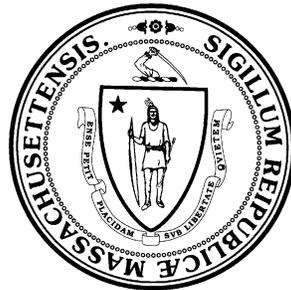


**THE
COMMONWEALTH
OF
MASSACHUSETTS**



INFORMATION STATEMENT SUPPLEMENT

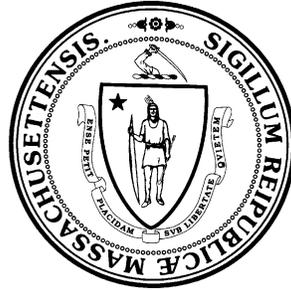
Dated November 10, 2010

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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
Timothy P. Cahill Treasurer and Receiver-General
A. Joseph DeNucci..... Auditor

LEGISLATIVE OFFICERS

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

THE COMMONWEALTH OF MASSACHUSETTS
INFORMATION STATEMENT SUPPLEMENT

November 10, 2010

This supplement (“Supplement”) to the Information Statement of The Commonwealth of Massachusetts (the “Commonwealth”) dated June 8, 2010 (the “June Information Statement”) is dated November 10, 2010 and contains information which updates the information contained in the June Information Statement. The June Information Statement has been filed with the Municipal Securities Rulemaking Board. This Supplement and the June 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 November 10, 2010. All capitalized terms not otherwise defined in this Supplement shall have the meanings ascribed to them in the June Information Statement.

The June Information Statement, as supplemented hereby, includes three exhibits. Exhibit A is the Statement of Economic Information as of October 1, 2010, 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, reviewed by independent auditors, and the Commonwealth’s Comprehensive Annual Financial Report, reported in accordance with generally accepted accounting principles (GAAP), for the year ended June 30, 2009. 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 2010

On October 31, 2010, the Commonwealth published the fiscal 2010 statutory basis financial report, which shows a consolidated net surplus of approximately \$21.3 million before a \$10 million transfer for life sciences funding required by the Commonwealth’s fiscal 2011 budget.

Fiscal 2010 collections totaled \$18.544 billion, an increase of approximately \$284 million, or 1.6%, over fiscal 2009. The following table shows monthly tax collections for fiscal 2010 and the change from tax collections in the same months in the prior year, both in dollars and as a percentage. The table also notes the amount of tax collections in fiscal 2010 that are dedicated to the Massachusetts Bay Transportation Authority (“MBTA”) and to the Massachusetts School Building Authority (“MSBA”).

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Fiscal 2010 Tax Collections (in millions)

<u>Month</u>	<u>Tax Collections</u>	<u>Change from Prior Year</u>	<u>Percentage Change</u>	<u>MBTA Portion (2)</u>	<u>MSBA Portion</u>	<u>Tax Collections: Net of MBTA and MSBA</u>
July	\$ 1,250.6	\$ (131.1)	(9.5)%	\$ 57.6	\$ 54.7	\$ 1,138.4
August	1,296.5	(12.7)	(1.0)	54.4	51.7	1,190.4
September	1,765.9	(333.6)	(15.9)	79.8	47.2	1,638.9
October	1,224.9	74.8	6.5	53.8	51.1	1,120.0
November	1,288.7	32.4	2.6	50.5	48.0	1,190.2
December	1,885.9	23.4	1.3	87.4	48.2	1,750.3
January	1,845.1	54.5	3.0	61.9	58.8	1,724.4
February	1,002.7	49.0	5.1	46.0	43.7	913.0
March	1,624.9	21.7	1.4	83.9	45.3	1,495.8
April	1,747.6	(31.6)	(1.8)	56.0	53.2	1,638.4
May	1,574.3	291.7	22.7	53.0	50.3	1,471.1
<u>June</u>	2,036.7	245.8	13.7	82.8	53.1	1,900.8
Total (1)	<u>\$ 18,543.7</u>	<u>\$ 284.4</u>	<u>1.6%</u>	<u>\$767.1</u>	<u>\$ 605.2</u>	<u>\$ 17,171.4</u>

SOURCE: Executive Office for Administration and Finance.

(1) Totals may not add due to rounding.

(2) Includes adjustment of \$30.2 million on the account of the first quarter, \$36.7 million on the account of the second quarter, \$36.2 million on account of the third quarter and an anticipated \$26.9 million on account of the fourth quarter related to the inflation-adjusted floor applicable to tax receipts dedicated to the MBTA.

The tax revenue increase of \$284.4 million from fiscal 2009 is attributable in large part to an increase of approximately \$743 million, or 19.2%, in sales and use tax collections, an increase of approximately \$21 million, or 1.0%, in corporate and business collections, offset by a decrease of approximately \$473 million, or 4.5%, in income tax collections. The tax revenue figures from the Department of Revenue indicate that fiscal 2010 tax collections were \$84 million above the revised fiscal 2010 estimate of \$18.460 billion announced by the Secretary of Administration and Finance on January 7, 2010. See the June Information Statement under the heading “COMMONWEALTH REVENUES AND EXPENDITURES – Tax Revenue Forecasting.”

Fiscal 2011

On June 30, 2010 the Governor approved the fiscal 2011 budget, which totaled \$27.570 billion. The Governor vetoed approximately \$457 million from the budget that was enacted by the Legislature. Such vetoes included \$372 million of appropriations funded from additional federal Medicaid matching funds (FMAP) that were assumed in the budget, but which the United States Congress had not yet approved. (As described below, the FMAP extension legislation was subsequently approved.) A six-month extension of the enhanced FMAP rate was anticipated in the Governor’s fiscal 2011 budget proposals filed in January, as well as in both the House and Senate versions of the budget. See the June Information Statement under the heading “FISCAL 2010 AND FISCAL 2011 – Fiscal 2011 Budget Proposals.” In addition, the budget enacted by the Legislature included \$54 million in anticipated federal assistance for needy families that has not yet been approved by Congress. The budget enacted by the Legislature also included approximately \$17 million in Lottery revenues in excess of revenue projections given by the State Lottery Commission. The Governor has vetoed certain funding in the fiscal 2011 budget to solve for these anticipated exposures.

The fiscal 2011 budget includes a \$100 million withdrawal from the Stabilization Fund, the use of fiscal 2011 interest earnings on the Stabilization Fund and an additional \$95 million in savings by suspending the statutory carryover of the General Fund balance into fiscal 2010. Taking all that into account, the Stabilization Fund is projected to have a \$556 million balance at the end of fiscal 2011. The fiscal 2011 budget also relies on \$809 million in remaining available federal funds under the American Recovery and Reinvestment Act of 2009.

On August 5, 2010, the Governor signed into law legislation relating to economic development that includes four sets of provisions affecting tax revenues:

- The legislation extends the net operating loss carry-forward period for specified categories of taxpayers (generally including business corporations but not financial institutions or utility corporations) filing under the corporate excise tax from five years to 20 years, for losses sustained in tax years beginning in calendar year 2010. The Department of Revenue estimates that the static revenue loss under this provision will be approximately \$4.7 million in fiscal 2016, \$12.6 million in fiscal 2017, \$19.8 million in fiscal 2018, \$25.5 million in fiscal 2019, and \$30.3 million in fiscal 2020. The Department of Revenue estimates that the static revenue loss under this provision will increase annually until the tax law change is fully phased in by fiscal 2031, at which point the annual revenue loss will be approximately \$92.2 million.
- The legislation institutes a reduced 3% capital gains tax rate under the individual income tax for sale of investments in certain Massachusetts-based start-ups. The new rate takes effect for tax years beginning on or after January 1, 2011 with respect to investments in corporations incorporated on or after January 1, 2011, but a three-year holding period is required. The Department of Revenue estimates that this provision will result in a static revenue loss of \$0.1 million in fiscal 2014, \$0.7 million in fiscal 2015, \$2.3 million in fiscal 2016, \$4.0 million in fiscal 2017, and \$5.7 million in fiscal 2018. The Department of Revenue estimates that the static revenue loss under this provision will increase annually until fiscal 2022, at which point the annual revenue loss will be approximately \$13.5 million.
- The legislation provides for the exclusion of income of a non-U.S. corporation from a “water’s edge” combined report under the corporate excise tax if the income is not subject to U.S. federal income tax by reason of an exemption in a federal bi-lateral treaty, effective for tax years beginning January 1, 2009. Other income of a non-U.S. corporation that is derived from U.S. sources (as well as income effectively connected with a U.S. trade or business) would continue to be included in the combined group’s Massachusetts income tax base in accordance with the combined reporting statute and regulations, including in situations where a federal treaty reduces the federal tax rate on such income but does not completely exempt the income from tax. The Department of Revenue estimates that this provision will result in a revenue reduction or revenue forgone of up to approximately \$28 million annually, with a potentially larger revenue loss in fiscal 2011 due to the retroactive nature of the change. See the June Information Statement under the heading “COMMONWEALTH REVENUES AND EXPENDITURES – State Taxes; *Corporate Tax Reform.*”
- The legislation established a sales tax holiday on August 14-15, 2010. All non-business retail sales of \$2,500 or less were exempt from the Massachusetts sales tax, excluding telecommunications services, motor vehicles, meals, utilities, motor boats, and tobacco products. The Department of Revenue estimates that the sales tax holiday will result in a static revenue loss of approximately \$20 million in fiscal 2011. See the June Information Statement under the heading “COMMONWEALTH REVENUES AND EXPENDITURES – State Taxes ; *Sales and Use Tax.*”

