

NEW ISSUE - BOOK-ENTRY-ONLY

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

THE COMMONWEALTH OF MASSACHUSETTS



\$1,107,090,000

General Obligation Bonds Consolidated Loan of 2007, Series C

The Bonds will be issued by means of a book-entry-only system evidencing ownership and transfer of the Bonds on the records of The Depository Trust Company, New York, New York ("DTC"), and its participants. Details of payment of the Bonds are more fully described in this Official Statement. The Bonds will bear interest from their date of delivery and interest will be payable on February 1, 2008 and semiannually thereafter on August 1 and February 1, calculated on the basis of a 360-day year of twelve 30-day months. The Bonds are subject to redemption prior to maturity as more fully described herein.

The Bonds will constitute general obligations of The Commonwealth of Massachusetts (the "Commonwealth"), and the full faith and credit of the Commonwealth will be pledged to the payment of the principal of and interest on the Bonds. However, for information regarding certain statutory limits on state tax revenue growth and on expenditures for debt service, see "SECURITY FOR THE BONDS" (herein) and the Commonwealth Information Statement (described herein) under the headings "COMMONWEALTH REVENUES – Limitations on Tax Revenues" and "LONG-TERM LIABILITIES – General Authority to Borrow; Limit on Debt Service Appropriations."

The Bonds are offered when, as and if issued and received by the Underwriters, and subject to the unqualified approving opinion as to legality of Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., Boston, Massachusetts, Bond Counsel. Certain legal matters will be passed upon for the Commonwealth by Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., Boston, Massachusetts, Disclosure Counsel. Certain legal matters will be passed upon for the Underwriters by their counsel, Nutter McClennen & Fish LLP, Boston, Massachusetts. The Bonds are expected to be available for delivery at DTC in New York, New York, on or about August 16, 2007.

Merrill Lynch & Co.

**Bear, Stearns & Co. Inc.
Lehman Brothers**

Citi

**JPMorgan
UBS Investment Bank**

**A.G. Edwards & Sons, Inc.
Corby Capital Markets, Inc.
Finacorp Securities
Loop Capital Markets, LLC
Morgan Keegan & Company, Inc.
Raymond James & Associates, Inc**

**Banc of America Securities LLC
Eastern Bank Capital Markets
First Albany Capital Inc.
M.R. Beal & Company
RBC Capital Markets
Southwest Securities Inc.
Wachovia Bank, N.A.**

**Cabrera Capital Markets, Inc.
Fidelity Capital Markets Services
Goldman, Sachs & Co.
Melvin & Company
Ramirez & Co., Inc.
Sovereign Securities Corporation, LLC**

August 8, 2007

THE COMMONWEALTH OF MASSACHUSETTS
\$1,107,090,000
General Obligation Bonds
Consolidated Loan of 2007, Series C

Dated: Date of Delivery

Due: August 1, as shown below

\$583,865,000 Serial Bonds

<u>Maturity</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Price or Yield</u>	<u>CUSIP Number*</u>
2008	\$14,300,000	4.00%	3.64%	57582PEW6
2009	15,160,000	4.00	3.68	57582PEX4
2010	13,140,000	4.00	3.74	57582PEY2
2011†	19,495,000	4.00	3.79	57582PEZ9
2012†	19,625,000	4.00	3.86	57582PFA3
2013†	16,735,000	4.00	3.91	57582PFB1
2014†	12,285,000	4.00	3.97	57582PFC9
2015†	14,945,000	4.00	4.02	57582PFD7
2016†	17,605,000	4.00	4.08	57582PFE5
2017†	12,785,000	4.125	4.14	57582PFF2
2018†	7,755,000	4.20	4.20	57582PFG0
2019†	31,000,000	5.00	4.28 ^C	57582PFH8
2020†	32,000,000	5.00	4.33 ^C	57582PFJ4
2021‡	34,000,000	5.25	4.33 ^C	57582PFK1
2022†	3,090,000	4.375	4.38	57582PFL9
2022†	53,000,000	5.25	4.35 ^C	57582PFM7
2023†	58,000,000	5.25	4.36 ^C	57582PFN5
2024†	59,000,000	5.25	4.39 ^C	57582PFP0
2025†	61,000,000	5.25	4.41 ^C	57582PFQ8
2026†	43,000,000	5.00	4.47 ^C	57582PFR6
2027†	1,945,000	4.50	4.49 ^C	57582PFS4
2027†	44,000,000	5.00	4.49 ^C	57582PFT2

\$5,225,000 4.625% Term Bonds Due August 1, 2032† to Yield 4.75% - CUSIP Number*: 57582PFU9

\$130,000,000 4.75% Term Bonds Due August 1, 2032† to Yield 4.75% - CUSIP Number*: 57582PFV7

\$50,000,000 5.00% Term Bonds Due August 1, 2032‡ to Yield 4.56%^C - CUSIP Number*: 57582PFW5

\$338,000,000 5.00% Term Bonds Due August 1, 2037‡ to Yield 4.60%^C - CUSIP Number*: 57582PFX3

* Copyright, American Bankers Association. CUSIP data herein are provided by Standard & Poor's, CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. The CUSIP numbers listed above are being provided solely for the convenience of Bondowners only at the time of issuance of the Bonds and the Commonwealth does not make any representation with respect to such numbers or undertake any responsibility for their accuracy now or at any time in the future. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of such maturity or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Bonds.

C Priced at the stated yield to the August 1, 2017 optional redemption date at a redemption price of 100%. See "The Bonds – Redemption" herein.

† Insured by FSA. See "Bond Insurance – FSA Insured Bonds."

‡ Insured by Ambac. See "Bond Insurance – Ambac Insured Bonds."

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

THE UNDERWRITERS HAVE PROVIDED THE FOLLOWING SENTENCE FOR INCLUSION IN THIS OFFICIAL STATEMENT: THE UNDERWRITERS HAVE REVIEWED THE INFORMATION IN THIS OFFICIAL STATEMENT IN ACCORDANCE WITH, AND AS PART OF, THEIR RESPECTIVE RESPONSIBILITIES TO INVESTORS UNDER THE FEDERAL SECURITIES LAWS AS APPLIED TO THE FACTS AND CIRCUMSTANCES OF THIS TRANSACTION, BUT THE UNDERWRITERS DO NOT GUARANTEE THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION.

IN CONNECTION WITH THIS OFFERING THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS OFFERED HEREBY AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL ON THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

Other than with respect to information concerning Financial Security Assurance Inc. (“Financial Security”) contained under the caption “BOND INSURANCE” and Appendix D -- Specimen Bond Insurance Policies herein, none of the information in this Official Statement has been supplied or verified by Financial Security and Financial Security makes no representation or warranty, express or implied, as to (i) the accuracy or completeness of such information; (ii) the validity of the Bonds; or (iii) the tax exempt status of the interest on the Bonds.

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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
Salvatore F. DiMasiSpeaker of the House

OFFICIAL STATEMENT

THE COMMONWEALTH OF MASSACHUSETTS

\$1,107,090,000
General Obligation Bonds
Consolidated Loan of 2007, Series C

INTRODUCTION

This Official Statement (including the cover page and Appendices A through D attached hereto) provides certain information in connection with the issuance by The Commonwealth of Massachusetts (the "Commonwealth") of its \$1,107,090,000 aggregate principal amount of General Obligation Bonds, Consolidated Loan of 2007, Series C (the "Bonds"). The Bonds will be general obligations of the Commonwealth, and the full faith and credit of the Commonwealth will be pledged to the payment of the principal of and interest on the Bonds. However, for information regarding certain statutory limits on state tax revenue growth and expenditures for debt service, see "SECURITY FOR THE BONDS" and the Commonwealth Information Statement (described below) under the headings "COMMONWEALTH REVENUES – Limitations on Tax Revenues" and "LONG-TERM LIABILITIES – General Authority to Borrow; Limit on Debt Service Appropriations."

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

Payment of the principal of and interest on certain of the Bonds when due will be insured by a municipal bond insurance policy issued by Financial Security Assurance Inc. ("FSA" or "Financial Security") or a financial guaranty insurance policy issued by Ambac Assurance Corporation ("Ambac" or "Ambac Assurance") as set forth on the inside cover hereof. See "BOND INSURANCE."

Purpose and Content of Official Statement

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

Specific reference is made to the Commonwealth's Information Statement dated May 9, 2007 (the "May Information Statement"), as it appears as Appendix A in the Official Statement dated May 9, 2007 of the Commonwealth with respect to the Commonwealth's \$498,565,000 General Obligation Bonds, Consolidated Loan of 2007, Series A, and its \$553,135,000 General Obligation Refunding Bonds, 2007 Series A, a copy of which has been filed with each Nationally Recognized Municipal Securities Information Repository currently recognized by the Securities and Exchange Commission and with the Municipal Securities Rulemaking Board. The information contained in the May Information Statement has been supplemented by the Commonwealth's Information Statement Supplement dated August 8, 2007 (the "August Supplement"), which is attached hereto as Appendix A. The May Information Statement together with and as supplemented by the August Supplement is referred to herein as the "Commonwealth Information Statement."

