
Other Health and Human Services	4,625.3	4,796.5	4,828.3	4,616.6	4,669.09	4,456.16
Group Insurance	1,022.3	852.5	973.1	1,063.8	1,162.10	1,208.73
Department of Elementary and	459.0	485.8	495.9	358.1	416.99	509.06

	<u>Fiscal 2007</u>	<u>Fiscal 2008</u>	<u>Fiscal 2009</u>	<u>Fiscal 2010</u>	<u>Estimated Fiscal 2011</u>	<u>Projected Fiscal 2012(8)</u>
Secondary Education						
Higher Education	1,115.7	1,084.4	1,035.5	845.6	936.85	924.46
Department of Early Education and Care	507.1	549.9	560.3	513.5	520.34	505.84
Public Safety	1,399.2	1,544.4	1,514.3	1,423.2	1,417.74	1,390.49
Energy and Environmental Affairs	238.5	227.1	215.9	202.2	192.46	184.0
Debt Service	2,234.4	1,990.1	2,011.7	1,979.9	2,009.73	2,265.31
Post Employment Benefits (5)	1,335.2	1,398.6	1,314.4	1,748.6	1,838.85	1,892.33
Other Program Expenditures	<u>2,364.9</u>	<u>2,414.1</u>	<u>2,350.9</u>	<u>2,509.0</u>	<u>2,143.77</u>	<u>2,244.89</u>
<b>Total - Programs and Services before transfers to Non-budgeted funds</b>	<b>\$27,657.2</b>	<b>\$28,630.2</b>	<b>\$28,703.1</b>	<b>\$29,384.5</b>	<b>\$30,332.69</b>	<b>\$30,908.02</b>
Inter-fund Transfers to Non-budgeted Funds						
Commonwealth Care Trust Fund	722.1	1,045.9	987.6	631.7	739.11	728.01
State Retiree Benefit Trust Fund (5)	-	\$354.7	\$352.0	-	-	-
Medical Assistance Trust Fund	364.0	376.7	374.0	313.3	886.1	394.03
Massachusetts Transportation Trust Fund	-	-	-	- (6.0)	195.13	180.13
Other	179.6	400.9	189.9	94.1	175	183.81
<b>Total Inter-Fund Transfers to Non- Budgeted Funds</b>	<b>\$1,265.7</b>	<b>\$2,178.2</b>	<b>\$1,903.5</b>	<b>\$1,039.1</b>	<b>\$1,978.24</b>	<b>\$1,485.98</b>
Budgeted Expenditures and Other Uses	<u>\$28,922.9</u>	<u>\$30,808.4</u>	<u>\$30,606.6</u>	<u>\$30,423.6</u>	<u>\$32,327.93</u>	<u>\$32,394.00</u>
Inter-fund Transfers	553.0	2,226.3	1,963.8	770.8	701.95	640.94
<b>Total Budgeted Expenditures and Other Uses</b>	<b>\$29,475.9</b>	<b>\$33,034.7</b>	<b>\$32,570.4</b>	<b>\$31,194.4</b>	<b>\$33,029.88</b>	<b>\$33,034.94</b>
<b>Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses</b>	<b><u>(\$307.1)</u></b>	<b><u>(\$495.2)</u></b>	<b><u>(\$1,389.2)</u></b>	<b><u>(\$113.6)</u></b>	<b><u>\$621.8</u></b>	<b><u>(\$490.4)</u></b>
<b>Ending Fund Balances</b>						
Reserved or Designated (7)	351.3	171.5	68.9	122.0	329.0	10.8
Bay State Competitiveness Investment Fund	100.0	-	-	-	-	-
Stabilization Fund	2,335.0	2,119.2	841.3	669.8	1069.9	896.9
Undesignated	<u>114.7</u>	<u>115.1</u>	<u>106.4</u>	<u>111.3</u>	<u>126.0</u>	<u>126.4</u>
<b>Total</b>	<b>\$2,901.0</b>	<b>\$2,405.8</b>	<b>\$1,016.6</b>	<b>\$903.1</b>	<b>\$1,524.9</b>	<b>\$1,034.1</b>

SOURCES: Fiscal 2007-2010, Office of the Comptroller; fiscal 2011 and 2012, Executive Office for Administration and Finance.

- (1) Totals may not add due to rounding.
- (2) The fiscal year 2012 budget adopted changes to the Workforce Training Fund, which annually is funded through employer contributions for workforce training initiatives for incumbent workers in the private sector. Beginning in fiscal 2012 the WTF will not be subject to annual appropriation and the employer contributions, estimated at \$19.9 million, are transferred directly to the WTF after their collection.
- (3) Inter-fund Transfers from Non-budgeted Funds and Other Sources include profits from the State Lottery, transfer of tobacco settlement funds to allow their expenditure, abandoned property proceeds as well as other inter-fund transfers.
- (4) Excludes off-budget Medicaid spending in fiscal 2006 and fiscal 2007 estimated at \$292 million and \$290 million, respectively. Fiscal 2006 through fiscal 2009 included program administration.
- (5) Starting in fiscal 2010 Post Employment Benefits include budgeted pension transfers and State Retiree Benefit Trust Fund.
- (6) Transfers of approximately \$133.4 million in fiscal 2010 are included in "Other Program Expenditures" above.
- (7) Consists largely of appropriations from previous years, authorized to be expended in current years.
- (8) Based on the fiscal 2012 budget tax revenue estimate of \$20.615 billion, which reflects the fiscal 2012 consensus estimate of \$20.525 billion adjusted for the impact of fiscal 2012 revenue initiatives enacted as part of the budget. On August 1, 2011, the Governor approved legislation establishing a sales tax holiday on August 13-14, 2011. The \$20.615 billion estimate also reflects the revenue loss impact from this two-day sales tax holiday, which is expected to be \$20.5 million.

See the March Information Statement "COMMONWEALTH REVENUES AND EXPENDITURES – Statutory Basis Distribution of Budgetary Revenues and Expenditures."

## State Taxes

*Income Tax.* State tax receipts for fiscal 2011 were significantly higher than receipts during fiscal 2010. See "Fiscal 2010, Fiscal 2011 and Fiscal 2012 Tax Revenues – *Fiscal 2011*," below. Under current state law, the

state income tax rate will be reduced from 5.3% to 5.25% (effective January 1, 2012) if the growth in fiscal 2011 inflation adjusted baseline revenues (as defined in state law) over fiscal 2010 exceeds 2.5%, and if for each consecutive three-month period starting in August and ending in November, 2011 there is positive inflation-adjusted baseline revenue growth as compared to the same consecutive three-month period in calendar 2010. On August 30, 2011, the Commissioner of Revenue certified that fiscal 2011 inflation-adjusted baseline revenues grew by 7.2% from fiscal 2010, which exceeds the initial trigger for the income tax rate reduction. It will not be known if the rate reduction will be triggered until the Commissioner issues a final certification on December 15, 2011 as to whether or not the statutory triggers were met. The Department of Revenue estimates that the revenue impact of this rate reduction for fiscal 2012 would be between \$52 million and \$56 million (with a mid-point of \$54 million). The revenue impact for fiscal 2013 (assuming no further rate reduction in calendar year 2013) would be between \$111 million and \$117 million (mid-point of \$114 million).