On August 10, 2010, the President signed a \$26 billion state-aid package that would provide additional federal funding to the states for Medicaid and teachers’ pay. This measure extends the FMAP rate originally set to expire December 31, 2010 to June 30, 2011, which is expected to provide approximately \$449 million in additional Medicaid reimbursement to the Commonwealth. The state-aid package is also expected to provide approximately \$204 million to the Commonwealth to retain or hire teachers at local school districts.

On September 8, 2010, the Commonwealth novated its swap agreement with Ambac Financial Services, LLC initially entered into with respect to the Commonwealth’s General Obligation Refunding Bonds, 1997 Series B. As part of the novation, Ambac Financial Services, LLC transferred all of its rights, liabilities, duties and obligations with respect to such swap to SMBC Capital Markets, Inc. The Commonwealth pays a fixed rate of 4.659% to SMBC and SMBC pays the Commonwealth a variable rate equal to the SIFMA Index.

On October 15, 2010 the Governor approved supplemental budget legislation that included approximately \$419 million in supplemental appropriations in order to preserve program funding for safety net services and public safety functions. This additional funding was supported with \$399 million of the \$449 million in estimated

additional federal revenues to be provided to the Commonwealth in fiscal 2011 from the August 2010 extension of the FMAP rate through June 30, 2011. This leaves \$50 million in such revenues currently unexpended. The legislation also eliminated the planned fiscal 2011 withdrawal of \$100 million from the Stabilization Fund and authorized the Secretary of Administration and Finance to forego the use of approximately \$95 million in additional reserves assumed from the suspension of the “statutory carry forward” in fiscal 2011. The Secretary of Administration and Finance currently does not plan to use the \$95 million in reserves in fiscal 2011. Of the \$419 million in supplemental funding, approximately \$327 million was provided for the MassHealth program. The Commonwealth receives additional federal Medicaid reimbursements for these expenditures, leaving the “net” total amount of supplemental funding at approximately \$203 million.

Taking into account all appropriations to date, all cost and revenue exposures, and all anticipated savings and unbudgeted revenue, the Executive Office for Administration and Finance projects that the Commonwealth’s fiscal 2011 budget is in balance. The Executive Office for Administration and Finance’s current projection for fiscal 2011 assumes that there could be up to \$500 million in “gross” additional appropriations (up to \$277 million of which would require state funding). These additional appropriations, to the extent necessary, will be funded from existing resources, and would possibly be needed as a result of increased utilization in certain case-load driven accounts, including the MassHealth program, the emergency assistance shelter program and the Commonwealth’s public defender program. The Executive Office for Administration and Finance is working with the relevant state agencies to manage and mitigate these cost pressures to the greatest extent possible.

Preliminary tax revenues for the first four months of fiscal 2011, ended October 31, 2010, totaled approximately \$6.096 billion, an increase of approximately \$557.9 million, or 10.1%, over the same period in fiscal 2010. The following table shows the tax collections for the first four months of 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	55.2	1,275.0
September	2,015.1	249.2	14.1	76.2	51.9	1,887.1
October	<u>1,342.3</u>	<u>117.4</u>	<u>9.6</u>	<u>55.3</u>	<u>55.3</u>	<u>1,231.7</u>
Total (2)	<u>\$ 6,095.7</u>	<u>\$557.9</u>	<u>10.1%</u>	<u>\$247.1</u>	<u>\$222.8</u>	<u>\$5,625.8</u>

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.

The year-to-date tax revenue increase of approximately \$557.9 million through October 31, 2010 from the same period in fiscal 2010 is attributable in large part to an increase of approximately \$169.5 million, or 6.2%, in withholding collections, an increase of approximately \$44.2 million, or 11.7%, in income estimated payments, a decrease of approximately \$52.0 million, or 24.9%, in income refunds, an increase of approximately \$216.5 million, or 14.7%, in sales and use tax collections, and an increase of approximately \$87.4 million, or 19.8%, in corporate and business tax collections. Preliminary year-to-date fiscal 2011 tax collections (through October) were approximately \$414 million above the benchmark estimate, which is based on the fiscal 2011 tax revenue estimate of \$19.078 billion (which is equal to the \$19.050 billion consensus estimate plus \$48 million in fiscal 2011 tax initiatives authorized in the fiscal 2011 general appropriations act and less \$20 million in the estimated sales tax revenue loss resulting from the August sales tax holiday). See the June Information Statement under the heading “COMMONWEALTH REVENUES AND EXPENDITURES – Tax Revenue Forecasting; *Fiscal 2011.*”

Cash Flow

On August 31, 2010, the State Treasurer and the Secretary of Administration and Finance released cash flow statements for fiscal 2010 and fiscal 2011. Fiscal 2010 ended with an overall increase in the non-segregated cash balance from \$805.3 million to \$844.2 million, as compared to a projection of \$860.2 million in the June 3, 2010 cash flow forecast. See the June Information Statement under the heading “FISCAL 2010 AND FISCAL 2011 – Cash Flow.”

The fiscal 2011 cash flow statement is based upon the fiscal 2011 budget signed on June 30, 2010 (including the value of all vetoes and subsequent overrides), all supplemental appropriations filed, enacted or anticipated, and all prior appropriations continued into fiscal 2011, but does not include approximately \$653.0 million in additional federal aid expected as a result of the federal state-aid package. See “RECENT DEVELOPMENTS – Fiscal 2011” herein.

The Commonwealth’s five-year capital investment plan, which is reviewed annually, calls for approximately \$2.215 billion of bonds to be issued in fiscal 2011. This amount includes \$1.625 billion in general obligation bonds issued under the bond cap and \$590.0 million of borrowing for the accelerated bridge program (which includes \$300 million of borrowing for the program carried over from prior fiscal years, as well as \$290 million in borrowing for fiscal 2011). Prior year spending of \$200 million under the accelerated bridge program bond authorization was temporarily financed with general obligation bond anticipation notes issued in July, 2010. Such notes are expected to be retired with a portion of proceeds of accelerated bridge program bonds expected to be issued in the fall of 2010. See the June Information Statement under the headings “LONG-TERM LIABILITIES – Special Obligation Debt; *Commonwealth Transportation Fund*,” “LONG-TERM LIABILITIES – Federal Grant Anticipation Notes” and “COMMONWEALTH CAPITAL INVESTMENT PLAN.” The information contained in the August 31, 2010 cash flow statement does not reflect the information contained in the five-year capital investment plan recently released by the Executive Office for Administration and Finance. See “COMMONWEALTH CAPITAL INVESTMENT PLAN” herein.

On August 26, 2010 the State Treasurer issued \$358 million in general obligation bonds under the bond cap and \$1.2 billion in revenue anticipation notes to support the state’s cash flow. The revenue anticipation notes are scheduled to mature in late April, 2011, late May, 2011 and late June, 2011. The State Treasurer also issued general obligation refunding bonds on July 29, 2010 (approximately \$120.4 million) and September 15, 2010 (approximately \$165.6 million) to refund certain Commonwealth bonds that matured on August 1, 2010, October 1, 2010 and November 1, 2010, pursuant to special legislation enacted in conjunction with the fiscal 2011 budget. Both series of refunding bonds were sold on July 23, 2010. The refunding bonds mature in 2014 and 2015.

The next cash flow statement is expected to be released on or about November 30, 2010.