The Commonwealth Information Statement contains certain fiscal, budgetary, financial and other general information concerning the Commonwealth. Exhibit A to the Commonwealth Information Statement contains certain economic information concerning the Commonwealth. Exhibit B to the Commonwealth Information Statement contains the financial statements of the Commonwealth for the fiscal year ended June 30, 2006, prepared on a statutory basis. Exhibit C to the Commonwealth Information Statement contains the financial statements of the Commonwealth for the fiscal year ended June 30, 2006, prepared on a GAAP basis. Specific reference is made to said Exhibits A, B and C, copies of which have been filed with each Nationally Recognized Municipal Securities Information Repository currently recognized by the Securities and Exchange

Commission. The financial statements are also available at the home page of the Comptroller of the Commonwealth located at <http://www.mass.gov/osc> by clicking on “Financial Reports/Audits.”

Appendix B attached hereto contains the proposed form of legal opinion of Bond Counsel with respect to the Bonds. Appendix C attached hereto contains the proposed form of the Commonwealth’s continuing disclosure undertaking to be included in the form of the Bonds to facilitate compliance by the Underwriters of the Bonds with the requirements of paragraph (b)(5) of Rule 15c2-12 of the Securities and Exchange Commission. Appendix D attached hereto sets forth specimen bond insurance policies of Financial Security Assurance Inc. and Ambac Assurance Corporation.

THE BONDS

General

The Bonds will mature on August 1 in the years and in the aggregate principal amounts, and shall bear interest at the rates per annum (calculated on the basis of a 360-day year of twelve 30-day months), as set forth on the inside cover page of this Official Statement. The Bonds will be dated their date of delivery and will bear interest from such date. Interest on the Bonds will be payable semiannually on February 1 and August 1 of each year, commencing February 1, 2008, until the principal amount is paid. The Commonwealth will act as its own paying agent with respect to the Bonds. The Commonwealth reserves the right to appoint from time to time a paying agent or agents or bond registrar for the Bonds.

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

Redemption

Optional Redemption. The Bonds maturing on or before August 1, 2017 will not be subject to redemption prior to maturity. The Bonds maturing on and after August 1, 2018 will be subject to redemption on any date prior to their stated maturity dates on and after August 1, 2017 at the option of the Commonwealth from any monies legally available therefor, in whole or in part at any time, by lot, at 100% of the principal amount thereof, plus accrued interest to the redemption date.

Mandatory Sinking Fund Redemption. The Bonds maturing on August 1, 2032 and August 1, 2037 are subject to mandatory sinking fund redemption in part by lot at a redemption price equal to 100% of the principal amount of the Bonds to be redeemed, plus accrued interest thereon to the date specified for redemption on August 1 in each of the years set forth in the following tables, in the principal amount specified in each such year:

\$5,225,000 4.625% Term Bonds Due August 1, 2032

<u>Year</u>	<u>Amount</u>	<u>Year</u>	<u>Amount</u>
2028	\$1,045,000	2031	\$1,045,000
2029	1,045,000	2032†	1,045,000
2030	1,045,000		

† Stated Maturity.

\$130,000,000 4.75% Term Bonds Due August 1, 2032

<u>Year</u>	<u>Amount</u>	<u>Year</u>	<u>Amount</u>
2028	\$26,000,000	2031	\$26,000,000
2029	26,000,000	2032†	26,000,000
2030	26,000,000		

† Stated Maturity.

\$50,000,000 5.00% Term Bonds Due August 1, 2032

<u>Year</u>	<u>Amount</u>	<u>Year</u>	<u>Amount</u>
2028	\$10,000,000	2031	\$10,000,000
2029	10,000,000	2032†	10,000,000
2030	10,000,000		

† Stated Maturity.

\$338,000,000 5.00% Term Bonds Due August 1, 2037

<u>Year</u>	<u>Amount</u>	<u>Year</u>	<u>Amount</u>
2033	\$61,000,000	2036	\$71,000,000
2034	64,000,000	2037†	75,000,000
2035	67,000,000		

† Stated Maturity.

The Commonwealth is entitled to reduce its mandatory sinking fund redemption obligation in any year with respect to the Bonds by the principal amount of any Bonds previously purchased or optionally redeemed by the Commonwealth.

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

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

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

Application of Proceeds of the Bonds

The Bonds are being issued pursuant to the provisions of Section 49 of Chapter 29 of the Massachusetts General Laws and specific bond authorizations enacted by the Legislature. The net proceeds of

the sale of the Bonds, including any premium received by the Commonwealth upon original delivery of the Bonds, will be applied by the Treasurer and Receiver-General of the Commonwealth to the various purposes for which the issuance of bonds has been authorized pursuant to such special laws, or to reimburse the Commonwealth's treasury for expenditures previously made pursuant to such laws. Any remaining premium received by the Commonwealth upon original delivery of the Bonds and not applied to the various purposes for which bonds have been authorized will be applied to the costs of issuance thereof and other financing costs related thereto or, without appropriation, to the payment of the principal of or sinking fund installments with respect to the Bonds.

The purposes for which the Bonds will be issued have been authorized by the Legislature under various bond authorizations. The proceeds will be used to finance or reimburse the Commonwealth for a variety of capital expenditures that are included within the current capital spending plan established by the Executive Office for Administration and Finance. The plan, which is an administrative guideline and is subject to amendment at any time, sets forth capital spending allocations and establishes annual capital spending limits. See the Commonwealth Information Statement under the heading "COMMONWEALTH CAPITAL ASSET INVESTMENT PLAN."

SECURITY FOR THE BONDS

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

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

BOND INSURANCE

Financial Security Assurance Inc. ("Financial Security") has made a commitment to issue a municipal bond insurance policy (the "Financial Security Policy") relating to a portion of the Bonds as indicated on the inside cover page (the "FSA Insured Bonds"), effective as of the date of issuance of the Bonds. Ambac Assurance Corporation ("Ambac Assurance") has made a commitment to issue a financial guaranty insurance policy (the "Ambac Assurance Policy") relating to a portion of the Bonds as indicated on the inside cover page (the "Ambac Insured Bonds"), effective as of the date of issuance of the Bonds. Certain information appears below regarding payment of the FSA Insured Bonds pursuant to the Financial Security Policy and Financial Security and regarding payment of the Ambac Insured Bonds pursuant to the Ambac Assurance Policy and Ambac Assurance. Such information has been supplied by Financial Security and Ambac Assurance, respectively, for inclusion in this Official Statement. No representations are made by the Commonwealth or the Underwriters as to the accuracy or completeness of such information.

FSA Insured Bonds

Bond Insurance Policy. The Financial Security Policy guarantees the scheduled payment of principal of and interest on the FSA Insured Bonds when due as set forth in the form of the Financial Security Policy included in Appendix D to this Official Statement.

The Financial Security Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

Financial Security Assurance Inc. Financial Security is a New York domiciled financial guaranty insurance company and a wholly owned subsidiary of Financial Security Assurance Holdings Ltd. (“Holdings”). Holdings is an indirect subsidiary of Dexia, S.A., a publicly held Belgian corporation, and of Dexia Credit Local, a direct wholly-owned subsidiary of Dexia, S.A. Dexia, S.A., through its bank subsidiaries, is primarily engaged in the business of public finance, banking and asset management in France, Belgium and other European countries. No shareholder of Holdings or Financial Security is liable for the obligations of Financial Security.

At March 31, 2007, Financial Security’s combined policyholders’ surplus and contingency reserves were approximately \$2,601,527,000 and its total net unearned premium reserve was approximately \$2,089,989,000 in accordance with statutory accounting principles. At March 31, 2007, Financial Security’s consolidated shareholder’s equity was approximately \$2,753,483,000 and its total net unearned premium reserve was approximately \$1,649,524,000 in accordance with generally accepted accounting principles.

The consolidated financial statements of Financial Security included in, or as exhibits to, the annual and quarterly reports filed after December 31, 2006 by Holdings with the Securities and Exchange Commission are hereby incorporated by reference into this Official Statement. All financial statements of Financial Security included in, or as exhibits to, documents filed by Holdings pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 after the date of this Official Statement and before the termination of the offering of the FSA Insured Bonds shall be deemed incorporated by reference into this Official Statement. Copies of materials incorporated by reference will be provided upon request to Financial Security Assurance Inc.: 31 West 52nd Street, New York, New York 10019, Attention: Communications Department (telephone (212) 826-0100).

The Financial Security Policy does not protect investors against changes in market value of the FSA Insured Bonds, which market value may be impaired as a result of changes in prevailing interest rates, changes in applicable ratings or other causes. Financial Security makes no representation regarding the FSA Insured Bonds or the advisability of investing in the FSA Insured Bonds. Financial Security makes no representation regarding the Official Statement, nor has it participated in the preparation thereof, except that Financial Security has provided to the Commonwealth the information presented under this caption for inclusion in the Official Statement.

Ambac Insured Bonds

Payment Pursuant to Ambac Assurance Insurance Policy. Under the terms of the Ambac Assurance Policy, Ambac Assurance will pay to The Bank of New York, in New York, New York, or any successor thereto (the “Insurance Trustee”), that portion of the principal of and interest on the Ambac Insured Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor (as such terms are defined in the Ambac Assurance Policy). Ambac Assurance will make such payments to the Insurance Trustee on the later of the date on which such principal and/or interest becomes Due for Payment or within one business day following the date on which Ambac Assurance shall have received notice of Nonpayment from the Commonwealth, as paying agent. The insurance will extend for the term of the Ambac Insured Bonds and, once issued, cannot be canceled by Ambac Assurance.

The Ambac Assurance Policy will insure payment only on stated maturity dates and on mandatory sinking fund installment dates, in the case of principal, and on stated dates for payment, in the case of interest.