See the March Information Statement under the heading “COMMONWEALTH REVENUES AND EXPENDITURES – State Taxes; *Income Tax*.”

### Fiscal 2010, Fiscal 2011 and Fiscal 2012 Tax Revenues

*Fiscal 2011.* Preliminary tax revenues for fiscal 2011, ended June 30, 2011, totaled approximately \$20.507 billion, an increase of approximately \$1.963 billion, or 10.6%, over the same period in fiscal 2010. The following table shows the tax collections for fiscal 2011 and the change from tax collections in the same period in the prior year, both in dollars and as a percentage. The table also notes the amount of tax collections in the same month that are dedicated to the MBTA and the MSBA.

#### Fiscal 2011 Tax Collections (in millions)(1)

<u>Month</u>	<u>Tax Collections</u>	<u>Change from Prior Year</u>	<u>Percentage Change</u>	<u>MBTA Portion(3)</u>	<u>MSBA Portion</u>	<u>Tax Collections: Net of MBTA and MSBA</u>
July	\$1,352.7	\$102.1	8.2%	\$60.3	\$60.3	\$1,232.1
August	1,385.6	89.1	6.9	55.3	55.3	1,275.0
September	2,015.1	249.2	14.1	76.2	51.9	1,887.1
October	1,342.9	118.0	9.6	55.3	55.3	1,232.3
November	1,426.6	137.9	10.7	52.9	52.9	1,320.8
December	2,072.3	186.4	9.9	83.5	54.5	1,934.2
January	2,052.7	207.6	11.2	66.1	66.1	1,920.5
February	932.5	(70.1)	(7.0)	45.9	45.9	840.8
March	1,773.8	149.1	9.2	79.8	48.8	1,645.6
April	2,505.4	757.9	43.4	54.6	54.6	2,396.1
May	1,504.6	(69.7)	(4.4)	53.0	53.0	1,398.6
June (1)	<u>2,142.0</u>	<u>105.6</u>	<u>5.2</u>	<u>84.1</u>	<u>55.9</u>	<u>2,002.0</u>
<b>Total (2)</b>	<b><u>\$20,506.3</u></b>	<b><u>\$1,962.6</u></b>	<b><u>10.6%</u></b>	<b><u>\$767.1</u></b>	<b><u>\$654.7</u></b>	<b><u>\$19,084.6</u></b>

SOURCE: Executive Office for Administration and Finance.

(1) Figures are preliminary.

(2) Totals may not add due to rounding.

(3) Includes adjustments of \$24.3 million on account of the first quarter, \$29 million on account of the second quarter, \$31 million on account of the third quarter, and 28.1 million on account of the fourth quarter.

The preliminary tax revenue increase of approximately \$1.963 billion for fiscal 2011 compared to fiscal 2010 is attributable, in large part, to an increase of approximately \$432 million, or 34.2%, in income tax payments with returns and extensions (mostly in April), an increase of approximately \$573.5 million, or 6.5%, in withholding collections, an increase of approximately \$373.2 million, or 25.1%, in income tax estimated payments, a decrease of approximately \$101.3 million, or 6.7%, in income tax refunds, an increase of approximately \$293.1 million, or 6.4%, in sales and use tax collections, and an increase of approximately \$107.6 million, or 5.1%, in corporate and business tax collections. Fiscal 2011 tax collections were approximately \$722.3 million above the January 18, 2011 fiscal 2011 tax revenue estimate of \$19.784 billion, which was an upward revision from the consensus estimate used for the original fiscal 2011 budget (adjusted for the impacts of the economic development bill and the sales tax holidays in August, 2010).

See the March Information Statement under the heading “COMMONWEALTH REVENUES AND EXPENDITURES – Fiscal 2010, Fiscal 2011, and Fiscal 2012 Tax Revenues; *Fiscal 2011*.”

*Fiscal 2012.* The fiscal 2012 budget approved by the Governor on July 11, 2011 assumes tax revenues of \$20.636 billion, reflecting the fiscal 2012 consensus tax estimate of \$20.525 billion which was adjusted for the impact of revenue initiatives enacted as part of the budget, most notably including a one-year delay of the FAS 109 deductions (\$45.9 million) and enhanced tax enforcement initiatives (\$61.5 million). On August 1, 2011, the Governor approved legislation establishing a sales tax holiday on August 13-14, 2011. The \$20.615 billion estimate also reflects the revenue loss impact from this two-day sales tax holiday, which is expected to be \$20.5 million.

Preliminary tax revenues for the first two months of fiscal 2012, ended August 31, 2011, totaled approximately \$2.870 billion, an increase of approximately \$132 million, or 4.8%, over the same period in fiscal 2011. The following table shows the tax collections for the first two months of fiscal 2012 and the change from tax collections in the same period in the prior year, both in dollars and as a percentage. The table also notes the amount of tax collections during the same two-month period that are dedicated to the MBTA and the MSBA.

**Fiscal 2012 Tax Collections (in millions)(1)**

<u>Month</u>	<u>Tax Collections</u>	<u>Change from Prior Year</u>	<u>Percentage Change</u>	<u>MBTA Portion</u>	<u>MSBA Portion</u>	<u>Tax Collections: Net of MBTA and MSBA</u>
July	\$1,444.6	\$91.9	6.8%	\$59.6	\$59.6	\$1,325.3
August(2)	1,425.6	40.1	2.9%	54.1	54.1	1.317/4
<b>Total (2)</b>	<b>\$2,870.6</b>	<b>\$131.9</b>	<b>4.8%</b>	<b>\$113.8</b>	<b>\$113.8</b>	<b>\$2,642.7</b>

SOURCE: Executive Office for Administration and Finance.

(1) Figures are preliminary.

(2) Totals may not add due to rounding.

The year-to-date tax revenue increase of approximately \$132 million through August 31, 2012 from the same period in fiscal 2011 is attributable, in large part, to an increase of approximately \$54.5 million, or 3.7%, in withholding collections, an increase of approximately \$29.0 million, 96.5%, in income payments with returns and bills, an increase of approximately \$39.3 million, or 66.5%, in corporate and business collections, an increase of approximately \$9 million, or 56.9%, in estate collections, which was partly offset by a decline of approximately \$21.6 million, or 35.7%, income cash estimated payments and a decline of approximately \$4.2 million, or 0.5% in sales and use tax collections. Year-to-date fiscal 2012 tax collections (through August) were approximately \$49 million above the fiscal 2012 tax revenue estimate of \$20.615 billion.

See the March Information Statement under the heading “FISCAL 2011 AND FISCAL 2012 –Fiscal 2012 Budget Proposals.”

**Federal and Other Non-Tax Revenues**

On August 2, 2011, the President approved the Budget Control Act of 2011, which provides for between \$2.1 trillion and \$2.4 trillion of budgetary savings to the federal government over ten years. The first phase of federal spending reductions is to be implemented through \$917 billion in discretionary reductions. However, specific details concerning these reductions, particularly how they may affect state budgets, have not yet been provided by the federal government. The Commonwealth will continue to assess how it may be affected by these reductions and will take appropriate measures to prepare for and manage their impacts.