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Overview of Fiscal 2010 Non-Segregated Operating Cash Flow (in millions) (1)

(as of August 31, 2010)

	<u>Jul</u>	<u>Aug</u>	<u>Sep</u>	<u>Oct</u>	<u>Nov</u>	<u>Dec</u>	<u>Jan</u>	<u>Feb</u>	<u>Mar</u>	<u>Apr</u>	<u>May</u>	<u>June</u>	Total FY 2010
Opening Non-Segregated Operating Cash Balance	\$ 805.3	\$ 581.8	\$ 837.7	\$ 1,033.1	\$ 703.4	\$ 529.2	\$ 890.0	\$ 1,271.7	\$ 988.4	\$ 891.4	\$ 1,335.9	\$ 1,515.1	\$ 805.3
Operating Activities:													
Budgetary Funds:													
<i>Transfer from/(to) Stabilization Fund</i>	0.0	199.0	0.0	0.0	0.0	41.2	0.0	0.9	0.4	(49.0)	0.0	0.0	192.5
Total Budgetary Revenue/Inflows	1,949.0	2,435.1	2,852.1	2,294.5	2,123.1	3,070.8	2,927.6	2,245.9	3,236.9	3,111.3	3,024.4	2,123.0	31,393.6
Total Budgetary Expenditures/Outflows	2,300.5	2,252.4	3,042.8	2,300.9	2,115.7	2,931.6	1,954.4	2,237.2	3,295.5	2,206.3	1,958.6	2,688.8	29,284.8
Net Budgetary Funds	(351.5)	182.6	(190.7)	(6.4)	7.4	139.1	973.2	8.7	(58.7)	905.0	1,065.9	(565.8)	2,108.8
Non Budgetary Funds (Non Budgetary, Higher Ed and Trust Funds):													
Total Non Budgetary Revenue/Inflows	762.0	642.6	736.8	701.0	774.2	526.6	431.8	715.0	759.3	844.0	514.8	1,708.6	9,116.7
Total Non Budgetary Expenditures/Outflows	842.0	806.8	1,167.9	777.1	879.6	973.9	866.7	1,005.0	1,019.1	887.7	815.1	1,173.7	11,214.6
Net Non Budgetary Funds	(80.0)	(164.2)	(431.2)	(76.0)	(105.4)	(447.2)	(435.0)	(290.0)	(259.8)	(43.7)	(300.2)	534.9	(2,097.9)
Net Undesignated Revenue/Inflows and Expenditures/Outflows	<u>0.5</u>	<u>3.2</u>	<u>0.7</u>	<u>2.2</u>	<u>1.6</u>	<u>1.5</u>	<u>9.7</u>	<u>1.6</u>	<u>1.6</u>	<u>1.5</u>	<u>1.3</u>	<u>17.7</u>	<u>43.1</u>
Net Operating Activities	\$ (431.1)	\$ 21.6	\$ (621.2)	\$ (80.3)	\$ (96.5)	\$ (306.6)	\$ 547.9	\$ (279.7)	\$ (316.8)	\$ 862.9	\$ 766.9	\$ (13.2)	\$ 54.0
Federal Grants:													
Total Federal Grants Revenue/Inflows	611.2	174.1	161.3	159.8	209.7	270.4	233.5	87.9	345.9	392.9	302.1	352.4	3,301.3
Total Federal Grants Expenditures/Outflows	<u>202.0</u>	<u>218.0</u>	<u>165.8</u>	<u>178.2</u>	<u>217.1</u>	<u>287.3</u>	<u>218.0</u>	<u>250.3</u>	<u>313.1</u>	<u>293.7</u>	<u>326.6</u>	<u>334.1</u>	<u>3,004.2</u>
Net Federal Grants	\$ 409.1	\$ (43.9)	\$ (4.4)	\$ (18.4)	\$ (7.4)	\$ (16.9)	\$ 15.5	\$ (162.5)	\$ 32.8	\$ 99.3	\$ (24.5)	\$ 18.3	\$ 297.1
Capital Funds:													
Total Capital Revenue/Inflows	70.0	238.3	172.9	40.1	105.6	798.6	3.5	302.6	206.7	2.1	316.1	85.0	2,341.6
Total Capital Expenditures/Outflows:	<u>271.6</u>	<u>260.0</u>	<u>269.6</u>	<u>271.1</u>	<u>175.9</u>	<u>244.4</u>	<u>185.2</u>	<u>143.7</u>	<u>169.7</u>	<u>163.8</u>	<u>164.4</u>	<u>324.9</u>	<u>2,644.3</u>
Net Capital Funds	\$ (201.6)	\$ (21.7)	\$ (96.7)	\$ (231.0)	\$ (70.3)	\$ 554.2	\$ (181.7)	\$ 159.0	\$ 37.0	\$ (161.6)	\$ 151.7	\$ (239.8)	\$ (302.7)
Financing Activities:													
Cash Flow Financing Activities Inflows:													
<i>Commercial Paper</i>	0.0	300.0	0.0	0.0	0.0	430.0	0.0	0.0	150.0	0.0	0.0	0.0	880.0
<i>Revenue Anticipation Notes (RANS)</i>	0.0	0.0	1,217.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1,217.9
Total Cash Flow Financing Activities Inflows	0.0	300.0	1,217.9	0.0	0.0	430.0	0.0	0.0	150.0	0.0	0.0	0.0	2,097.9
Cash Flow Financing Activities Outflows:													
<i>Commercial Paper – (Principal + Interest)</i>	0.0	0.0	300.2	0.0	0.0	300.0	0.0	0.0	0.0	0.7	280.0	0.0	881.0
<i>RANS – (Principal + Interest)</i>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	355.3	435.0	436.0	1,226.3
Total Cash Flow Financing Activities Outflows	<u>0.0</u>	<u>0.0</u>	<u>300.2</u>	<u>0.0</u>	<u>0.0</u>	<u>300.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>356.0</u>	<u>715.0</u>	<u>436.0</u>	<u>2,107.3</u>
Net Financing Activities	\$ 0.0	\$ 300.0	\$ 917.7	\$ 0.0	\$ (0.0)	\$ 130.0	\$ (0.0)	\$ (0.0)	\$ 150.0	\$ (356.0)	\$ (715.0)	\$ (436.0)	\$ (9.4)
Ending Non-Segregated Operating Cash Balance	\$ 581.8	\$ 837.7	\$ 1,033.1	\$ 703.4	\$ 529.2	\$ 890.0	\$ 1,271.7	\$ 988.4	\$ 891.4	\$ 1,335.9	\$ 1,515.1	\$ 844.3	\$ 844.3

SOURCE: Office of the Treasurer and Receiver-General.

(1) Totals may not add due to rounding.

Overview of Fiscal 2011 Non-Segregated Operating Cash Flow (in millions) (1)

(as of August 31, 2010)