If the Ambac Insured Bonds become subject to mandatory redemption and insufficient funds are available for redemption of all outstanding Ambac Insured Bonds, Ambac Assurance will remain obligated to pay the principal of and interest on outstanding Ambac Insured Bonds on the originally scheduled interest and principal payment dates, including mandatory sinking fund redemption dates. In the event of any acceleration of the principal of the Ambac Insured Bonds, the insured payments will be made at such times and in such amounts as would have been made had there not been an acceleration, except to the extent that Ambac Assurance elects, in its sole discretion, to pay all or a portion of the accelerated principal and interest accrued thereon to the date of acceleration (to the extent unpaid by the Obligor). Upon payment of all such accelerated principal and interest accrued to the acceleration date, Ambac Assurance's obligations under the Ambac Assurance Policy shall be fully discharged.

In the event the Commonwealth has notice that any payment of principal of or interest on a Ambac Insured Bond that has become Due for Payment and that is made to a holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code in accordance with a final, non-appealable order of a court of competent jurisdiction, such registered owner will be entitled to payment from Ambac Assurance to the extent of such recovery if sufficient funds are not otherwise available.

The Ambac Assurance Policy does not insure any risk other than Nonpayment (as set forth in the Ambac Assurance Policy). Specifically, the Ambac Assurance Policy does not cover:

1. payment on acceleration, as a result of a call for redemption (other than mandatory sinking fund redemption) or as a result of any other advancement of maturity;
2. payment of any redemption, prepayment or acceleration premium; and
3. nonpayment of principal or interest caused by the insolvency or negligence of any trustee, paying agent or bond registrar, if any.

If it becomes necessary to call upon the Ambac Assurance Policy, payment of principal requires surrender of the Ambac Insured Bonds to the Insurance Trustee together with an appropriate instrument of assignment so as to permit ownership of such Ambac Insured Bonds to be registered in the name of Ambac Assurance to the extent of the payment under the Ambac Assurance Policy. Payment of interest pursuant to the Ambac Assurance Policy requires proof of holder entitlement to interest payments and an appropriate assignment of the holder's right to payment to Ambac Assurance.

Upon payment of the insurance benefits, Ambac Assurance will become the owner of the Ambac Insured Bond, appurtenant coupon, if any, or right to payment of the principal of or interest on such Ambac Insured Bond and will be fully subrogated to the surrendering holder's rights to payment.

Ambac Assurance Corporation. Ambac Assurance is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin, and is licensed to do business in 50 states, the District of Columbia, the Territory of Guam, the Commonwealth of Puerto Rico and the U.S. Virgin Islands, with admitted assets of approximately \$10,194,000,000 (unaudited) and statutory capital of approximately \$6,557,000,000 (unaudited) as of March 31, 2007. Statutory capital consists of Ambac Assurance's policyholders' surplus and statutory contingency reserve. Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., Moody's Investors Service, Inc. and Fitch Ratings have each assigned a triple-A financial strength rating to Ambac Assurance.

Ambac Assurance has obtained a ruling from the Internal Revenue Service to the effect that the insuring of an obligation by Ambac Assurance will not affect the treatment for federal income tax purposes of interest on such obligation and that insurance proceeds representing maturing interest paid by Ambac Assurance under policy provisions substantially identical to those contained in the Ambac Assurance Policy shall be treated for federal income tax purposes in the same manner as if such payments were made by the Obligor.

Ambac Assurance makes no representation regarding the Ambac Insured Bonds or the advisability of investing in the Ambac Insured Bonds and makes no representation regarding, nor has it participated in the preparation of, this Official Statement other than the information supplied by Ambac Assurance and presented under the heading “BOND INSURANCE – Ambac Insured Bonds.”

Available Information. The parent company of Ambac Assurance, Ambac Financial Group, Inc. (the “Company”), is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the “SEC”). These reports, proxy statements and other information can be read and copied at the SEC’s public reference room at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. The SEC maintains an internet site at <http://www.sec.gov> that contains reports, proxy and information statements and other information regarding companies that file electronically with the SEC, including the Company. These reports, proxy statements and other information can also be read at the offices of the New York Stock Exchange, Inc., 20 Broad Street, New York, New York 10005.

Copies of Ambac Assurance’s financial statements prepared in accordance with statutory accounting standards are available from Ambac Assurance. The address of Ambac Assurance’s administrative offices is One State Street Plaza, 19th Floor, New York, New York 10004, and its telephone number is (212) 668-0340.

Incorporation of Certain Documents by Reference. The following documents filed by the Company with the SEC (File No. 1-10777) are incorporated by reference in this Official Statement:

1. The Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2006 and filed on March 1, 2007;
2. The Company’s Current Report on Form 8-K dated and filed on April 25, 2007;
3. The Company’s Quarterly Report on Form 10-Q for the fiscal quarterly period ended March 31, 2007 and filed on May 10, 2007;
4. The Company’s Current Report on Form 8-K dated and filed on July 25, 2007; and
5. The Company’s Current Report on Form 8-K dated and filed on August 3, 2007.

All documents subsequently filed by the Company pursuant to the requirements of the Exchange Act after the date of this Official Statement will be available for inspection in the same manner as described above in “Available Information.”

LITIGATION

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

There are pending in courts within the Commonwealth various suits in which the Commonwealth is a defendant. In the opinion of the Attorney General, no litigation is pending or, to her knowledge, threatened which is likely to result, either individually or in the aggregate, in final judgments against the Commonwealth that would affect materially its financial condition. For a description of certain litigation affecting the Commonwealth, see the Commonwealth Information Statement under the heading “LEGAL MATTERS.”

BOOK-ENTRY-ONLY SYSTEM

The Depository Trust Company, New York, New York, will act as securities depository for the Bonds. The Bonds will initially be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond will be issued for each maturity set forth on the inside cover page hereof, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC holds securities that its participants (the "DTC Participants") deposit with DTC. DTC also facilitates the post-trade settlement among DTC Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between DTC Participants' accounts. This eliminates the need for physical movement of securities certificates. DTC Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of the DTC Participants and members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation and Emerging Markets Clearing Corporation (NSCC, GSCC, MBSCC and EMCC, respectively, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange, LLC and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a DTC Participant, either directly or indirectly (the "Indirect Participants"). The rules applicable to DTC and the DTC Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

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

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

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

Neither DTC nor Cede & Co. (or other such nominee) will consent or vote with respect to the Bonds. Under its usual procedures, DTC mails an omnibus proxy to the Commonwealth as soon as possible after the record date. The omnibus proxy assigns Cede & Co.'s consenting or voting rights to those DTC Participants

having the Bonds credited to their accounts on the record date (identified in a listing attached to the omnibus proxy).

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

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

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

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

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the Commonwealth. Under such circumstances, in the event that a successor depository is not obtained, Bonds will be delivered and registered as designated by the Beneficial Owners. The Beneficial Owner, upon registration of Bonds held in the Beneficial Owner's name, will become the Bondowner.

The Commonwealth may decide to discontinue the use of the system of book-entry transfers through DTC (or a successor securities depository). In such event, Bonds will be delivered and registered as designated by the Beneficial Owners.

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

RATINGS

The Bonds, other than the FSA Insured Bonds and the Ambac Insured Bonds, have been assigned ratings of "AA," "Aa2" and "AA" by Fitch Ratings ("Fitch"), Moody's Investors Service, Inc. ("Moody's") and Standard & Poor's Ratings Services ("Standard & Poor's"), respectively.

The FSA Insured Bonds and the Ambac Insured Bonds have been assigned ratings of “AAA,” “Aaa” and “AAA” by Fitch, Moody’s and Standard & Poor’s, respectively, based upon, and solely as the result of, the municipal bond insurance policies provided by Financial Security and Ambac Assurance. See “BOND INSURANCE” and Appendix D.

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

UNDERWRITING

The Underwriters have agreed, subject to certain conditions, to purchase all of the Bonds from the Commonwealth at a discount from the initial offering prices of the Bonds equal to approximately 0.505115% of the aggregate principal amount of the Bonds. The Underwriters may offer and sell the Bonds to certain dealers and others (including dealers depositing Bonds into investment trusts) at prices lower than the public offering prices (or yields higher than the offering yields) stated on the inside cover page hereof. The principal offering prices (or yields) set forth on the inside cover page hereof may be changed from time to time after the initial offering by the Underwriters.

TAX EXEMPTION

Bond Counsel is of the opinion that, under existing law, interest on the Bonds will not be included in the gross income of holders of the Bonds for federal income tax purposes. This opinion is expressly conditioned upon continued compliance with certain requirements imposed by the Internal Revenue Code of 1986, as amended (the “Code”), which must be satisfied subsequent to the date of issuance of the Bonds in order to assure that interest on the Bonds is and continues to be excludable from the gross income of holders of the Bonds. Failure to comply with certain of such requirements could cause interest on the Bonds to be included in the gross income of holders of the Bonds retroactive to the date of issuance of the Bonds. In particular, and without limitation, these requirements include restrictions on the use, expenditure and investment of Bond proceeds and the payment of rebate, or penalties in lieu of rebate, to the United States, subject to certain exceptions. The Commonwealth has provided covenants and certificates as to continued compliance with such requirements.

In the opinion of Bond Counsel, under existing law, since the Bonds are not “private activity bonds” under the Code, interest on the Bonds will not constitute a preference item under Section 57(a)(5) of the Code for purposes of computation of the alternative minimum tax imposed on certain individuals and corporations under Section 55 of the Code. However, interest on the Bonds will be included in “adjusted current earnings” of corporate holders of the Bonds and therefore will be taken into account under Section 56(g) of the Code in the computation of the alternative minimum tax applicable to certain corporations.