*Lottery Revenues.* In July, 2011, the Lottery revised its fiscal 2011 estimate of operating revenues to \$976.4. The current estimated deficiency for budgetary distributions to be funded by Lottery proceeds is \$11.7 million.

The fiscal 2012 budget assumes total transfers from the Lottery of \$986.5 million to fund various commitments appropriated by the Legislature from the State Lottery Fund and the Arts Lottery Fund, including Lottery administrative expenses, and \$809.8 million in appropriations for local aid to cities and towns, with the balance, if any, to be transferred to the General Fund for the general activities of the Commonwealth. For fiscal

2012, the State Lottery Commission is currently projecting net operating revenues of \$986.5 million to fund the assumed transfers.

See the March Information Statement under the heading “COMMONWEALTH REVENUES AND EXPENDITURES – Federal and Other Non-Tax Revenues; *Lottery Revenues*.”

*Tobacco Settlement.*

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

<u>Fiscal Year</u>	<u>Initial Payments</u>	<u>Annual Payments</u>	<u>Total Payments</u>
2000	\$186.6(2)	\$139.6	\$326.2(2)
2001	78.2	164.2	242.5
2002	82.8	221.7	304.5
2003	86.4	213.6	300.0
2004	-	253.6	253.6
2005	-	257.4	257.4
2006	-	236.3	236.3
2007	-	245.4	245.4
2008	-	288.5	288.5
2009	-	315.2	315.2
2010	-	263.7	263.7
<u>2011</u>	-	<u>248.7</u>	<u>248.7</u>
<b>Total</b>	<b><u>\$434.00</u></b>	<b><u>\$2,894.10</u></b>	<b><u>\$3,328.20</u></b>

SOURCE: Office of the Comptroller.

(1) Amounts are approximate. Totals may not add due to rounding.

(2) Payments received for both 1999 and 2000.

*Gaming.* A bill that would authorize the licensing of up to three regional resort casinos (one per region) and one slot facility (up to 1,250 slots) in the Commonwealth has been approved by the Legislature’s Joint Committee on Economic Development and Emerging Technologies and the House Committee on Ways and Means, and is expected to be considered by the full House of Representatives during the week of September 12, 2011. The bill would establish an appointed state gaming commission to oversee the implementation of the law and the resultant gaming facilities. Licensing fees collected by the commission would be applied to a variety of one-time state and local purposes, and gaming revenues received by the Commonwealth would be applied to a variety of ongoing expenses, including local aid and education, with stipulated percentages also deposited in the Stabilization Fund and applied to debt reduction. The bill stipulates that licensing fees, which would be set by the gaming commission, must be at least \$85 million per casino and \$25 million for the slot facility. Neither the sponsors of the legislation nor the Executive Office for Administration and Finance have released any cost or revenue projections. The Commonwealth’s fiscal 2012 budget does not assume any revenue from expanded gaming.

**Limitations on Tax Revenues**

On July 28, 2011, the Department of Revenue certified that preliminary cumulative state tax revenues for fiscal 2011 exceeded the permissible state tax revenue limit set by Chapter 62F by approximately \$1.182 billion. Because no withdrawals from the Stabilization Fund are expected to occur on account of fiscal 2011, the entire amount of any cumulative excess as of the end of fiscal 2011 is expected to be transferred back to the General Fund for inclusion in consolidated net surplus. The Department of Revenue is expected to certify final permissible state tax revenues in September, 2011.

The following table shows the quarter by quarter trend of the Temporary Holding Fund for fiscal 2007 through the third quarter of fiscal 2011.

## Temporary Holding Fund

(in thousands)

	<u>Fiscal 2007</u>	<u>Fiscal 2008</u>	<u>Fiscal 2009</u>	<u>Fiscal 2010</u>	<u>Fiscal 2011</u>
<b><u>First quarter - period ended September 30</u></b>					
Cumulative net tax revenues, current fiscal year	\$4,542,170	\$4,796,700	\$4,870,214	\$4,374,038	\$4,819,581
Cumulative net tax revenues, prior fiscal year	4,367,285	4,542,170	4,796,700	4,870,214	4,374,038
Permissible growth rate(1)	8.05%	6.94%	7.89%	4.13%	2.57%
Permissible state tax revenues(2)	<u>4,718,720</u>	<u>4,857,306</u>	<u>5,175,160</u>	<u>5,080,266</u>	<u>4,486,538</u>
Cumulative net revenues, current fiscal year, in excess of permissible revenues	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$333,042</u>
<b><u>Second quarter - period ended December 31</u></b>					
Cumulative net tax revenues, current fiscal year	\$8,831,036	\$9,194,513	\$9,200,005	\$8,834,580	\$9,732,050
Cumulative net tax revenues, prior fiscal year	8,526,671	8,831,036	9,194,513	9,200,005	8,834,580
Permissible growth rate(1)	7.62%	6.93%	8.34%	2.10%	3.465%
Permissible state tax revenues(2)	<u>9,175,977</u>	<u>9,442,585</u>	<u>9,960,876</u>	<u>9,392,837</u>	<u>9,140,698</u>
Cumulative net revenues, current fiscal year, in excess of permissible revenues	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$591,351</u>
<b><u>Third quarter - period ended March 31</u></b>					
Cumulative net tax revenues, current fiscal year	\$13,659,295	\$14,485,334	\$13,599,204	\$13,358,852	\$14,550,178
Cumulative net tax revenues, prior fiscal year	12,946,485	13,659,294	14,485,334	13,599,204	13,358,852
Permissible growth rate(1)	6.92%	7.41%	7.60%	2.00%	4.039%
Permissible state tax revenues(2)	<u>13,841,734</u>	<u>14,671,584</u>	<u>15,586,799</u>	<u>13,871,188</u>	<u>13,898,416</u>
Cumulative net revenues, current fiscal year, in excess of permissible revenues	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>651,763</u>
<b><u>Fourth Quarter - Period ending June 30</u></b>					
Cumulative net tax revenues, current fiscal year	\$19,848,064	\$21,009,329	\$18,513,036	\$18,792,777	\$20,770,602(3)
Cumulative net tax revenues, prior fiscal year	18,592,175	19,848,064	21,009,085	18,513,036	18,792,777
Permissible growth rate(1)	6.52%	7.66%	6.27%	1.61%	4.24%
Permissible state tax revenues(2)	<u>19,804,571</u>	<u>21,368,426</u>	<u>22,325,305</u>	<u>18,810,911</u>	<u>19,588,839</u>
Cumulative net revenues, current fiscal year, in excess of permissible revenues	<u>\$43,493</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$1,181,763(3)</u>

SOURCES: Office of the Comptroller .

(1) Defined as inflation plus 2%, but not less than 0%.

(2) Defined as cumulative net state tax revenues, prior fiscal year, multiplied by 1 plus the permissible growth rate.

(3) Preliminary.

See the March Information Statement under the heading "COMMONWEALTH REVENUES AND EXPENDITURES – Limitations on Tax Revenues."