	<u>Jul</u>	<u>Aug (2)</u>	<u>Sep (2)</u>	<u>Oct (2)</u>	<u>Nov (2)</u>	<u>Dec (2)</u>	<u>Jan (2)</u>	<u>Feb (2)</u>	<u>Mar (2)</u>	<u>Apr (2)</u>	<u>May (2)</u>	<u>June (2)</u>	<u>Total FY 2011 (2)</u>
Opening Non-Segregated Operating Cash Balance	\$ 844.3	\$ 1,082.2	\$ 2,544.3	\$ 1,768.9	\$ 1,491.1	\$ 1,264.5	\$ 793.8	\$ 1,213.0	\$ 849.3	\$ 369.5	\$ 868.0	\$ 934.5	\$ 844.3
Operating Activities:													
Budgetary Funds:													
<i>Transfer from/(to) Stabilization Fund</i>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	100.0	0.0	0.0	0.0	100.0
Total Budgetary Revenue/Inflows	2,599.9	2,446.7	2,852.3	2,297.5	2,334.0	2,890.3	2,954.0	2,206.1	3,246.2	3,324.5	2,831.7	3,288.1	33,271.2
Total Budgetary Expenditures/Outflows	2,267.9	2,342.2	3,395.6	2,425.6	2,488.0	3,199.4	2,410.1	2,374.6	3,430.2	2,265.4	2,055.0	2,861.2	31,515.2
Net Budgetary Funds	332.0	104.5	(543.4)	(128.1)	(154.0)	(309.1)	543.9	(168.5)	(184.0)	1,059.1	776.7	426.9	1,756.0
Non Budgetary Funds (Non Budgetary, Higher Ed and Trust Funds):													
Total Non Budgetary Revenue/Inflows	425.2	758.1	905.1	645.5	665.8	759.2	705.6	601.6	673.6	605.0	574.5	635.5	7,954.8
Total Non Budgetary Expenditures/Outflows	935.1	784.7	1,131.1	711.1	752.4	946.2	845.6	811.8	981.9	855.4	797.5	903.5	10,456.6
Net Non Budgetary Funds	(509.9)	(26.6)	(226.0)	(65.6)	(86.6)	(186.9)	(140.0)	(210.3)	(308.4)	(250.4)	(223.0)	(268.1)	(2,501.7)
Net Undesignated Revenue/Inflows and Expenditures/Outflows	<u>0.4</u>	<u>1.0</u>	<u>11.4</u>										
Net Operating Activities	\$ (177.5)	\$ 79.0	\$ (768.4)	\$ (192.7)	\$ (239.5)	\$ (495.1)	\$ 405.0	\$ (377.8)	\$ (491.4)	\$ 809.7	\$ 554.6	\$ 159.9	\$ (734.3)
Federal Grants:													
Total Federal Grants Revenue/Inflows	277.8	195.0	195.0	190.0	225.0	278.0	255.0	221.0	221.0	235.0	225.0	275.0	2,792.8
Total Federal Grants Expenditures/Outflows	<u>230.2</u>	<u>200.8</u>	<u>206.1</u>	<u>214.0</u>	<u>224.5</u>	<u>278.3</u>	<u>254.5</u>	<u>222.5</u>	<u>222.5</u>	<u>230.9</u>	<u>223.5</u>	<u>281.0</u>	<u>2,791.5</u>
Net Federal Grants	\$ 47.6	\$ (5.8)	\$ (11.1)	\$ (24.0)	\$ 0.5	\$ (0.3)	\$ 0.5	\$ (1.5)	\$ (4.2)	\$ 4.1	\$ 1.5	\$ (6.0)	\$ 1.3
Capital Funds:													
Total Capital Revenue/Inflows	422.1	425.1	265.1	358.0	241.0	291.3	253.8	181.8	191.7	194.8	179.4	374.8	3,378.9
Total Capital Expenditures/Outflows:	<u>254.3</u>	<u>236.2</u>	<u>261.1</u>	<u>219.1</u>	<u>228.6</u>	<u>266.6</u>	<u>240.1</u>	<u>166.2</u>	<u>175.9</u>	<u>160.1</u>	<u>244.0</u>	<u>302.2</u>	<u>2,754.3</u>
Net Capital Funds	\$ 167.8	\$ 188.9	\$ 4.1	\$ 139.0	\$ 12.4	\$ 24.7	\$ 13.7	\$ 15.6	\$ 15.8	\$ 34.7	\$ (64.6)	\$ 72.6	\$ 624.7
Financing Activities:													
Cash Flow Financing Activities Inflows:													
<i>Commercial Paper</i>	200.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	200.0
<i>Revenue Anticipation Notes (RANS)</i>	0.0	1,200.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1,200.0
Total Cash Flow Financing Activities Inflows	200.0	1,200.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1,400.0
Cash Flow Financing Activities Outflows:													
<i>Commercial Paper – (Principal + Interest)</i>	0.0	0.0	0.0	200.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	200.0
<i>RANS – (Principal + Interest)</i>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	350.0	425.0	425.0	1,200.0
Total Cash Flow Financing Activities Outflows	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>200.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>350.0</u>	<u>425.0</u>	<u>425.0</u>	<u>1,400.0</u>
Net Financing Activities	\$ 200.0	\$ 1,200.0	\$ 0.0	\$ (200.0)	\$ 0.0	\$ (350.0)	\$ (425.0)	\$ (425.0)	\$ 0.0				
Ending Non-Segregated Operating Cash Balance	\$ 1,082.2	\$ 2,544.3	\$ 1,768.9	\$ 1,491.1	\$ 1,264.5	\$ 793.8	\$ 1,213.0	\$ 849.3	\$ 369.5	\$ 868.0	\$ 934.5	\$ 735.9	\$ 735.9

SOURCE: Office of the Treasurer and Receiver-General.

(1) Totals may not add due to rounding.

(2) Figures are estimated.

COMMONWEALTH REVENUES AND EXPENDITURES

In fiscal 2010, on a statutory basis, approximately 56.7% of the Commonwealth's budgeted operating revenues and other financing sources were derived from state taxes. In addition, the federal government provided approximately 28.2% of such revenues, with the remaining 15.1% provided from departmental revenues and transfers from non-budgeted funds.

Statutory Basis Distribution of Budgetary Revenues and Expenditures

The following table sets forth the Commonwealth's revenues and expenditures for fiscal 2006 through fiscal 2010 and projected revenues and expenditures for fiscal 2011.

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

	<u>Fiscal 2006</u>	<u>Fiscal 2007</u>	<u>Fiscal 2008</u>	<u>Fiscal 2009</u>	<u>Fiscal 2010</u>	<u>Projected Fiscal 2011</u>
<u>Beginning Fund Balances</u>						
Reserved or Designated	\$ 355.6	\$ 947.2	\$ 351.3	\$ 171.5	\$ 68.9	\$122.0
Bay State Competitiveness Investment Fund	-	-	100.0	-	-	-
Transitional Escrow Fund	304.8	-	-	-	-	-
Stabilization Fund	1,728.4	2,154.7	2,335.0	2,119.2	841.3	669.8
Undesignated	<u>98.4</u>	<u>106.2</u>	<u>114.7</u>	<u>115.1</u>	<u>106.4</u>	<u>111.3</u>
Total	<u>2,487.2</u>	<u>3,208.1</u>	<u>2,901.0</u>	<u>2,405.8</u>	<u>1,016.5</u>	<u>903.1</u>
<u>Revenues and Other Sources</u>						
Alcoholic Beverages	68.9	71.0	71.2	71.9	71.0	71.6
Banks	349.9	340.9	547.8	242.6	234.9	69.2
Cigarettes	435.3	438.1	436.9	456.8	456.2	467.9
Corporations	1,390.7	1,587.6	1,512.2	1,548.6	1,600.3	1,396.9
Deeds	210.1	194.1	153.9	105.5	137.9	126.4
Income	10,483.4	11,399.6	12,483.8	10,583.7	10,110.3	10,704.1
Inheritance and Estate	196.3	249.6	254.0	259.7	221.4	225.2
Insurance	448.5	418.6	417.7	356.7	330.0	341.0
Motor Fuel	671.8	676.1	672.2	654.0	654.6	663.0
Public Utilities	118.5	178.3	120.2	(1.7)	(0.3)	(0.3)
Room Occupancy	105.8	111.1	119.2	109.5	101.6	99.5
Sales:						
Regular	2,864.7	2,927.7	2,952.2	2,799.7	3,282.8	3,470.9
Meals	584.1	608.7	632.9	629.6	759.6	814.0
Motor Vehicles	<u>555.5</u>	<u>531.1</u>	<u>501.6</u>	<u>439.3</u>	<u>569.3</u>	<u>612.2</u>
Sub-Total-Sales	4,004.3	4,067.5	4,086.7	3,868.6	4,611.7	4,897.1
Miscellaneous	<u>4.0</u>	<u>3.8</u>	<u>3.1</u>	<u>3.3</u>	<u>14.1</u>	<u>16.3</u>
Total Tax Revenues (2)	<u>18,487.4</u>	<u>19,736.3</u>	<u>20,879.2</u>	<u>18,259.5</u>	<u>18,543.7</u>	<u>19,078.0</u>
MBTA Transfer	(712.6)	(734.0)	(756.0)	(767.1)	(767.1)	(767.1)
MSBA Transfer	<u>(488.7)</u>	<u>(557.4)</u>	<u>(634.7)</u>	<u>(702.3)</u>	<u>(605.2)</u>	<u>(653.3)</u>
Total Budgeted Operating Tax Revenues	<u>17,286.2</u>	<u>18,444.9</u>	<u>19,488.5</u>	<u>16,790.0</u>	<u>17,171.4</u>	<u>17,657.0</u>
Federal Reimbursements	5,210.1	6,167.6	6,429.5	8,250.9	8,548.8	9,121.9
Departmental and Other Revenues	2,094.3	2,218.4	2,355.9	2,326.2	2,800.9	2,933.6
Inter-fund Transfers from Non-budgeted Funds and other sources (3)	<u>1,714.9</u>	<u>1,785.0</u>	<u>2,039.3</u>	<u>1,850.3</u>	<u>1,788.8</u>	<u>1,887.7</u>
Budgeted Revenues and Other Sources	<u>26,305.5</u>	<u>28,615.9</u>	<u>30,313.2</u>	<u>29,217.4</u>	<u>30,310.0</u>	<u>31,600.8</u>
Inter-fund Transfers	<u>1,358.1</u>	<u>552.9</u>	<u>2,226.3</u>	<u>1,963.8</u>	<u>770.8</u>	<u>398.3</u>
Total Budgeted Revenues and Other Sources	<u>\$27,663.6</u>	<u>\$29,168.8</u>	<u>\$32,539.5</u>	<u>\$31,181.2</u>	<u>\$31,080.8</u>	<u>\$31,999.1</u>