Bond Counsel has not opined as to any other matters of federal tax law relating to the Bonds. However, prospective purchasers should be aware of certain collateral consequences which may result under federal tax law for certain holders of the Bonds: (i) Section 265 of the Code denies a deduction for interest on indebtedness incurred or continued to purchase or carry the Bonds or, in the case of a financial institution, that portion of a holder’s interest expense allocated to interest on the Bonds, (ii) with respect to insurance companies subject to the tax imposed by Section 831 of the Code, Section 832(b)(5)(B)(i) reduces the deduction for losses incurred by 15 percent of the sum of certain items, including interest on the Bonds, (iii) interest on the Bonds earned by certain foreign corporations doing business in the United States could be subject to a branch profits tax imposed by Section 884 of the Code, (iv) passive investment income, including interest on the Bonds, may be subject to federal income taxation under Section 1375 of the Code for an S Corporation that has Subchapter C earnings and profits at the close of the taxable year if greater than 25% of the gross receipts of such S Corporation is passive investment income, (v) Section 86 of the Code requires recipients of certain Social Security and certain Railroad Retirement benefits to take into account in determining gross income receipts or accruals of interest on the Bonds, and (vi) receipt of investment income, including interest on the Bonds, may,

pursuant to Section 32(i) of the Code, disqualify the recipient from obtaining the earned income credit provided by Section 32(a) of the Code.

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

Prospective purchasers should be aware that the statutory framework on which the exemption from Massachusetts taxation is based is similar to that at issue in *Department of Revenue of Kentucky v. Davis*, 197 S.W. 3d 557 (Ky. App. 2006), cert. granted 550 U.S. ___, 127 S.Ct. 2451 (May 21, 2007), in which the Kentucky court held that a statute which provided more favorable income tax treatment for holders of bonds issued by Kentucky issuers than for holders of out-of-state municipal bonds violated the Commerce Clause of the United States Constitution. Should the United States Supreme Court affirm the holding of the Kentucky court, subsequent Massachusetts judicial decisions and/or legislation designed to ensure the constitutionality of Massachusetts tax law could, among other alternatives, adversely affect the Massachusetts tax exemption of outstanding bonds, including the Bonds, to the extent constitutionally permissible, or result in the exemption from Massachusetts income tax of interest on non-Massachusetts municipal bonds, either of which could affect the market price of the Bonds.

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

An amount equal to the excess, if any, of the purchase price of a Bond over the principal amount payable at maturity constitutes amortizable bond premium for federal and Massachusetts tax purposes. The required amortization of such premium during the term of a Bond will result in reduction of the holder's tax basis on such Bond. Such amortization also will result in reduction of the amount of the stated interest on the Bond taken into account as interest for tax purposes. Holders of Bonds purchased at a premium should consult their own tax advisers with respect to the determination and treatment of such premium for federal income tax purposes and with respect to the state or local tax consequences of owning such Bonds.

On the date of delivery of the Bonds, the Underwriters will be furnished with an opinion of Bond Counsel substantially in the form attached hereto. See Appendix B -- Proposed Form of Opinion of Bond Counsel.

OPINION OF COUNSEL

The unqualified approving opinion as to the legality of the Bonds will be rendered by Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., of Boston, Massachusetts, Bond Counsel to the Commonwealth. The proposed form of the opinion of Bond Counsel relating to the Bonds is attached hereto as Appendix B. Certain legal matters will also be passed upon by Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C. of Boston, Massachusetts, as Disclosure Counsel to the Commonwealth. Certain legal matters will be passed upon for the Underwriters by their counsel, Nutter McClennen & Fish LLP, of Boston, Massachusetts.

CONTINUING DISCLOSURE

In order to assist the Underwriters in complying with paragraph (b)(5) of Rule 15c2-12, the Commonwealth will undertake in the Bonds to provide annual reports and notices of certain events. A description of this undertaking is set forth in Appendix C attached hereto.

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

MISCELLANEOUS

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

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

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

The Commonwealth has prepared the prospective financial information set forth in this Official Statement in connection with its budgeting and appropriations processes. This prospective financial information was not prepared with a view toward complying with the guidelines established by the American Institute of Certified Public Accountants with respect to prospective financial information, but, in the view of the Commonwealth, was prepared on a reasonable basis, reflects the best currently available estimates and judgments, and presents, to the best knowledge and belief of the offices of the Commonwealth identified in this Official Statement as the sources of such information, the expected course of action and the expected future budgeted revenues and expenditures of the Commonwealth. However, this information is not fact and should not be relied upon as being necessarily indicative of future results, and readers of this Official Statement are cautioned not to place undue reliance on the prospective financial information.

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

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

AVAILABILITY OF OTHER INFORMATION

Questions regarding this Official Statement or requests for additional financial information concerning the Commonwealth should be directed to Patrick F. Landers, III, Assistant Treasurer, Office of the Treasurer and Receiver-General, One Ashburton Place, 12th floor, Boston, Massachusetts 02108, telephone (617) 367-3900, x. 226, or Jay Gonzalez, Assistant Secretary for Capital Finance and Intergovernmental Affairs, Executive Office for Administration and Finance, State House, Room 373, Boston, Massachusetts 02133, telephone (617) 727-2040. Questions regarding legal matters relating to this Official Statement and the Bonds 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

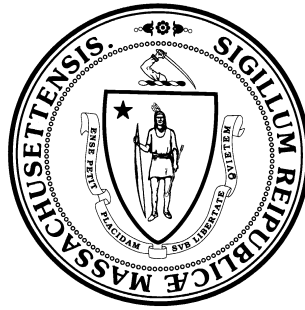
By /s/ Timothy P. Cahill
Timothy P. Cahill
Treasurer and Receiver-General

By /s/ Leslie A. Kirwan
Leslie A. Kirwan
Secretary of Administration and Finance

August 8, 2007

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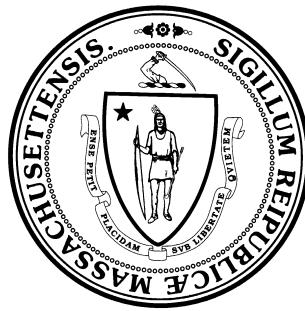
**THE
COMMONWEALTH
OF
MASSACHUSETTS**



INFORMATION STATEMENT SUPPLEMENT

Dated August 8, 2007

**THE
COMMONWEALTH
OF
MASSACHUSETTS**



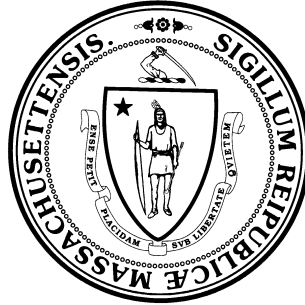
INFORMATION STATEMENT SUPPLEMENT

Dated August 8, 2007

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THE COMMONWEALTH OF MASSACHUSETTS



CONSTITUTIONAL OFFICERS

Deval L. Patrick.....Governor
Timothy P. MurrayLieutenant Governor
William F. Galvin.....Secretary of the Commonwealth
Martha Coakley.....Attorney General
Timothy P. CahillTreasurer and Receiver-General
A. Joseph DeNucci.....Auditor

LEGISLATIVE OFFICERS

Therese Murray.....President of the Senate
Salvatore F. DiMasi.....Speaker of the House

THE COMMONWEALTH OF MASSACHUSETTS
INFORMATION STATEMENT SUPPLEMENT

August 8, 2007

This supplement (“Supplement”) to the Information Statement of The Commonwealth of Massachusetts (the “Commonwealth”) dated May 9, 2007 (the “May Information Statement”) is dated August 8, 2007 and contains information which updates the information contained in the May Information Statement. The May Information Statement appears as Appendix A to the Official Statement dated May 9, 2007 for the Commonwealth’s \$498,565,000 General Obligation Bonds, Consolidated Loan of 2007, Series A, and \$553,135,000 General Obligation Refunding Bonds, 2007 Series A, a copy of which has been filed with each Nationally Recognized Municipal Securities Information Repository (NRMSIR) currently recognized by the Securities and Exchange Commission. This Supplement and the May Information Statement must be read collectively and in their entirety in order to obtain the appropriate fiscal, financial and economic information concerning the Commonwealth through August 8, 2007. All capitalized terms not otherwise defined in this Supplement shall have the meanings ascribed to them in the May Information Statement.

The May Information Statement, as supplemented hereby, includes three exhibits. Exhibit A, attached to this Supplement, is the Statement of Economic Information as of June 30, 2007, 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, 2006 and the Commonwealth’s Comprehensive Annual Financial Report, reported in accordance with generally accepted accounting principles (GAAP), for the year ended June 30, 2006. Specific reference is made to said Exhibits B and C, copies of which have been filed with each NRMSIR currently recognized by the Securities and Exchange Commission. 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 2007

On May 17, 2007 the Governor approved \$88.4 million in supplemental fiscal 2007 appropriations to fund a variety of administration initiatives, including \$21.9 million for the Department of Corrections, \$15.6 million for the Department of Social Services, \$8 million for snow and ice removal, \$3.6 million for grants to support dairy farms and \$15 million for public safety initiatives, including \$11 million for grants to combat gang violence and \$4 million for municipal police. The effects of these supplemental appropriations were anticipated and reflected in the financial projections shown in the May Information Statement.