### Medicaid and the Commonwealth Care Trust Fund

*Federal 1115 MassHealth Demonstration Waiver.* The Commonwealth's waiver expired on June 30, 2011, but the Commonwealth has received two successive one-month extensions from the Centers for Medicare and Medicaid Services while negotiations continue. The latest extension is expected to expire on September 30, 2011. See the March Information Statement under the heading "COMMONWEALTH REVENUES AND EXPENDITURES – Medicaid and the Commonwealth Care Trust Fund; *Federal 1115 MassHealth Demonstration Waiver.*"

### Other Health and Human Services

*Office of Children, Youth, and Family Services.* The first paragraph on page A-29 of the March Information Statement has been revised to read as follows: Through the Department of Transitional Assistance, the Commonwealth-funds three major programs of public assistance for eligible state residents: transitional aid to families with dependent children (TAFDC); emergency aid to the elderly, disabled and children (EAEDC); and the state supplemental benefits for residents enrolled in the federal supplemental security income (SSI) program. In addition, the Department is responsible for administering the entirely federally funded Supplemental Nutrition

Assistance Program (SNAP, formerly food stamps), which provides food assistance to low-income families and individuals. Lastly, beginning in fiscal 2008, the Department established a new supplemental nutritional program, which provides small supplemental benefits to certain working families currently enrolled in the SNAP program.

See the March Information Statement under the heading “COMMONWEALTH REVENUES AND EXPENDITURES – Other Health and Human Services; *Office of Children, Youth, and Family Services.*”

## **PENSION AND OPEB FUNDING**

### **Funding Schedule**

The fiscal 2012 budget amended state law to extend the time period for amortizing the Commonwealth’s unfunded liability. Under the new law, the liability is to be amortized to zero by June 30, 2040. The fiscal 2012 budget also contains language requiring that pension funding amounts for fiscal 2012 through fiscal 2017 must be equal to or greater than the amounts for those years specified in the proposed funding schedule filed by the Secretary of Administration and Finance on January 18, 2011. See the March Information Statement under the heading “PENSION AND OPEB FUNDING – Funding Schedule.”

### **Actuarial Valuations**

Because of a delay in obtaining information relating to teachers, the full actuarial valuation report for the Commonwealth’s retirement systems is not expected to be released until October, 2011.

See the March Information Statement under the heading “PENSION AND OPEB FUNDING – Actuarial Valuations.”

### **Other Post-Retirement Benefit Obligations (OPEB)**

The fiscal 2012 budget provides that 10% of all tobacco settlement payments received by the Commonwealth in fiscal 2013 are to be deposited in the State Retiree Benefits Trust Fund, with the amount of payments to be deposited increasing by 10 percentage points in each succeeding year until the amount to be deposited reaches 100% of the payments. See “COMMONWEALTH REVENUE AND EXPENDITURES – Federal and Other Non-Tax Revenues; *Tobacco Settlement*” and the March Information Statement under the heading “PENSION AND OPEB FUNDING – Other Post-Retirement Benefit Obligations (OPEB).”

## **STATE WORKFORCE**

### **Unions and Labor Negotiations**

Concessions made by most state collective bargaining units to help the Commonwealth manage through the fiscal challenges caused by the recession over the last couple of years included delaying wage increases to which the Commonwealth had previously agreed by one year. If tax revenue collections exceeded certain thresholds, however, then the wage increases would be delayed by six months instead of one year. In either case, the delay of the wage increases results in permanent annual savings to the Commonwealth of tens of millions of dollars.

Fiscal year 2011 tax revenue collections exceeded the threshold in the collective bargaining agreements that triggers a six-month wage increase delay for fiscal years 2011 and 2012 instead of a one-year delay. Because the fiscal year 2011 and fiscal year 2012 budgets had been based on tax revenue estimates that were below the threshold, those budgets did not fund the additional costs associated with a six-month delay instead of a one-year delay. The Executive Office of Administration estimates that the potential aggregate additional cost resulting from tax revenues exceeding the threshold is \$110 million for fiscal years 2011 and 2012 combined. As a result of the fact that this cost was not anticipated and is not budgeted, the Executive Office of Administration and Finance has been negotiating with state collective bargaining units to amend the collective bargaining agreements to eliminate the provisions that allow the delayed wage increases to be accelerated by six months in exchange for a two-year extension of the existing collective bargaining agreements. Several of the Commonwealth’s largest employee unions have already agreed to the contract amendments and negotiations are continuing with the other unions. At

this point, the Executive Office of Administration and Finance does not plan to seek supplemental appropriations to fund any costs associated with the provisions providing for a six-month acceleration of the delayed wage increases previously negotiated.

See the March Information Statement under the heading “STATE WORKFORCE – Unions and Labor Negotiations.”

### **CASH FLOW**

On September 6, 2011, the State Treasurer and the Secretary of Administration and Finance released a cash flow statement for fiscal 2012, which is summarized in the table below.

The next cash flow statement is expected to be released on or about December 31, 2011. See the March Information Statement under the heading “FISCAL 2011 AND FISCAL 2012 – Cash Flow.”