	<u>Fiscal 2006</u>	<u>Fiscal 2007</u>	<u>Fiscal 2008</u>	<u>Fiscal 2009</u>	<u>Fiscal 2010</u>	<u>Projected Fiscal 2011</u>
<u>Expenditures and Uses</u>						
Direct Local Aid	\$4,430.0	\$4,805.2	\$5,040.5	\$4,723.6	\$4,837.4	\$4,784.7
Medicaid (4)	6,852.5	7,550.4	8,246.3	8,679.2	9,287.6	10,238.3
Other Health and Human Services	4,433.6	4,625.3	4,796.5	4,828.3	4,616.6	4,655.4
Group Insurance	963.7	1,022.3	852.5	973.1	1,063.8	1,246.1
Department of Elementary and Secondary Education	408.6	459.0	485.8	495.9	358.1	422.4
Higher Education	987.8	1,115.7	1,084.4	1,035.5	845.6	936.9
Department of Early Education and Care	387.1	507.1	549.9	560.3	513.5	510.3
Public Safety	1,288.0	1,399.2	1,544.4	1,514.3	1,423.2	1,410.0
Energy and Environmental Affairs	202.0	238.5	227.1	215.9	202.2	189.7
Debt Service	1,826.7	2,234.4	1,990.1	2,011.7	1,979.9	2,003.9
Post Employment Benefits (5)	1,274.7	1,335.2	1,398.6	1,314.4	1,748.6	1,838.8
Other Program Expenditures	<u>2,138.7</u>	<u>2,364.9</u>	<u>2,414.1</u>	<u>2,350.9</u>	<u>2,509.0</u>	<u>1,978.8</u>
Total - Programs and Services before transfers to Non-budgeted funds	25,193.4	27,657.2	28,630.2	28,703.1	29,384.5	30,215.3
<u>Inter-fund Transfers to Non-budgeted Funds</u>						
Commonwealth Care Trust Fund	-	722.1	1,045.9	987.6	631.7	722.0
State Retiree Benefit Trust Fund (5)	-	-	354.7	352.0	-	-
Medical Assistance Trust Fund	70.0	364.0	376.7	374.0	313.3	640.6
Massachusetts Transportation Trust Fund	-	-	-	-	-	195.1
Other	<u>321.2</u>	<u>179.6</u>	<u>400.9</u>	<u>189.9</u>	<u>94.1</u>	<u>175.0</u>
Total Inter-Fund Transfers to Non- Budgeted Funds	391.2	1,265.7	2,178.2	1,903.5	1,039.1	1,732.7
Budgeted Expenditures and Other Uses	<u>25,584.6</u>	<u>28,922.9</u>	<u>30,808.4</u>	<u>30,606.6</u>	<u>30,423.6</u>	<u>31,948.0</u>
Inter-fund Transfers	<u>1,358.1</u>	<u>553.0</u>	<u>2,226.3</u>	<u>1,963.8</u>	<u>770.8</u>	<u>398.3</u>
Total Budgeted Expenditures and Other Uses	26,942.7	29,475.9	33,034.7	32,570.4	31,194.4	32,346.3
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	720.9	(307.1)	(495.2)	(1,389.2)	(113.6)	(347.2)
<u>Ending Fund Balances</u>						
Reserved or Designated (6)	947.2	351.3	171.5	68.9	122.0	10.8
Bay State Competitiveness Investment Fund	-	100.0	-	-	-	-
Transitional Escrow Fund	-	-	-	-	-	-
Stabilization Fund	2,154.7	2,335.0	2,119.2	841.3	669.8	669.8
Undesignated	<u>106.2</u>	<u>114.7</u>	<u>115.1</u>	<u>106.4</u>	<u>111.3</u>	<u>120.0</u>
Total	3,208.1	2,901.0	2,405.8	1,016.6	903.1	800.6

SOURCES: Fiscal 2006-2010, Office of the Comptroller; fiscal 2011, Executive Office for Administration and Finance.

(1) Totals may not add due to rounding.

(2) Fiscal 2011 Total Tax Revenues reflect the fiscal 2011 tax revenue estimate of \$19.078 billion (which is equal to the \$19.050 billion consensus estimate adjusted for the \$48 million in fiscal 2011 tax initiatives authorized in the fiscal 2011 general appropriations act and \$20 million in the estimated sales tax revenue loss resulting from the August sales tax holiday) and does not include the approximately \$414 million in fiscal 2011 year-to-date tax collections (through October) above the benchmark tax estimate or estimated tax revenue losses resulting from the removal of the sales tax on alcoholic beverages. See "RECENT DEVELOPMENTS – Fiscal 2011" and "COMMONWEALTH REVENUES AND EXPENDITURES – State Taxes herein.

(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 2010 include program administration.

(5) Starting in fiscal 2010 Post Employment Benefits include budgeted pension transfers and State Retiree Benefit Trust Fund.

(6) Consists largely of appropriations from previous years, authorized to be expended in current years.

State Taxes

On November 2, 2010, the initiative petition that would have reduced the sales and use tax rates to 3% was defeated by voters. However, the initiative petition to remove the sales tax on alcoholic beverages effective January 1, 2011 was passed by voters. The Department of Revenue estimates the tax revenue loss resulting from this change will be approximately \$46 million for fiscal 2011 and between \$105 million to \$116 million annually thereafter. See the June Information Statement under the heading "COMMONWEALTH REVENUES AND EXPENDITURES – State Taxes; Sales and Use Tax."

Federal and Other Non-Tax Revenues

Lottery Revenues. The Lottery's operating revenues for fiscal 2010 were \$989.7 million. The result was a surplus of \$55.4 million against the assumed \$934.3 billion budget to fund various commitments appropriated by the Legislature from the State Lottery Fund and Arts Lottery Fund, including Lottery administrative expenses, and \$758.8 million in appropriations for local aid to cities and towns, with the balance of \$55.4 million to be transferred to the General Fund for the general activities of the Commonwealth.

The fiscal 2011 budget assumes total transfers from the Lottery of \$986.8 million to fund various commitments appropriated by the Legislature from the State Lottery Fund and the Arts Lottery Fund, including Lottery administrative expenses, and \$812.2 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 2011, the State Lottery Commission is currently projecting net operating revenues of \$986.8 million to fund the assumed transfers.

Employee Benefits

Pension. As of January 1, 2010, the Massachusetts State Employees' Retirement System ("MSERS") had 85,839 active members and 52,486 retirees and beneficiaries, the Massachusetts Teachers' Retirement System ("MTRS") had 88,673 active members and 53,951 retired members and beneficiaries, and the Boston Teachers' Retirement System had 5,564 active members and 3,916 retired members and beneficiaries. Legislation approved in 2010 allows the \$12,000 base for annual cost-of-living allowance increases to be increased in multiples of \$1,000 for local systems by a majority vote of the local retirement board, subject to approval of the local legislative body. See the June Information Statement under the heading "COMMONWEALTH REVENUES AND EXPENDITURES – Employee Benefits; *Pension.*"

Unfunded Actuarial Accrued Liability. On October 1, 2010, pursuant to Chapter 32 of the Massachusetts General Laws, the Public Employee Retirement Administration Commission (PERAC) released its actuarial valuation of the total pension obligation as of January 1, 2010. This valuation was based on the plan provisions in effect at the time and is based on member data and asset information as of December 31, 2009.

The unfunded actuarial accrued liability as of that date for the total obligation was approximately \$19.986 billion, including approximately \$5.843 billion for the MSERS, \$12.477 billion for the MTRS, \$1.364 billion for Boston Teachers and \$302 million for cost-of-living increases reimbursable to local systems. The valuation study estimated the total actuarial accrued liability as of January 1, 2010 to be approximately \$61.576 billion (comprised of \$24.862 billion for MSERS, \$33.739 billion for MTRS, \$2.672 billion for Boston Teachers and \$302 million for cost-of-living increases reimbursable to local systems). Total assets were valued on an actuarial basis at approximately \$41.590 billion based on a five-year average valuation method, which equaled 110% of the January 1, 2010 total asset market value. The valuation method was the same as the method used in the 2009 valuation. See the June Information Statement under the heading "COMMONWEALTH REVENUES AND EXPENDITURES – Employee Benefits; *Unfunded Actuarial Accrued Liability.*"

The following table shows the valuation of accrued liabilities and assets from 2006 through 2010:

Pension Fund Valuation and Unfunded Accrued Liabilities (in millions)

Valuation Date	Total Actuarial Accrued Liability	Actuarial Value of Assets(1)	Unfunded Accrued Liabilities	
			Unfunded Actuarial Liability(2)	Market Value of Unfunded Liability
January 1, 2006	\$50,865	\$36,377	\$14,488	\$11,844
January 1, 2007	53,761	40,412	13,349	8,859
January 1, 2008	56,637	44,532	12,105	7,402
January 1, 2009	59,142	37,058	22,084	25,453
January 1, 2010	61,576	41,589	19,986	23,767

SOURCE: Public Employee Retirement Administration Commission.