On June 29, 2007 the Governor filed supplemental appropriations totaling \$131.9 million. This legislation proposes to provide funding of \$35.2 million for the state’s Medicaid program (also called MassHealth), \$22.3 million for public counsel services, \$15.9 for collective bargaining costs, \$8.7 million to support the underground storage tank cleanup program, \$5.2 million for various legal settlements, \$5.0 million for local housing authorities, \$4.6 million for a variety of education initiatives and \$35.0 million for other programs and services. The legislation also proposes to transfer \$40.0 million from the General Fund to a new Debt Defeasance Trust Fund to retire high-interest debt for the Commonwealth. The legislation proposes to make \$56.9 million of the filed appropriation requests available for expenditure through June 30, 2008. The legislation also proposes to make \$63.6 million of previously authorized fiscal 2007 appropriations available for expenditure through June 30, 2008. The Governor’s proposed legislation is currently being considered by the House Committee on Ways and Means.

On July 12, 2007 the Governor signed the fiscal 2008 budget (see “Fiscal 2008”), which also directs the disposition of the projected fiscal 2007 budget surplus. The legislation creates a Bay State Competitiveness Investment Fund and directs a portion of the fiscal 2007 budget surplus to the fund after statutorily required amounts are deposited in the Stabilization Fund and designated to be carried forward into the subsequent fiscal year. The expected deposit to the Bay State Competitiveness Investment Fund is currently projected by the Executive Office

for Administration and Finance to be \$15.0 million. Fiscal 2007 spending projections assume \$215.6 million in reversion of unspent moneys to the General Fund. If the actual reversions are greater than the assumed amount, the deposit to the Bay State Competitiveness Investment Fund will be greater than currently projected. Amounts in the Bay State Competitiveness Investment Fund are subject to appropriation. For the purposes of the financial projections in this Supplement, the entire balance of the Fund is assumed to be spent in fiscal 2008. The Bay State Competitiveness Investment Fund is scheduled to expire on June 30, 2008.

Lottery Revenues. The fiscal 2007 budget assumed total net transfers from the Lottery of \$1.105 billion, including the \$920 million aggregate distribution to cities and towns (which was mandated by the budget, regardless of the actual amount of transfers from the Lottery). The assumed \$1.105 billion figure was \$67 million higher than the State Lottery Commission's projections for fiscal 2007, which were \$1.038 billion. The State Lottery Commission estimates that actual fiscal 2007 lottery revenues were \$984.0 million, \$54 million less than the Commission's original projections and \$121 million less than the amount assumed in the fiscal 2007 budget. There is no provision in current law for dealing with this shortfall in net lottery revenues in fiscal 2007, which is expected to result in the State Lottery Fund, a non-budgeted fund, ending fiscal 2007 in a deficit position.

Tax revenue collections for fiscal 2007 totaled \$19.736 billion, an increase of \$1.249 billion or 6.8% over fiscal 2006. The following table shows monthly tax collections for fiscal 2007 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 2007 that are dedicated to the MBTA and to the MSBA.

Fiscal 2007 Tax Collections (in millions) (1)

Month	Tax Collections	Change From Prior Year	Percentage Change	MBTA Portion (3)	MSBA Portion	Collections, Net of MBTA and MSBA
July	\$ 1,246.7	\$ 57.9	4.9%	\$ 61.5	\$ 48.0	\$ 1,137.2
August	1,188.2	(16.7)	(1.4)	58.2	45.4	1,084.5
September	2,068.9	127.7	6.6	63.8	43.2	1,961.9
October	1,244.8	28.8	2.4	60.7	47.4	1,136.7
November	1,229.8	110.7	9.9	54.5	42.5	1,125.2
December	1,784.4	(6.6)	(0.4)	68.3	43.2	1,672.9
January	2,052.9	131.7	6.9	69.9	54.5	1,928.5
February	987.2	133.6	15.6	54.3	42.3	890.7
March	1,768.0	141.3	8.7	59.4	38.6	1,670.0
April	2,336.2	123.2	5.6	55.8	43.5	2,236.8
May	1,536.1	160.6	11.7	57.2	44.6	1,434.3
June (2)	<u>2,293.3</u>	<u>256.8</u>	<u>12.6</u>	<u>70.5</u>	<u>64.2</u>	<u>2,158.5</u>
Total (2)	<u>\$19,736.2</u>	<u>\$1,248.7</u>	<u>6.8%</u>	<u>\$ 734.0</u>	<u>\$557.4</u>	<u>\$18,444.9</u>

SOURCE: Executive Office for Administration and Finance.

(1) Details may not add to Total because of rounding.

(2) Figures are preliminary.

(3) Includes adjustment of \$8.4 million on the account of the first quarter, \$12.9 million on account of the second quarter, \$9.9 million on account of the third quarter, and \$11.1 million on the account of the fourth quarter, related to the inflation-adjusted floor applicable to tax receipts dedicated to the MBTA.

The tax revenue increase of \$1.249 billion over fiscal 2006 is attributable in large part to an increase of approximately \$500.5 million, or 6.2%, in withholding collections, an increase of approximately \$161.5 million, or 8.3%, in income tax estimated payments, an increase of approximately \$275.6 million, or 16.3%, in income tax payments with returns and bills, an increase of approximately \$62.9 million, or 1.6%, in sales and use tax collections, an increase of approximately \$220.1 million, or 9.8%, in corporate and business collections and an increase of \$49.5 million, or 2.8%, in miscellaneous tax collections. Preliminary fiscal 2007 tax collections exceeded the fiscal 2007 tax revenue estimate of \$19.300 billion issued by the Executive Office for Administration and Finance on January 30, 2007 by \$436.2 million.

Fiscal 2008

The Legislature approved the fiscal 2008 budget on July 2, 2007, and it was approved by the Governor on July 12, 2007. The Governor vetoed \$40.7 million of appropriations. The budget appropriates \$26.771 billion for the fiscal year, including \$8.220 billion for Medicaid, \$4.301 billion for education (excluding the school building assistance program), \$2.072 billion for debt service and contract assistance and \$12.788 for all other programs and services. The budget increases Chapter 70 education funding to cities and towns by \$220 million to \$3.726 billion. The budget also increases the distribution of lottery revenues to cities and towns to \$935 million, an increase of \$15 million over the fiscal 2007 level. Overall, local aid to cities and towns increases by 5.8% in the fiscal 2008 budget.

The fiscal 2008 budget relies on several one-time revenue sources, including a \$240 million transfer from the Stabilization Fund to the General Fund, a transfer of not more than \$75 million from the Stabilization Fund to the General Fund representing fiscal 2008 investment earnings in the Stabilization Fund and the suspension of the statutorily required Stabilization Fund deposit equal to 0.5% of fiscal 2007 tax revenues (approximately \$100 million). The fiscal 2008 budget also relies on \$44 million of interest earnings from the Health Care Security Trust Fund. The fiscal 2008 budget approved by the Legislature proposed to transfer \$150 million from the Health Care Security Trust to the General Fund to support fiscal 2008 spending. The Governor has proposed to amend the budget to decrease the size of the Healthcare Security Trust Fund transfer to \$111.5 million, the amount which would be required based upon his vetoes. This proposed amendment requires legislative approval to become effective. The Legislature may override the Governor’s vetoes by a two-thirds vote of each chamber.

The fiscal 2008 budget assumes an increase in lottery distributions of \$15 million over the currently estimated fiscal 2007 levels. To the extent that fiscal 2007 lottery revenues fall short of current estimates, this shortfall could affect fiscal 2008 projections as well. The Executive Office for Administration and Finance is currently working with all state agencies to review fiscal year 2008 revenue and spending levels. This review is scheduled to be completed in November, 2007.

On August 2, 2007 the Governor approved legislation establishing a sales tax holiday during the period August 11-12, 2007. The Department of Revenue estimates that this legislation will reduce fiscal 2008 sales tax collections by approximately \$17.5 million.

Based on its preliminary calculation of fiscal 2007 tax revenue collections, the Department of Revenue anticipates that on August 30, 2007 it will certify that fiscal 2007 baseline state tax revenue growth was sufficient to trigger an increase in income tax personal exemption amounts for tax year 2008, which increase would be the final of four statutorily mandated personal exemption increases, the previous three having occurred in tax years 2005, 2006, and 2007. See the May Information Statement under the heading “COMMONWEALTH REVENUES - State Taxes; *Income Tax.*” The Department of Revenue currently estimates that such increase in the personal exemption amounts for the 2008 tax year would reduce fiscal 2008 tax collections by approximately \$25 million and would reduce fiscal 2009 tax collections by approximately \$55 million.

Tax revenues for the first month of fiscal 2008, ended July 31, 2007, totaled \$1.298 billion, an increase of \$51.5 million, or 4.1%, over the same month in fiscal 2007. The following tables shows the tax collections for the first month of fiscal 2008 and the change from tax collections in the same month 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 2008 Budgeted Tax Collections (in millions) (1)

Month	Tax Collections	Change From Prior Year	Percentage Change	MBTA Portion	MSBA Portion	Collections, Net of MBTA and MSBA
July	\$1,298.1	\$51.5	4.1%	\$64.7	\$55	\$1,178.5

SOURCE: Executive Office for Administration and Finance.
 (1) Figures are preliminary.

The tax revenue increase of \$51.5 million in July over the same month in fiscal 2007 is attributable in large part to an increase of approximately \$17.9 million, or 2.7%, in withholding collections and an increase of approximately \$20 million, or 5.5%, in sales and use tax collections. Preliminary July, 2007 tax collections were \$5 million below the July, 2007 benchmark estimate, which is based on the fiscal 2008 consensus tax revenue estimate of \$19.879 billion. See the May Information Statement under the heading "COMMONWEALTH REVENUES - Tax Revenue Forecasting; *Fiscal 2008*."