**Overview of Fiscal 2012 Non-Segregated Operating Cash Flow (in millions) (1)**  
(as of August 31, 2011)

	<u>Jul-11</u>	<u>Aug-11(2)</u>	<u>Sep -11(2)</u>	<u>Oct -11(2)</u>	<u>Nov -11(2)</u>	<u>Dec-11 (2)</u>	<u>Jan-12 (2)</u>	<u>Feb-12 (2)</u>	<u>Mar-12(2)</u>	<u>Apr-12 (2)</u>	<u>May-12(2)</u>	<u>June-12(2)</u>	<b>Total FY 2012 (2)</b>
<b>Opening Non-Segregated Operating Cash Balance</b>	\$2,200.4	\$2,194.7	\$1,853.2	\$1,563.3	\$1,096.3	\$1,376.2	\$1,049.9	\$1,559.1	\$1,038.3	\$568.3	\$1,663.8	\$1,136.7	\$2,200.4
<b>Operating Activities:</b>													
Budgetary Funds:													
<i>Transfer from/(to) Stabilization Fund</i>	\$0.0	\$0.0	(\$12.0)	(\$402.6)	\$0.0	\$185.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	(\$229.6)
Total Budgetary Revenue/Inflows	\$2,275.6	\$2,336.4	\$2,930.9	\$1,894.0	\$2,400.6	\$3,224.3	\$3,090.7	\$2,147.3	\$3,241.1	\$4,052.5	\$2,513.9	\$3,537.3	\$33,644.6
Total Budgetary Expenditures/Outflows	\$2,304.8	\$2,473.1	\$3,305.7	\$2,206.1	\$2,704.5	\$3,280.7	\$2,382.5	\$2,513.8	\$3,622.8	\$2,483.4	\$2,322.0	\$2,976.5	\$32,576.1
Net Budgetary Funds	(\$29.3)	(\$136.7)	(\$374.8)	(\$312.1)	(\$303.9)	(\$56.4)	\$708.2	(\$366.5)	(\$381.7)	\$1,569.1	\$191.9	\$560.8	\$1,068.5
Non Budgetary Funds (Non Budgetary, Higher Ed and Trust Funds):													
Total Non Budgetary Revenue/Inflows	\$836.4	\$766.3	\$837.1	\$889.6	\$832.2	\$891.3	\$824.8	\$704.0	\$966.8	\$681.3	\$665.8	\$840.7	\$9,736.3
Total Non Budgetary Expenditures/Outflows	\$806.7	\$969.5	\$953.5	\$1,042.3	\$1,040.0	\$1,107.5	\$1,038.5	\$901.2	\$1,069.5	\$908.5	\$828.5	\$948.6	\$11,614.3
Net Non Budgetary Funds	\$29.7	(\$203.2)	(\$116.4)	(\$152.7)	(\$207.8)	(\$216.2)	(\$213.7)	(\$197.2)	(\$102.7)	(\$227.2)	(\$162.7)	(\$107.9)	(\$1,878.0)
Net Undesignated Revenue/Inflows and Expenditures/Outflows	\$7.1	\$1.0	\$1.0	\$1.0	\$1.0	\$1.0	\$1.0	\$1.0	\$1.0	\$1.0	\$1.0	\$1.0	\$18.1
<b>Net Operating Activities</b>	\$7.5	(\$338.9)	(\$490.2)	(\$463.8)	(\$510.7)	(\$271.6)	\$495.5	(\$562.7)	(\$483.4)	\$1,342.9	\$30.2	\$453.9	(\$791.4)
<b>Federal Grants:</b>													
Total Federal Grants Revenue/Inflows	\$191.0	\$220.0	\$280.0	\$195.0	\$225.0	\$275.0	\$250.0	\$230.0	\$225.0	\$250.0	\$225.0	\$285.6	\$2,851.6
Total Federal Grants Expenditures/Outflows	\$231.7	\$242.0	\$212.5	\$192.5	\$240.0	\$291.5	\$233.0	\$234.0	\$241.5	\$234.5	\$224.0	\$275.5	\$2,852.7
<b>Net Federal Grants</b>	(\$40.7)	(\$22.0)	\$67.5	\$2.5	(\$15.0)	(\$16.5)	\$17.0	(\$4.0)	(\$16.5)	\$15.5	\$1.0	\$10.1	(\$1.1)
<b>Capital Funds:</b>													
Total Capital Revenue/Inflows	\$288.0	\$215.5	\$375.4	\$224.2	\$236.9	\$242.0	\$242.1	\$216.3	\$209.9	\$202.8	\$205.8	\$205.8	\$2,864.4
Total Capital Expenditures/Outflows:	\$260.4	\$196.1	\$242.6	\$229.9	\$231.2	\$280.1	\$245.5	\$170.3	\$180.0	\$162.9	\$258.7	\$325.6	\$2,783.3
<b>Net Capital Funds</b>	27.57	19.43	132.80	(5.72)	5.68	(38.12)	(3.42)	45.97	29.87	39.87	(52.93)	(119.83)	\$81.1
<b>Financing Activities:</b>	\$40.9	\$30.3	\$31.8	\$48.4	\$29.9	\$23.8	\$35.5	\$26.9	\$73.9	\$36.7	\$41.0	\$37.3	\$456.5
Cash Flow Financing Activities Inflows:													
<i>Commercial Paper</i>	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
<i>Revenue Anticipation Notes (RANS)</i>	\$0.0	\$0.0	\$0.0	\$0.0	\$800.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$800.0
Total Cash Flow Financing Activities Inflows	\$0.0	\$0.0	\$0.0	\$0.0	\$800.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$800.0
Cash Flow Financing Activities Outflows:													
<i>Commercial Paper – (Principal + Interest)</i>	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
<i>RANS – (Principal + Interest)</i>	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$302.7	\$505.4	\$0.0	\$808.1
Total Cash Flow Financing Activities Outflows	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$302.7	\$505.4	\$0.0	\$808.1
<b>Net Financing Activities</b>	\$0.0	\$0.0	\$0.0	\$0.0	\$800.0	\$0.0	\$0.0	\$0.0	\$0.0	(\$302.7)	(\$505.4)	\$0.0	(\$8.1)
<b>Ending Non-Segregated Operating Cash Balance</b>	\$2,194.7	\$1,853.2	\$1,563.3	\$1,096.3	\$1,376.2	\$1,049.9	\$1,559.1	\$1,038.3	\$568.3	\$1,663.8	\$1,136.7	\$1,480.9	\$1,480.9

SOURCE: Office of the Treasurer and Receiver-General.

(1) Totals may not add due to rounding.

(2) Figures are estimated.

## LONG-TERM LIABILITIES

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

	<u>Fiscal 2007</u>	<u>Fiscal 2008</u>	<u>Fiscal 2009</u>	<u>Fiscal 2010</u>	<u>Fiscal 2011</u>
<b>Beginning Balance as of July 1</b>	\$18,461,406	\$18,736,961	\$18,734,440	\$19,264,569	\$19,726,507
Debt Issued	1,556,485	1,280,824	1,887,108	1,669,088	2,123,318
Subtotal	<u>20,017,891</u>	<u>20,017,785</u>	<u>20,621,548</u>	<u>20,933,657</u>	<u>21,849,825</u>
Debt retired or defeased, exclusive of refunded debt	(1,399,715)	(1,179,730)	(1,227,029)	(1,207,150)	(974,770)
Refunding debt issued, net of refunded debt (3)	<u>118,785</u>	<u>(103,615)</u>	<u>(129,950)</u>	=	=
<b>Ending Balance June 30 (2)</b>	<b><u>\$18,736,961</u></b>	<b><u>\$18,734,440</u></b>	<b><u>\$19,264,569</u></b>	<b><u>\$19,726,507</u></b>	<b><u>\$20,875,055</u></b>

SOURCE: Office of the Comptroller.

- (1) Including premium, discount and accretion of capital appreciation bonds.
- (2) Includes federal grant anticipation notes issued as crossover refunding bonds. The refunding escrows funded by these bonds and related premiums are used to pay interest on the refunding bonds until the refunded bonds are callable and then to redeem the refunded bonds. Interest on the refunded bonds prior to redemption continues to be paid from pledged revenues as before.
- (3) Amounts may be negative due to defeasances of debt of authorities from the issuance of Commonwealth debt as afforded under General Laws.

See the March Information Statement under the heading “LONG-TERM LIABILITIES– General and Special Obligation Long-Term Debt Issuance and Repayment Analysis.”

### Outstanding Long Term Commonwealth Debt (in thousands)

	<u>Fiscal 2007</u>	<u>Fiscal 2008</u>	<u>Fiscal 2009</u>	<u>Fiscal 2010</u>	<u>Fiscal 2011</u>
General Obligation Debt	\$15,822,591	\$16,086,470	\$17,051,724	\$17,655,539	\$18,516,760
Special Obligation Debt	1,248,750	1,112,590	1,078,630	1,063,501	1,591,505
Federal Grant Anticipation Notes	<u>1,665,620</u>	<u>1,535,380</u>	<u>1,134,215</u>	<u>997,467</u>	<u>766,790</u>
<b>TOTAL</b>	<b><u>\$18,736,961</u></b>	<b><u>\$18,734,440</u></b>	<b><u>\$19,264,569</u></b>	<b><u>\$19,726,507</u></b>	<b><u>\$20,875,055</u></b>

SOURCE: Office of the Comptroller.

See the March Information Statement under the heading “LONG-TERM LIABILITIES–Outstanding Long Term Commonwealth Debt.”