(1) Based on five-year average smoothing methodology.

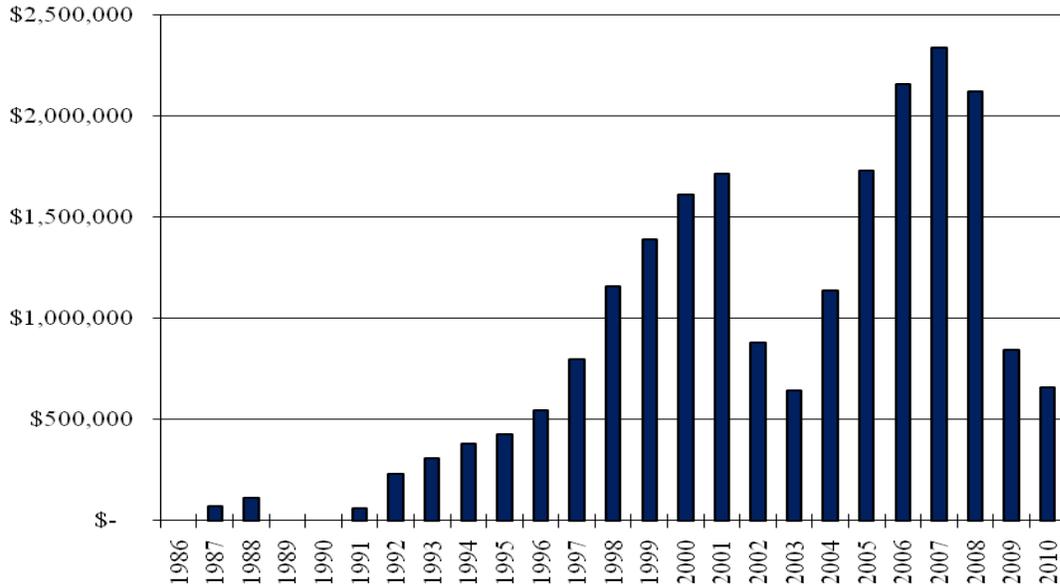
(2) Based on actuarial valuation.

The Secretary of Administration and Finance will update the pension funding schedule as part of the development of the fiscal 2012 budget, taking into account the total fiscal and budgetary context as well as the need to responsibly address the Commonwealth's long-term liabilities.

SELECTED FINANCIAL DATA

The following chart shows the Stabilization Fund balance from fiscal 1986 through fiscal 2010.

Stabilization Fund Balance (in thousands)



SOURCE: Office of the Comptroller.

The following table shows the sources and uses of the Stabilization Fund during fiscal 2006 through fiscal 2010:

Stabilization Fund Sources and Uses (in thousands)

	<u>Fiscal 2006</u>	<u>Fiscal 2007</u>	<u>Fiscal 2008</u>	<u>Fiscal 2009</u>	<u>Fiscal 2010</u>
Beginning fund balances	\$1,728,355	\$2,154,664	\$2,335,021	\$2,119,194	\$841,344
<u>Revenues and Other Sources</u>					
Consolidated net surplus	353,990	90,883	-	64,747	11,269
Lottery transfer taxes	4,204	2,680	2,243	2,436	1,982
CA/T project cost recoveries	-	-	-	-	-
Investment income	68,115	86,794	96,930	43,967	21,782
Transfers due to fund consolidation	-	-	-	-	-
Excess permissible tax revenue	20,000	-	-	-	-
Transfer from Transitional Escrow Fund	-	-	-	-	-
Total Revenues and Other Sources	<u>446,309</u>	<u>180,357</u>	<u>99,173</u>	<u>111,150</u>	<u>35,033</u>
Total Expenditures and Other Uses	<u>20,000</u>	<u>-</u>	<u>315,000</u>	<u>1,389,000</u>	<u>206,574</u>
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	<u>426,309</u>	<u>180,357</u>	<u>(215,827)</u>	<u>(1,227,850)</u>	<u>(171,541)</u>
Ending fund balances	<u>\$2,154,664</u>	<u>\$2,335,021</u>	<u>\$2,119,194</u>	<u>\$841,344</u>	<u>669,803</u>
Allowable Stabilization Fund Balance	<u>\$3,945,820</u>	<u>\$4,292,382</u>	<u>\$4,546,976</u>	<u>\$4,382,687</u>	<u>4,546,502</u>

SOURCE: Office of the Comptroller.

LONG-TERM LIABILITIES

Contingent Liabilities

Massachusetts Development Finance Agency. Under legislation approved by the Governor in August, 2010, the Massachusetts Development Finance Agency (MassDevelopment) is authorized to issue bonds for the benefit of nonprofit community hospitals and nonprofit community health centers. Such bonds are to be secured by capital reserve funds funded at the time of bond issuance in an amount equal to the maximum annual debt service on the bonds. The legislation provides that MassDevelopment is to notify the Governor if any such capital reserve fund needs to be replenished, and that the Legislature is to appropriate the amount necessary to restore the fund to its required level. The legislation contains no limit on the amount of such bonds that may be issued. Any project to be financed by such bonds must be approved by the Secretary of Health and Human Services, and any loan to a community hospital or community health center (and the issuance and terms of the related bonds) must be approved by the Secretary of Administration and Finance. If any such institution defaults on a loan, any moneys in the custody of the Commonwealth that are payable to the institution may be withheld by the Commonwealth and used to pay debt service or to replenish the applicable capital reserve fund. If, following a Commonwealth transfer to replenish a capital reserve fund, the applicable institution fails to reimburse the Commonwealth within six months, the Commonwealth may withhold funds payable to the institution, and all contracts issued by the Group Insurance Commission, the Commonwealth Health Insurance Connector Authority and MassHealth to a third party for the purposes of providing health care insurance paid for by the Commonwealth are to provide that the third party is to withhold payments to the institution and transfer the withheld amounts to the Commonwealth. If, following a Commonwealth transfer to replenish a capital reserve fund, the Commonwealth has not been fully reimbursed within one year, MassDevelopment would be required to reimburse the Commonwealth according to a schedule to be determined by the Secretary of Administration and Finance.

COMMONWEALTH CAPITAL INVESTMENT PLAN

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

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

In October 2010, the Governor released a five-year capital investment plan for fiscal 2011 through fiscal 2015, totaling nearly \$18 billion. With the release of the five-year capital investment plan, the Governor announced that the bond cap will be \$1.625 billion for fiscal 2011, plus \$140 million in unused bond cap from fiscal 2010 which has been carried forward to support spending in fiscal 2011. The bond cap for fiscal 2012 is projected to be \$1.750 billion, and is projected to increase by \$125 million in each subsequent fiscal year through fiscal 2015.

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

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

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

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

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

	Bond Cap (in thousands)				
	<u>Fiscal 2011</u>	<u>Fiscal 2012</u>	<u>Fiscal 2013</u>	<u>Fiscal 2014</u>	<u>Fiscal 2015</u>
Bond Cap (1)	\$ 1,765,000	\$ 1,750,000	\$ 1,875,000	\$ 2,000,000	\$ 2,125,000
Total Debt Service Obligations	1,947,612	2,278,939	2,441,053	2,517,892	2,623,161
Estimated Budgeted Revenue	29,989,511	30,804,986	31,642,776	32,503,722	33,388,838
Debt Service as % of Budgeted Revenues	6.49%	7.40%	7.71%	7.75%	7.86%

SOURCE: Executive Office for Administration and Finance, Debt Affordability Analysis released October, 2010.

(1) Includes \$140 million of fiscal 2010 unused bond cap that has been carried forward to fiscal 2011.

Reflecting changed economic conditions, the total bond cap projected in the fiscal 2011 through fiscal 2015 five-year plan is \$1.045 billion less than the total bond cap projected in the fiscal 2008 through fiscal 2012 five-year capital plan.

In the past, the Commonwealth aggregated its capital expenditures into eight major categories based primarily on the agencies responsible for spending and carrying out capital projects: information technology, infrastructure and facilities, environment, housing, public safety, transportation, convention centers, other and school building assistance. The following table sets forth historical capital spending in fiscal 2006 through fiscal 2010 according to these categories.