Life Sciences Legislation

On July 19, 2007 the Governor filed legislation intended to promote investment in the Massachusetts life sciences industry. Among other provisions, the proposal would authorize the Secretary of Housing and Economic Development and the Secretary of Administration and Finance jointly to award tax incentives on a project-by-project basis for "certified life sciences projects." The tax incentives for certified projects would include an investment tax credit of 10% (12% if the project is located in an economic opportunity area), a refundable tax credit equal to the fees paid by a project for application to the U. S. Food and Drug Administration for a human drug or supplement which was primarily researched and developed in Massachusetts, a refundable research tax credit, extension of the net operating loss carryforward from five to 15 years, elimination of the so-called "throwback rule" of the single sales factor provision of the corporate income tax and expanded sales taxation exemptions. The Executive Office for Administration and Finance anticipates that the amount of tax benefits granted by the Secretary of Housing and Economic Development and the Secretary of Administration and Finance under the program would be limited to \$25 million annually. Projects that do not meet agreed-upon thresholds for increased job creation that results in additional tax revenues paid to the Commonwealth would be subject to "clawback" provisions, whereby the beneficiaries of previously received tax benefits would be required to repay some or all of such tax benefits to the Commonwealth.

Cash Flow

On May 31, 2007 the State Treasurer and the Secretary of Administration and Finance released a revised projected cash flow forecast for fiscal 2007. Fiscal 2006 ended with a non-segregated cash balance of \$1.619 billion and a segregated bond balance of \$222.2 million. The cash flow projection for fiscal 2007 is based on the fiscal 2007 budget signed into law on July 8, 2006 and includes the value of all vetoes and subsequent overrides as well as all prior appropriations continued into fiscal 2007 from the prior fiscal year. The cash flow projection also reflects all supplemental appropriations bills either filed or enacted that would affect the Commonwealth's cash flow in fiscal 2007. It reflects authorized transfers between budgeted funds and certain reserve funds as provided for in the fiscal 2007 budget and in subsequent legislation. The fiscal 2007 projection is based on actual spending and revenue through April, 2007 and estimates for the remainder of fiscal 2007. The fiscal 2007 projection is based on the Executive Office for Administration and Finance's fiscal 2007 tax estimate of \$19.3 billion. The gross tax figure includes \$1.335 billion dedicated to the Commonwealth's fiscal 2007 pension obligation, \$733 million in sales tax revenues dedicated to the MBTA and \$557.3 million in sales tax revenues dedicated to the MSBA. This forecast also includes an inflow of \$239.5 million on April 15, 2007 pursuant to the tobacco master settlement agreement. The Commonwealth continues to actively pursue litigation to secure the right to receive the full amount of these payments. See the May Information Statement under the heading "LEGAL MATTERS."

Fiscal 2007 opened with a starting balance of \$2.072 billion of cash and is projected to have a June 30, 2007 ending balance of \$1.274 billion. These figures are somewhat higher than the reported figures for the close of fiscal 2006 because of system improvements in the State Treasurer's ability to calculate a more discrete figure. These figures do not include balances in the Stabilization Fund or certain other off-budget reserve funds, but do include moneys sequestered to pay for projected capital projects totaling \$222.2 million with respect to the starting balance and \$92.7 million with respect to the ending balance. Excluding these sequestered capital funds, the Commonwealth's operating cash balance opened the year at \$1.850 billion and is projected to end the fiscal year at \$1.182 billion, a \$668 million decrease. A portion of the overall decline in the operating cash balance is due to approximately \$935 million in supplemental spending authorized in fiscal 2006 which was carried forward into fiscal 2007. The projection also reflects the November, 2006 transfer of \$353.9 million of fiscal 2006 surplus dollars, plus \$6.9 million in accrued interest, to the Stabilization Fund. The Commonwealth also received

\$25.1 million in fiscal 2007 from Massport as the first installment of the \$50 million of total reimbursement to be paid in the next few months for the cost of property that is being transferred to Massport by the Turnpike Authority.

The Commonwealth's cash flow management incorporates the periodic use of commercial paper borrowing to meet cash flow needs for both capital and operating expenditures. In particular, the Commonwealth makes local aid payments of approximately \$1 billion to its cities and towns at the end of each calendar quarter, which in recent years has often resulted in short-term cash flow borrowings. The Commonwealth began fiscal 2007 with \$25.1 million of commercial paper outstanding in the form of bond anticipation notes (BANs). This commercial paper is no longer outstanding, having been retired by the aforementioned Massport payment. The Commonwealth's cash position reflects a typical cycle of tightening in the second and third quarters of the fiscal year. The Commonwealth borrowed \$300 million in November, 2006 and an additional \$600 million in December, 2006 to make the second-quarter local aid payment. In January, 2007 \$200 million of revenue anticipation notes (RANs) were repaid, leaving \$700 million of commercial paper RANs and \$25.1 million of commercial paper BANs outstanding. In March, 2007 \$400 million of BANs were issued as 90-day notes (outside the commercial paper program). These notes matured in May, 2007 and were retired with bond proceeds at that time. All Commonwealth BANs and RANs were retired by June 30, 2007. The Commonwealth currently has no commercial paper outstanding.

The cash flow projection includes \$1.603 billion in proceeds of long-term borrowing, including \$500.1 million of proceeds from general obligation bonds issued in August, 2006, \$372.6 million of proceeds from general obligation bonds issued in November, 2006 and \$731.3 million of proceeds from general obligation bonds issued in May, 2007.

The cash flow projection released on May 31, 2007 also included a projection for fiscal 2008. This projection was based on the Governor's budget recommendations for fiscal 2008. That proposal was based upon a consensus gross tax estimate of \$19.879 billion and appropriated a total of \$26.714 billion. The Governor's recommendations also included a proposal for \$290 million of additional corporate tax revenues, which is being considered by a recently appointed study commission. A fiscal 2008 budget appropriating \$26.771 billion has since been enacted into law and it, too, was based on the consensus tax estimate but utilized several one-time revenue sources. See "Fiscal 2008." The fiscal 2008 cash projections should only be considered as a starting point for the analysis of the cash impact of the recently enacted budget, as they were prepared prior to the completion of the fiscal 2008 budget process. This preliminary analysis showed cash projection for fiscal 2008 that produced a year-end balance of \$612.7 million, segregated funds of \$11.5 million and an operating surplus of \$601.3 million.

The Commonwealth's next cash flow projection is expected to be released on or before September 1, 2007.

SELECTED FINANCIAL DATA

Statutory Basis Distribution of Budgetary Revenues

The following table sets forth the Commonwealth's revenues in its budgeted operating funds for fiscal 2003 through 2006, as estimated for fiscal 2007 and as projected for fiscal 2008.

Commonwealth Revenues – Budgeted Operating Funds
(in millions)(1)

	Fiscal 2003	Fiscal 2004(5)	Fiscal 2005	Fiscal 2006	Estimated Fiscal 2007(6)	Projected Fiscal 2008
Tax Revenues:						
Alcoholic Beverages	\$ 66.3	\$ 67.9	\$ 68.6	\$ 68.9	\$ 71.0	\$ 72.0
Banks	344.5	238.7	198.9	349.9	340.9	254.4
Cigarettes	451.0	425.4	423.6	435.3	438.1	426.3
Corporations	799.4(4)	997.6	1,062.7	1,390.7	1,587.6	1,518.5
Deeds	147.8	187.0	220.3	210.1	194.5	177.0
Income	8,026.1	8,830.3	9,690.3	10,483.4	11,399.6	11,604.6
Inheritance and Estate	181.3	194.7	255.1	196.3	249.6	225.0
Insurance	387.8	420.2	423.4	448.5	418.7	461.4
Motor Fuel	676.4	684.2	685.5	671.8	675.9	673.8
Public Utilities	40.6	64.7	71.1	118.5	178.3	132.8
Racing	-	-	-	-	-	-
Room Occupancy	120.0	88.9	97.8	105.8	111.1	114.2
Sales:						
Regular	2,583.6	2,591.6	2,746.6	2,864.7	2,927.5	3,035.7
Meals	512.0	531.7	555.6	584.1	608.7	631.8
Motor Vehicles	<u>612.5</u>	<u>625.8</u>	<u>584.2</u>	<u>555.5</u>	<u>531.1</u>	<u>547.9</u>
Sub-Total–Sales	3,708.1	3,749.2	3,886.4	4,004.3	4,067.3	4,215.5
Miscellaneous	<u>14.3</u>	<u>4.2</u>	<u>4.2</u>	<u>4.0</u>	<u>3.5</u>	<u>3.7</u>
Total Tax Revenues	<u>14,963.8(5)</u>	<u>15,953.2</u>	<u>17,087.9</u>	<u>18,487.5</u>	<u>19,736.2</u>	<u>19,879.0</u>
MBTA Transfer	(684.3)	(684.3)	(704.8)	(712.6)	(734.0)	(756.0)
MSBA Transfer (2)	-	-	(395.7)	(488.7)	(557.4)	(634.7)
Total Budgeted Operating Tax Revenues	<u>14,279.5</u>	<u>15,268.9</u>	<u>15,987.4</u>	<u>17,286.2</u>	<u>18,444.6</u>	<u>18,488.3</u>
Non-Tax Revenues:						
Federal Reimbursements	4,523.6	5,098.5	4,697.0	5,210.1	6,002.3	6,338.0
Departmental and Other Revenues(7)						
	1,494.8	1,847.7	1,948.9	2,094.3	2,052.1	2,425.5
Inter-fund Transfers from Non - Budgeted Funds and Other Sources (3)	<u>1,689.2</u>	<u>1,773.1</u>	<u>1,740.2</u>	<u>1,714.9</u>	<u>788.6</u>	<u>694.0</u>
Budgeted Non-Tax Revenues and Other Sources	<u>7,707.6</u>	<u>8,719.3</u>	<u>8,386.1</u>	<u>9,019.3</u>	<u>8,843.0</u>	<u>9,457.5</u>
Budgeted Revenues and Revenues from Other Sources	<u>\$21,987.2</u>	<u>\$23,988.3</u>	<u>\$24,373.5</u>	<u>\$26,305.5</u>	<u>\$27,287.6</u>	<u>\$27,945.8</u>

SOURCE: Fiscal 2003-2006, Office of the Comptroller; fiscal 2007-2008, Executive Office for Administration and Finance.