### Debt Service Requirements

The following table sets forth, as of June 30, 2011, the annual fiscal year debt service requirements on outstanding Commonwealth general obligation bonds, special obligation bonds and federal grant anticipation notes. For variable-rate bonds with respect to which the Commonwealth is a fixed-rate payor under an associated interest rate swap agreement, the debt service schedule assumes payment of the fixed rate due under such agreement. For other variable-rate bonds, the schedule assumes a 5% interest rate.

See the March Information Statement under the heading “LONG-TERM LIABILITIES–Debt Service Requirements.”

**Debt Service Requirements on Commonwealth Bonds as of June 30, 2011 through Maturity (in thousands) (1)**

**General Obligation Bonds**

**Federal Highway Grant Anticipation Notes**

Period Ending	<b>General Obligation Bonds</b>			<b>Build America Bonds</b>			<b>Federal Highway Grant Anticipation Notes</b>				
	Principal	Compounded Interest	Gross Interest	Subsidies	Net Interest	Debt Service	Principal	Gross Interest	Bonds Subsidies	Net Interest	Debt Service
6/30/2012	\$1,168,978	\$8,266	\$842,890	\$(36,557)	\$806,333	\$1,983,576	\$156,405	\$32,257	\$(1,494)	\$30,763	\$187,168
6/30/2013	1,317,899	9,413	797,614	(36,557)	761,057	2,088,369	161,285	26,876	(1,494)	25,382	186,667
6/30/2014	1,241,297	7,735	745,551	(36,557)	708,994	1,951,231	170,710	17,450	(1,494)	15,956	186,666
6/30/2015	1,103,428	7,686	694,420	(36,557)	657,863	1,775,772	178,390	9,773	(1,494)	8,279	186,669
6/30/2016	1,121,015	6,652	644,970	(36,557)	608,413	1,736,079	11,390	4,098	(1,434)	2,664	14,054
6/30/2017	889,998	4,877	596,393	(36,557)	559,836	1,454,712	11,635	3,720	(1,302)	2,418	14,053
6/30/2018	829,326	3,868	554,789	(36,557)	518,232	1,351,425	11,925	3,277	(1,147)	2,130	14,055
6/30/2019	813,435	3,310	513,965	(36,557)	477,408	1,294,154	12,245	2,780	(973)	1,807	14,052
6/30/2020	870,127	2,594	474,011	(36,300)	437,711	1,310,432	12,600	2,235	(782)	1,453	14,053
6/30/2021	1,132,433	2,194	424,832	(35,014)	389,818	1,524,445	12,985	1,648	(577)	1,071	14,056
6/30/2022	995,939	1,968	374,126	(32,698)	341,428	1,339,335	13,390	1,020	(357)	663	14,053
6/30/2023	743,804	1,782	330,828	(31,412)	299,416	1,045,003	<u>13,830</u>	<u>348</u>	<u>(122)</u>	<u>226</u>	<u>14,056</u>
6/30/2024	694,362	1,446	295,394	(31,295)	264,099	959,908					
6/30/2025	631,429	1,246	263,463	(31,295)	232,168	864,843					
6/30/2026	582,093	1,121	233,829	(30,776)	203,053	786,268					
6/30/2027	490,228	1,067	207,845	(30,203)	177,642	668,938					
6/30/2028	445,558	1,115	186,009	(28,953)	157,056	603,729					
6/30/2029	595,408	522	161,809	(26,687)	135,122	731,052					
6/30/2030	604,494	288	131,111	(22,892)	108,219	713,002					
6/30/2031	517,190	106	97,983	(16,808)	81,175	598,471					
6/30/2032	258,715	0	82,021	(14,776)	67,245	325,960					
6/30/2033	187,300	0	69,908	(12,440)	57,468	244,768					
6/30/2034	188,585	0	60,460	(11,068)	49,392	237,977					
6/30/2035	196,755	0	50,745	(9,647)	41,098	237,853					
6/30/2036	205,130	0	40,643	(8,177)	32,466	237,596					
6/30/2037	214,730	0	30,106	(6,654)	23,452	238,182					
6/30/2038	194,135	0	19,102	(5,077)	14,025	208,160					
6/30/2039	123,805	0	10,940	(3,445)	7,495	131,300					
6/30/2040	91,905	0	4,596	(1,609)	2,988	94,893					
<b>TOTAL</b>	<b>\$18,449,502</b>	<b>\$67,258</b>	<b>\$8,940,357</b>	<b>\$(719,683)</b>	<b>\$8,220,674</b>	<b>\$26,737,434</b>	<b>\$766,790</b>	<b>\$105,482</b>	<b>(\$12,670)</b>	<b>\$92,812</b>	<b>\$859,602</b>

Period Ending	<u>Special Obligation Revenue Bonds (Convention Center)</u>			<u>Special Obligation Revenue Bonds (CTF-Accelerated Bridge Program)</u>					<u>Special Obligation Revenue Bonds (Gas Tax)</u>		
	Principal	Interest	Debt Service	Principal	Gross Interest	Build America Bonds Subsidies	Net Interest	Debt Service	Principal	Interest	Debt Service
6/30/2012		\$34,486	\$34,486		\$32,623	\$(12,314)	\$20,309	\$20,309	\$39,135	\$19,804	\$58,939
6/30/2013		34,486	34,486		32,623	(12,314)	20,309	20,309	41,150	17,772	58,922
6/30/2014		34,486	34,486		32,623	(12,314)	20,309	20,309	37,170	15,534	52,704
6/30/2015	\$19,995	34,486	54,481		32,623	(12,314)	20,309	20,309	39,070	13,631	52,701
6/30/2016	21,075	33,436	54,511		32,623	(12,314)	20,309	20,309	39,900	11,482	51,382
6/30/2017	22,210	32,330	54,540		32,623	(12,314)	20,309	20,309	42,465	9,287	51,752
6/30/2018	23,310	31,164	54,474		32,623	(12,314)	20,309	20,309	23,040	7,261	30,301
6/30/2019	24,475	30,126	54,601		32,623	(12,314)	20,309	20,309	24,300	5,994	30,294
6/30/2020	23,380	28,842	52,222		32,623	(12,314)	20,309	20,309	25,640	4,658	30,298
6/30/2021	24,610	27,673	52,283		32,623	(12,314)	20,309	20,309	26,905	3,392	30,297
6/30/2022	25,970	26,380	52,350		32,623	(12,314)	20,309	20,309	28,385	1,912	30,297
6/30/2023	27,440	24,952	52,392		32,623	(12,314)	20,309	20,309	9,520	476	9,996
6/30/2024	28,990	23,443	52,433	\$21,325	32,623	(12,314)	20,309	41,634	0	0	0
6/30/2025	30,625	21,848	52,473	22,395	31,546	(11,937)	19,609	42,004	0	0	0
6/30/2026	32,360	20,164	52,524	23,550	30,381	(11,529)	18,851	42,401	0	0	0
6/30/2027	34,190	18,384	52,574	24,860	29,054	(11,065)	17,989	42,849	0	0	0
6/30/2028	36,125	16,504	52,629	26,245	27,655	(10,575)	17,079	43,324	0	0	0
6/30/2029	38,170	14,517	52,687	27,710	26,177	(10,058)	16,119	43,829	0	0	0
6/30/2030	40,330	12,418	52,748	29,250	24,616	(9,512)	15,105	44,355	0	0	0
6/30/2031	42,610	10,199	52,809	30,880	22,969	(8,935)	14,034	44,914	0	0	0
6/30/2032	45,020	7,856	52,876	32,635	21,200	(8,316)	12,884	45,519	0	0	0
6/30/2033	47,565	5,380	52,945	34,485	19,329	(7,661)	11,668	46,153	0	0	0
6/30/2034	50,250	2,764	53,014	36,440	17,353	(6,970)	10,383	46,823	0	0	0
6/30/2035	0	0	0	38,505	15,265	(6,239)	9,026	47,531	0	0	0
6/30/2036	0	0	0	40,685	13,058	(5,466)	7,591	48,276	0	0	0
6/30/2037	0	0	0	42,995	10,726	(4,650)	6,076	49,071	0	0	0
6/30/2038	0	0	0	45,430	8,262	(3,718)	4,544	49,974	0	0	0
6/30/2039	0	0	0	48,005	5,659	(2,546)	3,112	51,117	0	0	0
6/30/2040	0	0	0	50,730	2,907	(1,308)	1,599	52,329	0	0	0
<b>TOTAL</b>	<b>\$638,700</b>	<b>\$526,324</b>	<b>\$1,165,024</b>	<b>\$576,125</b>	<b>\$730,256</b>	<b>(\$280,567)</b>	<b>\$449,687</b>	<b>\$1,025,811</b>	<b>\$376,680</b>	<b>\$111,202</b>	<b>\$487,883</b>