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Commonwealth Historical Capital Spending (in millions)

Investment Category:	Fiscal 2006	Fiscal 2007	Fiscal 2008	Fiscal 2009	Fiscal 2010
Information technology	\$ 88	\$ 53	\$ 65	\$ 97	\$ 100
Infrastructure/facilities	283	271	186	333	391
Environment	142	153	188	246	158
Housing	129	140	172	252	318
Public safety	19	18	19	21	11
Transportation	1,189	1,120	1,109	1,388	1,694
Convention centers	12	2	-	-	5
Other	30	29	43	96	108
School building assistance	<u>435</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total (1)	<u>\$2,327</u>	<u>\$1,786</u>	<u>\$1,782</u>	<u>\$2,432</u>	<u>\$2,785</u>

SOURCE: Executive Office for Administration and Finance.

(1) Totals may not add due to rounding.

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

The capital investment plan for fiscal 2011 through fiscal 2015 is designed to allocate resources strategically to invest in the Commonwealth's public facilities and programs and represents the Governor's vision for public infrastructure. The following tables show the allocation of bond cap spending by major investment category and the allocation of total capital spending from all sources of funding by major investment category for fiscal 2011 through fiscal 2015.

Capital Investment Plan – Total Bond Cap (in millions)

Investment Category:	Fiscal 2011	Fiscal 2012	Fiscal 2013	Fiscal 2014	Fiscal 2015	5-Year Total	% of 5-Year Total
Community Investments	\$ 235	\$ 238	\$ 239	\$ 240	\$ 240	\$ 1,192	13%
Corrections	17	31	52	75	81	256	3%
Courts	75	51	53	107	131	417	4%
Economic Development	118	119	131	133	135	635	7%
Energy/Environment	110	101	104	106	108	528	6%
Health/Human Services	100	86	47	59	63	354	4%
Higher Education	134	166	262	259	259	1,080	11%
Housing	168	168	171	173	178	858	9%
Information Technology	97	83	84	87	89	441	5%
Public Safety	19	20	27	44	50	160	2%
State Buildings/Facilities	102	112	67	50	56	387	4%
Transportation	<u>589</u>	<u>574</u>	<u>638</u>	<u>669</u>	<u>736</u>	<u>3,206</u>	<u>34%</u>
Total (1)	<u>\$1,765</u>	<u>\$1,750</u>	<u>\$1,875</u>	<u>\$2,000</u>	<u>\$2,125</u>	<u>\$9,515</u>	<u>100%</u>

SOURCE: Executive Office for Administration and Finance, Five-Year Capital Investment Plan released October, 2010.

(1) Totals may not add due to rounding.

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

Investment Category:	<u>Fiscal 2011</u>	<u>Fiscal 2012</u>	<u>Fiscal 2013</u>	<u>Fiscal 2014</u>	<u>Fiscal 2015</u>	<u>5-Year Total</u>	<u>% of 5-Year Total</u>
Community Investments	\$ 299	\$ 284	\$ 278	\$ 277	\$ 276	\$ 1,414	8%
Corrections	17	31	52	75	81	256	1%
Courts	75	51	71	123	144	464	3%
Economic Development	204	194	191	183	185	956	5%
Energy/Environment	215	201	204	206	208	1,034	6%
Health/Human Services	100	88	54	64	68	373	2%
Higher Education	191	241	277	259	259	1,227	7%
Housing	323	240	171	173	178	1,085	6%
Information Technology	101	83	84	87	89	444	2%
Public Safety	33	30	38	49	50	201	1%
State Buildings/Facilities	102	112	67	50	56	387	2%
Transportation	<u>1,763</u>	<u>2,023</u>	<u>2,172</u>	<u>2,123</u>	<u>2,068</u>	<u>10,148</u>	<u>56%</u>
Total(1)	<u>\$3,423</u>	<u>\$3,578</u>	<u>\$3,660</u>	<u>\$3,667</u>	<u>\$3,661</u>	<u>\$17,990</u>	<u>100%</u>

SOURCE: Executive Office for Administration and Finance, Five-Year Capital Investment Plan released October, 2010.

(1) Totals may not add due to rounding.

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

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

The following table shows the sources of capital funds for fiscal 2010 and the estimated sources of funds for the next five fiscal years.

Capital Investment Plan – Sources of Funds (in millions)

<u>Fiscal Year</u>	<u>Bond Cap</u>	<u>Federal</u>	<u>Third Party</u>	<u>Project Financed</u>	<u>Accelerated Bridge Program</u>	<u>ARRA</u>	<u>Energy Efficiency</u>	<u>Total (1)</u>
2010	\$1,589	\$ 708	\$ 58	\$ 12	\$ 206	\$ 212	\$ -	\$ 2,785
2011	1,775	704	193	68	210	380	154	3,332
2012	1,750	725	243	152	294	192	83	3,354
2013	1,875	743	116	156	493	89	71	3,470
2014	2,000	752	49	193	605	-	-	3,599
2015	2,125	715	50	189	565	-	-	3,644

SOURCE: Executive Office for Administration and Finance.

(1) Totals may not add due to rounding.

LEGAL MATTERS

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

Health Care for All v. Romney, et al., United States District Court. Crucial aspects of the plan, including certain regulatory changes and the retention of a third-party administrator for the MassHealth dental plan, have already been implemented, but it is anticipated that ongoing compliance with the judgment will result in additional costs which cannot accurately be estimated at this time. Court oversight of the remediation plan is scheduled to end February 2011, but could be extended.

Rosie D., et al. v. The Governor, United States District Court, Western Division. In a memorandum of decision dated January 26, 2006, the District Court ruled in favor of a class of Medicaid-recipient children that the Commonwealth fails to provide the home- and community-based services required under the Early and Periodic Screening, Diagnosis and Treatment (“EPSDT”) provisions of the Medicaid Act. In February 2007, the District Court adopted the defendants’ proposed remedial plan, with some modifications, and, in July 2007, entered judgment in accordance with that plan, as modified. The Commonwealth did not appeal from that judgment and has begun implementation of its remedial plan. The plan originally contemplated full implementation by June 30, 2009, but, on the Commonwealth’s motion, the court modified the judgment to extend the date for full implementation to November 30, 2009. In January 2009, the Court allowed plaintiffs’ motion for \$7 million in legal fees. The cost of implementation is likely to exceed \$20 million annually beginning in fiscal 2009. Although in fiscal 2009 the Commonwealth paid the plaintiffs’ attorneys approximately \$7.1 million in court-approved fees, plaintiffs are entitled to submit additional petitions for recovery of attorneys’ fees incurred post-judgment (*e.g.*, for monitoring activity), through the end of the remedial plan implementation period (July, 2012). In late May 2010, plaintiffs moved the court for payment of approximately \$1.48 million in attorneys’ fees for monitoring the implementation of the judgment during the period from January 1, 2007, through June 30, 2009. Defendants’ counsel has filed an objection to approximately \$250,000 of the fees requested.

Harper et al. v. Massachusetts Department of Transitional Assistance, United States District Court. As the result of an August 2010 court order, the case is stayed while the parties engage in mediation.

Kristy Didonato, et al. v. Department of Transitional Assistance, et al. (Didonato I and Didonato II), Massachusetts Housing Court Western Division. A hearing on the motion to amend was held on June 17, 2010. The court took the matter under advisement and has not yet issued a ruling.

Finch, et al. v. Health Insurance Connector Authority, et al., Supreme Judicial Court for Suffolk County. This lawsuit, filed directly in the Supreme Judicial Court single justice session, challenges, under the state Equal Protection Clause, a statute enacted in August 2009 that excludes from the Commonwealth Care program, run by the Connector Authority, those individuals who are alien residents with special status (AWSS). Many members of the AWSS population are otherwise eligible for subsidized insurance through the Commonwealth Care program. Because the Commonwealth does not receive federal Medicaid funds for these individuals (unlike other members of Commonwealth Care), the Legislature effectively reduced the Connector Authority’s budget by excluding this group of members. The Commonwealth then established a less expensive program to cover much of the AWSS population with health insurance. The lawsuit does not ask for retroactive relief, but seeks to have the individuals reinstated to the Commonwealth Care program. While no opinion on the likelihood of loss is expressed, if plaintiffs succeed on their claims, and the Legislature makes no other changes to eligibility requirements, the Commonwealth could incur more than \$100 million in additional costs for covering special status immigrants through Commonwealth Care per fiscal year. This is a conservative estimate based on projected average program costs and will be refined as updated cost and enrollment information for special status immigrants becomes available.

In re: Centers for Medicare and Medicaid Services regulations (Uncompensated Care Pool/Health Safety Net Trust Fund). By the end of pool fiscal year 2011, the Commonwealth will have collected an estimated \$4.997 billion in acute hospital assessments since 1990 and an estimated \$1.877 billion in surcharge payments since 1998. Clarification of the law surrounding permissible provider taxes is a national issue involving a number of states.