- (1) Totals may not add due to rounding. Table does not reflect inter-fund transfers among budgeted funds and other sources that have no effect on ending balances. Excludes certain miscellaneous taxes expended outside the budget process.
- (2) Beginning in fiscal 2005, sales tax transfers to the MSBA replaced budgetary appropriations for school building assistance. Actual expenditures for school building assistance in fiscal 2002 through 2004 were \$365.4 million, \$383.2 million and \$551.4 million, respectively. See "SELECTED FINANCIAL DATA – Recent Financial Restructurings; *School Building Assistance Program*."
- (3) Inter-fund transfers from non-budgeted funds and other sources include profits from the State Lottery, tobacco settlement funds, abandoned property proceeds, transfers to the Commonwealth Care Trust Fund and Medical Assistance Trust Fund (successors to the Uncompensated Care Pool), as well as other inter-fund transfers.
- (4) The Department of Revenue estimates that as a result of the timing of federal tax legislation relating to the depreciation deduction for corporations and the Commonwealth's legislation in response, tax revenue collections in fiscal 2002 were reduced by approximately \$30 million and tax revenue collections in fiscal 2003 were increased by the same approximate amount.
- (5) Beginning on July 1, 2003, certain minor budgeted funds were reclassified as non-budgeted funds. Prior years have not been restated.
- (6) Based on fiscal 2007 consensus revenue estimate of \$19.3 billion.
- (7) Excludes intergovernmental revenues.

Statutory Basis

The revenues and expenditures of the budgeted operating funds presented in the following table are derived from the Commonwealth's audited statutory basis financial statements for fiscal 2003 through 2006. Estimates for fiscal 2007 and projections for fiscal 2008 have been prepared by the Executive Office for Administration and Finance. Except where otherwise indicated, they are based on the office's most recent estimate of tax revenue (as officially issued) and non-tax revenue, on enacted appropriations adjusted for projected reversions and on supplemental appropriations filed by the Governor that remain before the Legislature. The financial information presented includes all budgeted operating funds of the Commonwealth. For additional detail, see the May Information Statement under the heading "COMMONWEALTH BUDGET AND FINANCIAL MANAGEMENT CONTROLS - Operating Fund Structure."

During a fiscal year there are numerous transactions among these budgeted funds, which from a fund accounting perspective create offsetting inflows and outflows. In conducting the budget process, the Executive Office for Administration and Finance excludes those inter-fund transactions that by their nature have no impact on the combined fund balance of the budgeted funds. The following table isolates this inter-fund activity from the budgeted sources and uses to align more clearly forecasts prepared during the budget process to the detailed fund accounting of the Commonwealth's annual financial statements.

Budgeted Operating Funds -- Statutory Basis

(in millions)(1)

	Fiscal 2003	Fiscal 2004	Fiscal 2005	Fiscal 2006	Estimated Fiscal 2007	Projected Fiscal 2008
<u>Beginning Fund Balances</u>						
Reserved or Designated	\$ 195.2	\$ 76.8	\$ 664.6	\$ 355.6	\$ 947.2	\$ 167.0
Bay State Competitiveness Investment Fund						15.0
Tax Reduction Fund	-	-	-	-	-	
Transitional Escrow Fund				304.8	-	-
Stabilization Fund	881.8	641.3	1,137.3	1,728.4	2,154.7	2,373.4
Undesignated	<u>311.0</u>	<u>34.7</u>	<u>90.9</u>	<u>98.4</u>	<u>106.2</u>	<u>114.9</u>
Total	<u>1,388.0</u>	<u>752.8(5)</u>	<u>1,892.8</u>	<u>2,487.2</u>	<u>3,208.1</u>	<u>2,670.3</u>
<u>Revenues and Other Sources</u>						
Tax Revenues	14,279.5	15,269.0	15,987.4	17,286.2	18,444.6	18,488.3
Federal Reimbursements	4,523.6	5,098.5	4,697.0	5,210.1	6,002.3	6,338.0
Departmental and Other Revenues	1,494.8	1,847.7	1,948.9	2,094.3	2,052.1	2,425.5
Inter-fund Transfers from Non- budgeted Funds and Other Sources (2)	1,689.2	1,773.1	1,740.2	1,714.9	788.6	694.0
Budgeted Revenues and Other Sources	21,987.1	23,988.3	24,373.4	26,305.5	27,287.6	27,945.8
Inter-fund Transfers	<u>3,310.5(4)</u>	<u>2,058.7</u>	<u>2,231.3</u>	<u>1,358.1</u>	<u>286.9</u>	<u>648.1</u>
Total Budgeted Revenues and Other Sources	<u>25,297.7</u>	<u>26,047.0</u>	<u>26,604.7</u>	<u>27,663.3</u>	<u>27,574.5</u>	<u>28,593.9</u>
<u>Expenditures and Uses</u>						
Programs and Services (3)	22,209.5	21,456.1	22,067.7	23,918.7	26,490.3	26,942.6
Inter-fund Transfers to Non- budgeted Funds and Other Uses	229.6	1,392.2	1,711.3	1,665.9	1,335.2	1,398.6
Budgeted Expenditures and Other Uses	22,439.1	22,848.3	23,779.1	25,584.6	27,825.5	28,341.2
Inter-fund Transfers	<u>3,310.5(4)</u>	<u>2,058.7</u>	<u>2,231.2</u>	<u>1,358.1</u>	<u>286.9</u>	<u>648.1</u>
Total Budgeted Expenditures and Other Uses	<u>25,749.6</u>	<u>24,907.0</u>	<u>26,010.3</u>	<u>26,942.7</u>	<u>28,112.4</u>	<u>28,989.3</u>
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	<u>(451.9)</u>	<u>1,140.0</u>	<u>594.4</u>	<u>720.9</u>	<u>(537.9)</u>	<u>(395.4)</u>
<u>Ending Fund Balances</u>						
Reserved or Designated(6)	76.8	664.6	355.6	947.2	167.0	10.7
Bay State Competitiveness Fund					15.0	
Tax Reduction Fund	--	--	--	--	--	--
Transitional Escrow Fund	--	--	304.8	--	--	--
Stabilization Fund	641.3	1,137.3	1,728.4	2,154.7	2,373.4	2,148.6
Undesignated	<u>218.0</u>	<u>90.9</u>	<u>98.4</u>	<u>106.2</u>	<u>114.9</u>	<u>115.6</u>
Total	<u>\$936.1</u>	<u>\$1,892.8</u>	<u>\$2,487.2</u>	<u>\$3,208.1</u>	<u>\$2,670.3</u>	<u>\$2,274.9</u>

SOURCE: Fiscal 2003-2006, Office of the Comptroller; fiscal 2007-2008, Executive Office for Administration and Finance.

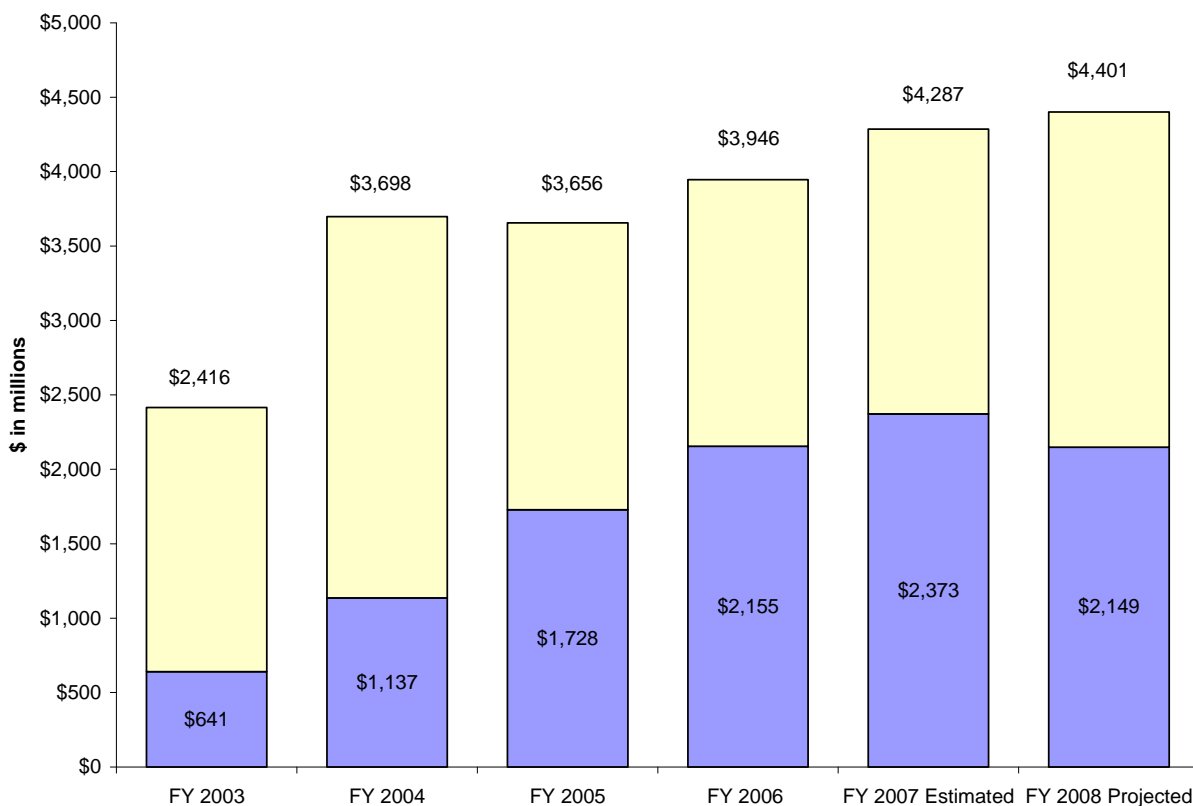
(1) Totals may not add due to rounding.