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

## Liquidity Facilities

The following table describes the liquidity facilities that the Commonwealth had in connection with its commercial paper program and certain of its outstanding bond issues as of September 1, 2011.

<u>Associated Program</u>	<u>Facility Amount (in thousands)</u>	<u>Bank</u>	<u>Facility Type</u>	<u>Termination Date</u>
<i>Commercial Paper</i>				
Series E	\$200,000	Dexia Credit Local	Line/Letter	9/27/2011
<i>Variable Rate Bonds</i>				
1997 Series B (Refunding)	\$271,280	Helaba(1)	Line	10/10/2011
1998 Series A (Refunding)	\$222,355	JP Morgan Chase Bank	Line	3/12/2013
2000 Series A	\$200,000	Landesbank Baden- Wurttemberg	Line	12/29/2015
2000 Series B	\$75,590	State Street Bank	Line	1/29/2012
2001 Series B (Refunding)	\$248,110	Landesbank Hessen- Thuringen (Helaba)(1)	Line	10/10/2011
2001 Series C (Refunding)	\$248,115	State Street Bank	Line	2/20/2014
2006 Series A	\$150,000	Wells Fargo Bank, National Association	Line	8/15/2014
2006 Series B	\$200,000	Bank of America	Line	4/2/2012

SOURCE: Office of the Treasurer Receiver General.

(1) The Commonwealth has solicited proposals to replace the existing bank on these two facilities.

## Budgetary Contract Assistance Liabilities

*City of Chelsea Commonwealth Lease Revenue Bonds.* In November, 1993, the Chelsea Industrial Development Financing Authority issued approximately \$95.8 million of lease revenue bonds. The proceeds of the bonds were loaned to the Massachusetts Industrial Finance Agency (now MassDevelopment) and applied to the cost of the Massachusetts Information Technology Center, a tax and data processing facility of the Department of Revenue and certain other departments and agencies of the Commonwealth. The bonds bore interest at a variable rate, and under two interest rate swap agreements that were entered into at the time with Lehman Brothers Special Financing, Inc. (LBSF), MassDevelopment received variable rate payments with respect to the bonds and was obligated to make fixed rate payments in exchange therefor. Simultaneously with the issuance of the bonds, the Commonwealth entered into a 30-year lease, which provided for the payment of debt service on the bonds, including swap related payments, and certain other expenses associated with the project. In September, 2008, LBSF and its parent, Lehman Brothers Holdings Inc. (LBHI), filed for bankruptcy. In December, 2008, the bonds were refinanced by the Commonwealth through the issuance of general obligation debt, and the Commonwealth made a \$2.3 million payment to LBSF to terminate the swap agreements. In May, 2010, LBHI advised the Executive Office for Administration and Finance that it calculated the termination value to be approximately \$13.7 million. In June, 2011, LBHI issued a subpoena to the Executive Office for Administration and Finance relating to the termination of the swap agreements. Any obligation of the Commonwealth with respect to this termination does not constitute a general obligation or a pledge of the credit of the Commonwealth or of MassDevelopment and is subject to appropriation by the Legislature.

## Authorized but Unissued Debt

<u>Fiscal Year</u>	<u>Authorized But Unissued Debt</u>
2007	8,349,391
2008	7,043,446
2009	19,517,272
2010	18,164,985
2011	16,282,298(1)

SOURCE: Office of the Comptroller.  
(1) Estimated.

See the March Information Statement under the heading “LONG-TERM LIABILITIES—Authorized But Unissued Debt.”

### COMMONWEALTH CAPITAL INVESTMENT PLAN

The authorization for federal transportation programs (including 14.1¢ of the 18.4¢ in federal gasoline taxes and 20.1¢ of the 24.4¢ in federal diesel taxes) is set to expire unless extended on or before September 30, 2011. The pending expiration of the transportation program has been a regular occurrence since the last multi-year authorization legislation (SAFETEA-LU) expired on September 30, 2009. Since that time, the United States Congress has reauthorized the program through a series of eight short-term continuing resolutions.

The U. S. Senate and the U. S. House of Representatives are considering conflicting proposals for the long-term reauthorization of the program. The Senate is proposing a two-year extension at existing funding levels, which would require approximately \$12 billion in additional federal revenues, either through a revenue increase or a reallocation of budget authority from other programs. The House is proposing a six-year extension funded from existing revenue streams, which would translate into a reduction of approximately 30% in federal transportation funding.

The Commonwealth is monitoring these developments and developing contingency plans for each.

For the table in the March Information Statement captioned “Capital Investment Plan – Sources of Funds,” the forecast for federal funding was based on level funding from the prior year.

See the March Information Statement under the heading “COMMONWEALTH CAPITAL INVESTMENT PLAN.”

### LEGAL MATTERS

Matters described in the March Information Statement under the heading “LEGAL MATTERS” are updated as follows:

#### Programs and Services

*Finch, et al. v. Commonwealth Health Insurance Connector Authority, et al.* On May 6, 2011, the Supreme Judicial Court issued a decision in which it held that the Massachusetts statute limiting the eligibility of many aliens for Commonwealth Care constitutes a suspect classification that is subject to strict scrutiny under the Massachusetts Constitution. The Court did not reach the question whether this restriction on Commonwealth Care eligibility would satisfy strict scrutiny, but remanded the matter to a single justice of the Supreme Judicial Court for further proceedings. Plaintiffs moved for partial summary judgment, asking the single justice to declare that the challenged eligibility rules are unconstitutional. The Commonwealth has opposed the motion, asked the single justice to reserve and report the issue to the full Supreme Judicial Court, and asked for a declaration that the challenged rules satisfy strict scrutiny and are thus constitutional. The single justice reported the matter to the full bench of the Supreme Judicial Court, which will hear arguments on the matter in October. It is possible that the Supreme Judicial Court’s decision will have implications for other public benefit programs.