In re: Deferral of 2005 MassHealth acute hospital supplemental payments. In March, 2006, CMS deferred payment of claims for federal financial participation (“FFP”) totaling almost \$52.5 million. This amount represents the federal share of the portion of MassHealth supplemental payments to Boston Medical Center (“BMC”), Cambridge Health Alliance (“CHA”) and UMass Memorial Health Care, Inc. (“UMMHC”) hospitals attributable to dates of service on or before fiscal 2003. CMS released \$16.4 million in FFP for payments to BMC and CHA and is holding \$27 million in FFP for payments to UMMHC. EOHHS returned \$9 million in FFP based on its own update of projected payment limits.

In re: Disallowance by the U. S. Department of Health and Human Services Centers of Medicare and Medicaid Services (Targeted Case Management). On March 20, 2008, the Centers for Medicare and Medicaid Services (CMS) issued a notice of disallowance of \$86,645,347 in Federal Financial Participation (FFP) for fiscal 2002 and fiscal 2003. As the basis for the disallowance, CMS cited the final findings of an audit conducted by the Office of the Inspector General of the U. S. Department of Health and Human Services regarding Medicaid targeted case management claims for children in the target group of abused or neglected children involved with the Department of Social Services. The Commonwealth appealed the CMS disallowance to the Departmental Appeal Board of the U. S. Department of Health and Human Services. On December 31, 2008, the Departmental Appeals Board affirmed the disallowance. The Commonwealth filed an appeal of the disallowance in federal district court on February 25, 2009. (See *Commonwealth v. Sebelius* below.)

Commonwealth v. Sebelius, United States District Court (referred to as *Commonwealth v. Johnson* in the June Information Statement). The Attorney General filed this action seeking judicial review of the decision by the federal Centers for Medicare and Medicaid Services (CMS) to deny approximately \$86.6 million FFP for targeted case management (TCM) services provided by the Department of Children and Families (formerly the Department of Social Services). On March 24, 2010, the District Court entered judgment for the United States. On May 20, 2010, the Commonwealth filed its appeal with the United States Court of Appeals for the First Circuit. The parties have since reached a settlement in principle, whereby the Commonwealth will stipulate to dismissal of the appeal in exchange for CMS’s waiver of future disallowances for periods after fiscal 2003. The settlement should be finalized in September 2010, at which point the district court’s judgment upholding the \$86,645,347 disallowance will be final.

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 filed suit in July 2009 claiming that they are owed at least \$127.6 million, plus interest, for fiscal 2009. First, plaintiffs allege that the Commonwealth was obligated to set higher Medicaid reimbursement rates for services provided to Medicaid clients by the Boston Medical Center hospital and managed care organization entities and that, if the rates for that year were increased to levels that BMC seeks, it would be entitled to an additional \$120.9 million for fiscal 2009. Second, BMC also alleges that it is entitled to an additional \$6.7 million in net supplemental payments for fiscal 2009 under St. 2006, c. 58, § 122, the so-called Health Care Reform Act. Defendant filed an Answer denying all claims. A hearing on the Defendant’s motion to dismiss all claims was held September 29, 2010.

Holyoke Medical Center, Inc., et al. v. Secretary of the Executive Office of Health & Human Services, Suffolk Superior Court. Six community hospitals that mainly serve patients covered by state and federal public insurance plans filed suit in December 2009 claiming that they are owed at least \$115.9 million by the Commonwealth’s Medicaid program. Plaintiffs allege that the Commonwealth was obligated to set higher Medicaid reimbursement rates for services provided to Medicaid clients by the six plaintiff hospitals. A hearing on the Defendant’s motion to dismiss all claims is scheduled for December 13, 2010.

Carol Surprenant v. Massachusetts Turnpike Authority, Massachusetts Port Authority, and Massachusetts Department of Transportation. United States District Court. Plaintiff originally sued the Massachusetts Turnpike Authority (MTA) and the Massachusetts Port Authority (MassPort) on behalf of a purported “class” consisting of all toll-payers at the Tobin Memorial Bridge and the Sumner and Ted Williams Tunnels who use E-Z Pass or Fast Lane transponders but do not qualify for the so-called “Resident Discount Programs.” The plaintiff claims that the “Resident Discount Programs” are unconstitutional. The MTA and MassPort filed a motion to dismiss the complaint. On March 4, 2010, the court allowed, in part, their motion to dismiss under the federal Privileges and Immunities Clause and denied it, in part, as to the claim under the federal Commerce Clause. The Court authorized a 90 day period for discovery, followed by supplemental briefing. On April 5, 2010, plaintiff filed her first amended complaint, adding the Massachusetts Department of Transportation (“MassDOT”) as a defendant. MassDOT answered the amended complaint by denying all claims, and by asserting that the claims against it are barred by the Commonwealth’s sovereign immunity, and by the fact that neither the Commonwealth nor MassDOT is subject to

suit under 42 U.S.C. § 1983. The Court has scheduled a hearing on the motion for judgment on the pleadings for November 23, 2010.

Wellesley College v. Commonwealth, Suffolk Superior Court. Wellesley College has claimed a right of contribution from the Commonwealth and reserved potential counterclaims for costs related to the clean-up of environmental contamination on the Wellesley College campus and adjacent areas, including Lake Waban (the “Site”). In September, 2001, the Court entered judgment incorporating a partial settlement between the parties, under which the College funded a clean-up of hazardous materials at the campus and the northern shoreline of Lake Waban that is expected to cost approximately \$40 million. The judgment has since been amended by agreement of the parties and with approval of the court. Under the terms of the partial settlement and judgment, the Commonwealth has reimbursed the college approximately \$1.1 million (approximately 2.5% of total clean-up costs) from an escrow account after the Department of Environmental Protection (DEP) determined that a portion of the Lake Waban shoreline clean-up was properly performed. The Commonwealth and the College have each reserved rights against the other concerning liability for future clean-up costs for portions of the Site not covered by the partial settlement. Other issues that may lead to counterclaims by the College against the Commonwealth or its agencies include (1) groundwater contamination, estimated to cost \$2 million or more depending on future decisions by DEP on appropriate clean-up; (2) clean-up of Lake Waban itself, for which DEP has now approved a temporary solution, reviewable every five years; and (3) clean-up of contaminated sediments in Lower Waban Brook. (If a full clean-up of the lake is required in the future, it could cost up to \$100 million.)

Perini Corp., Kiewit Constr. Corp., Jay Cashman, Inc., d/b/a Perini - 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 \$130 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 \$62 million on claims of approximately \$92 million. Those decisions are now the subject of further court proceedings. Plaintiffs also still have in excess of \$72 million in claims pending.

TJX Companies v. Commissioner of Revenue (“TJX II”), Appeals Court. In *TJX II*, the taxpayer challenged a tax liability of approximately \$18 million (including interest) arising from the Commissioner’s disallowance of deductions for various royalty payments and interest taken in connection with transactions between several subsidiaries of the taxpayer. The Appellate Tax Board decided *TJX II* in favor of the Commissioner, and the taxpayer appealed. The Appeals Court affirmed the decision of the Appellate Tax Board in an unpublished decision dated July 23, 2010.

Local 589, Amalgamated Transit Union, et al. v. Commonwealth of Massachusetts, et al., Suffolk Superior Court. A Superior Court hearing on the parties’ cross-motions for summary judgment is currently scheduled for October 7, 2010.

Commonwealth of Massachusetts v. Philip Morris Inc., RJ Reynolds Tobacco Company, Lorillard Tobacco Company, et al. (2003 NPM Adjustment) In early July, 2010, the three judge panel of arbitrators was seated to hear the 2003 NPM Adjustment arbitration between Massachusetts and the other states on one side, and the participating cigarette manufacturers on the other side. On July 20, 2010, the panel conducted its first administrative conference with all parties, and has scheduled resolution of certain preliminary jurisdictional issues raised by other parties. The next hearing has been scheduled for October 5, 2010, with an agenda yet to be determined by the panel. The parties anticipate that the panel will identify, during the October 5, 2010 hearing, other preliminary legal issues that the panel wishes to have briefed for its determination in the coming months.

Connor B., ex rel. Vigurs, et al. v. Patrick, et al., United States District Court, Western Division. On August 20, 2010, defendants filed a motion to dismiss the entire complaint. The court has not yet issued a ruling.

Vodafone Americas, Inc. v. Commissioner of Revenue, Appellate Tax Board. The trial date is scheduled for January 19, 2011.

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 June 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 June 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 June 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 June 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 June 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 June 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 June 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 June 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/ Timothy P. Cahill
Timothy P. Cahill
Treasurer and Receiver-General

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

November 10, 2010