*Massachusetts Community College Council, Inc., et al. v. Board of Higher Education, et al.*, Suffolk County Superior Court. In July, 2011, the complaint was amended to name additional defendants, namely the boards of trustees of several community colleges. While the case is not a class action, if the plaintiffs prevail, it is expected that the Commonwealth would likely make similarly situated persons eligible for coverage or contribution. If plaintiffs obtain rights to enroll in GIC health care coverage, those who would become eligible for enrollment in GIC health insurance coverage might also successfully argue for pension benefits in a separate, subsequent proceeding. It is not possible, at this time, to accurately estimate the costs that would be incurred if the plaintiffs prevail, but it appears that funding for any health care coverage for the individual plaintiffs as a result of this action would be from funds controlled by the board of trustees of each community college employing a plaintiff. The state law governing community colleges provides that the division of continuing education is to be run at no expense to the Commonwealth.

### **Medicaid Audits and Regulatory Reviews**

*In re: Disallowance of 2005 MassHealth acute hospital supplemental payments.* In February 2011, CMS sent EOHHS a Notice of Disallowance of \$25,543,963 in FFP for payments to UMMHC. EOHHS filed a Request for Reconsideration with the U.S. Department of Health and Human Services on March 31, 2011.

*Boston Medical Center Corp. and Boston Medical Center Health Plan, Inc. v. Secretary of the Executive Office of Health and Human Services*, Suffolk Superior Court. Plaintiffs have appealed to the Massachusetts Appeals Court, and their appellate brief is due on September 30, 2011.

*Holyoke Medical Center, Inc., et al. v. Secretary of the Executive Office of Health & Human Services*, Suffolk Superior Court. Plaintiffs have appealed to the Massachusetts Appeals Court, and their appellate brief is due on September 30, 2011.

### **Taxes**

*Vodafone Americas, Inc. v. Commissioner of Revenue*, Appellate Tax Board. In June, 2011, the parties entered into a broad settlement of these and other issues in this dispute, requiring the Commonwealth to issue a refund to Vodafone in the amount of approximately \$170,000.

### **Other Revenues**

*Sandra Murphy, et al. v. Massachusetts Turnpike Authority*, Supreme Judicial Court. Plaintiffs' motion for direct appellate relief was allowed on May 25, 2011. Plaintiffs' brief to the SJC was filed on August 19, 2011. The Turnpike Authority's brief is expected to be filed in November, 2011.

*Carol Surprenant v. Massachusetts Turnpike Authority, Massachusetts Port Authority, and Massachusetts Department of Transportation*. United States District Court. The Plaintiff has voluntarily dismissed her appeal, and a judgment of dismissal was entered on August 4, 2011.

### **Other**

*Perini Corp., Kiewit Construction Corp., Jay Cashman, Inc. d/b/a Perino-Kiewit-Cashman Joint Venture v. Commonwealth*. In several related cases and potential litigation, plaintiffs make claims for alleged increased costs arising from differing site conditions and other causes of delay on the Central Artery/Ted Williams Tunnel project. Plaintiffs have asserted claims in excess of \$160 million. These claims are at various stages of resolution, including the Superior Court and the Central Artery Tunnel Project Dispute Review Board ("DRB") panel. The DRB has issued decisions on some of the claims, awarding plaintiffs approximately \$69.6 million on claims of approximately \$102.8 million. Those decisions are now the subject of further court proceedings. Plaintiffs also still have in excess of \$62 million in claims pending.

*Local 589, Amalgamated Transit Union, et al. v. Commonwealth of Massachusetts, et al.*, Suffolk Superior Court. On April 13, 2011, the Superior Court (a) approved the voluntary filing of an amended complaint by

plaintiffs that had the effect of dropping the pension claims from the case, and (b) entered summary judgment for the Commonwealth on the remaining health-insurance claims. The plaintiffs have appealed the entry of summary judgment on the health-insurance claims, and the Superior Court is in the process of assembling the appellate record.

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

## **New Legal Matters**

The matters described below commenced after the March Information Statement was published.

*Disability Policy Consortium, Inc., et al v. Commonwealth of Massachusetts.* United States District Court. On July 26, 2011, the Disability Policy Consortium, Inc. (DPC) and eight individuals, claiming to be “qualified individuals” within the definition of the Americans with Disabilities Act Title II (ADA) and Section 504 of the Rehabilitation Act, filed suit in federal district court alleging that MassHealth does not meet its obligations under the ADA and Section 504 of the Rehabilitation Act. Plaintiffs claim that MassHealth forms, materials and other information are not accessible to persons with visual, hearing or other developmental/cognitive disabilities and that MassHealth has failed to provide plaintiffs reasonable accommodations required under the ADA and other federal laws so that they can access services, complete forms, and access notices, bills and other materials. Plaintiffs also allege that MassHealth’s violations of the ADA and the Rehabilitation Act are intentional and longstanding. Plaintiffs seek injunctive relief, money damages and reasonable attorney’s fees and costs. Defendant’s answer is due September 16, 2011.

*Administrative proceeding regarding challenge to MassHealth’s payment system for acute hospital outpatient services.* A total of 60 hospital providers have filed claims for administrative hearings before the MassHealth Board of Hearings (BOH), challenging MassHealth’s former Ambulatory Payment Group (APG) payment system for acute hospital outpatient services. The hospitals generally claim that there were errors in the payment system that resulted in incorrect payments to the hospitals, and that MassHealth’s efforts to correct those errors through a “parallel system” were ineffective and continued to result in incorrect payments from October, 1997 through December, 2003. While a number of these hospitals had entered into settlements regarding payments for services provided from October, 1997 through December, 2000, the administrative appeals of all 60 hospitals involve payments for the period 2001 through 2003, and for some of those hospitals the appeals involve payments for the entire time period. Five of the 60 hospital providers had filed complaints in Superior Court in 2005. The Superior Court actions were stayed in 2007 and remanded to BOH. The current BOH hearing began on November 6, 2008 and is ongoing. During the course of these proceedings, MassHealth agreed to rerun and reprice the disputed claims, the results of which may form the basis for a potential global settlement. The potential liability for all 60 hospitals may exceed \$27 million.

## **MISCELLANEOUS**

Any provisions of the constitution of the Commonwealth, of general and special laws and of other documents set forth or referred to in the March Information Statement and this Supplement 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.

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

All estimates and assumptions in the March Information Statement and this Supplement 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 the March Information Statement and this Supplement involve any matters of opinion, whether or not expressly so stated, they are intended merely as such and not as representations of fact. The various tables may not add due to rounding of figures.

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

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

### **CONTINUING DISCLOSURE**

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

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

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

## AVAILABILITY OF OTHER FINANCIAL INFORMATION

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

## THE COMMONWEALTH OF MASSACHUSETTS

By /s/ Steven Grossman  
Steven Grossman  
Treasurer and Receiver-General

By /s/ Jay Gonzalez  
Jay Gonzalez  
Secretary of Administration and Finance

September 12, 2011

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