(2) 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 and transfers to the Uncompensated Care Pool, as well as other inter-fund transfers.

- (3) Certain Medicaid expenditures have been accounted for off-budget since fiscal 2003 and have continued through 2007. The Governor has proposed consolidating this spending onto budgeted spending beginning in fiscal 2008.
- (4) Inter-fund transfers increased substantially in fiscal 2003 due to the elimination of a number of Budgeted Operating Funds pursuant to the fiscal 2004 general appropriations act, effective June 30, 2003.
- (5) The variance between fiscal 2003 ending fund balances and fiscal 2004 beginning fund balances reflects a decrease of \$181.3 million in the undesignated fund balance due to closure of minor budgeted funds and the transfer of various funds off budget.
- (6) Reserved or Designated largely consists of appropriations from previous years, authorized to be expended in current years.

Stabilization Fund

The following graph sets forth ending balances in the Stabilization Fund for fiscal 2001 through 2006 and the projections for fiscal 2007 and fiscal 2008. For each year, the whole column area equals the maximum balance permitted under the statutory formula, and the darker shaded area shows the amount of the actual or projected ending balance.



SOURCES: Fiscal 2001-2006 Office of the Comptroller; fiscal 2007-2008, Executive Office for Administration and Finance.

COMMONWEALTH PROGRAMS AND SERVICES

Pension and Other Post-Retirement Benefit Obligations

The fiscal 2008 budget creates a State Retiree Benefit Trust Fund. This fund, proposed by the Governor in his fiscal 2008 budget recommendations, is an irrevocable trust fund created to begin funding the Commonwealth’s “other post-employment benefit” (OPEB) liability. For fiscal 2008, the current-year cost of state retiree health benefits will be funded through the new trust fund. The fiscal 2008 budget directs the transfer of \$343.2 million to support such costs. In addition, the budget transfers the balance of the Healthcare Security Trust Fund to the State

Retiree Benefit Trust Fund prior to June 30, 2008 to begin funding the unfunded OPEB liability. This transfer is currently estimated at approximately \$442.0 million.

The fiscal 2008 budget also establishes a study commission relative to the Commonwealth's OPEB liability. The commission, comprised of various legislative leaders and representatives of the Executive Office for Administration and Finance, the State Treasurer, the Comptroller, the PRIM Board and the Group Insurance Commission, is to examine further legislation necessary to comply with relevant statements of the Government Accounting Standards Board, a possible amortization schedule to fund the Commonwealth's OPEB liability and, alternatively, state borrowing against future tobacco litigation proceeds to fund the Commonwealth's liability. The study commission is to report its findings and recommendations to the Legislature by December 31, 2007. See the May Information Statement under the heading "COMMONWEALTH PROGRAMS AND SERVICES - Pension and Other Post-Retirement Benefit Obligations; *Other Post Employment Benefits (OPEB)*."

COMMONWEALTH CAPITAL ASSET INVESTMENT PLAN

Capital Spending Plan

On July 31, 2007 the Governor announced that the annual administrative limit on the amount of bond-funded capital expenditures, known as the "bond cap," will be \$1.5 billion for fiscal year 2008 and is expected to increase by \$125 million for each subsequent fiscal year through fiscal year 2012. See the May Information Statement under the heading "COMMONWEALTH CAPITAL ASSET INVESTMENT PLAN - Capital Spending Plan." The bond cap determination is based on a new debt management policy described in a debt affordability analysis released by the Executive Office for Administration and Finance on July 31, 2007.

Under this new policy, the Commonwealth 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 assistance payment obligations on certain capital lease financings. The budgeted revenue projection for fiscal 2008 is the budgeted revenue amount used in the Governor's fiscal year 2008 budget proposal (net of revenues to be transferred to fund the fiscal 2008 scheduled pension payment), which was based on the fiscal 2008 consensus tax revenue estimate. For future fiscal years, 3% annual growth is assumed, which is the 10-year historic annual average growth in budgeted revenues. Debt of the Massachusetts School Building Authority and of the Massachusetts Bay Transportation Authority that is supported by the portion of the sales tax legally dedicated to such entities is not included for purposes of this analysis, as the Commonwealth is not liable for such debt; similarly, the sales tax revenues legally dedicated to such entities are not included in the budgeted revenue projections.

In addition to keeping debt service within 8% of budgeted revenues, the debt management policy limits future annual growth in the bond cap 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 shown in the following table, the bond cap for each of the next five fiscal years is expected to result in debt service decreasing as a percentage of budgeted revenues by fiscal year 2012. This is a function of the rate at which outstanding debt is expected to amortize, the projected increases in budgeted revenues, the assumed amortization of one-third of the annual bond cap amounts over 30 years instead of 20 years and the fact that, although the stated bond cap is increasing as compared to prior years, the amount of General Fund-supported debt actually issued in prior years often exceeded the stated bond cap.

**Bond Cap
(in thousands)**

	Fiscal 2007	Fiscal 2008	Fiscal 2009	Fiscal 2010	Fiscal 2011	Fiscal 2012
Bond Cap	\$ 1,373,000	\$ 1,500,000	\$ 1,625,000	\$ 1,750,000	\$ 1,875,000	\$ 2,000,000
Total Debt Obligations	2,064,400	2,096,820	2,181,430	2,187,175	2,272,890	2,227,775
Estimated Budget Revenue	26,985,600(1)	26,727,000	27,528,810	28,354,674	29,205,315	30,081,474
Debt Service as % of Budgeted Revenues	7.65%	7.85%	7.92%	7.71%	7.78%	7.41%

SOURCE: Executive Office for Administration and Finance.

(1) Based on April, 2007 estimate and includes budgeted revenues dedicated to the scheduled fiscal year 2007 pension payment.

The Administration expects to treat all debt and debt-like obligations of the Commonwealth as subject to the bond cap for purposes of developing the annual capital budget, except in limited circumstances when there is a sound policy justification for not including a particular debt issue. Debt may be excluded from the bond cap, for example, where there is a new, dedicated source of project-related revenues supporting the payment of debt service on such debt; in such cases, the dedicated revenue would also be excluded from projected budgeted revenues for purposes of determining the bond cap as described above.

On August 6, 2007 the Governor released a five-year capital investment plan for fiscal 2008 through fiscal 2012. This plan, totaling an estimated \$12 billion over five years, increases the Commonwealth's direct capital investment in several priority areas, including higher education, economic development, housing, transportation infrastructure, energy and environmental affairs, and community investments.

The Governor's capital investment plan includes a 186% increase in state capital spending for higher education, dedicating \$125 million to the state's public colleges and universities in fiscal 2008, compared to \$44 million projected in fiscal 2007. The capital investment plan also dedicates \$1.12 billion to transportation projects and programs in fiscal 2008, a 25% increase over projected fiscal 2007 spending of approximately \$897 million. The capital investment plan provides more than \$170 million in funding for public housing and the development of affordable private housing in fiscal 2008, a 33% increase over projected fiscal 2007 spending of \$128 million.

Other key capital investments include \$150 million in Chapter 90 funding for local road projects, an increase of at least \$30 million over bond-funded investments in this program in recent years; \$50 million annually to protect open space, a 37% increase over projected fiscal 2007 spending and a 52% increase over average spending over the past five years; an estimated \$200-250 million over the next five years to help fund key elements of the Governor's ten-year life sciences initiative; an estimated \$25 million over five years to capitalize a new Broadband Incentive Fund to expand broadband access in western Massachusetts and other underserved areas of the state; and \$30 million in fiscal 2008 for the MORE Jobs capital program.

In the past, the Commonwealth aggregated its capital expenditures into seven major categories based primarily on the agencies responsible for spending and carrying out capital projects: economic development, environment, housing, information technology, infrastructure and facilities, public safety, and transportation. The following table sets forth historical capital spending in fiscal 2002 through fiscal 2006 and projected capital spending in fiscal 2007 according to these categories:

Commonwealth Historical Capital Spending (in millions) (1)

USES:	Fiscal <u>2002</u>	Fiscal <u>2003</u>	Fiscal <u>2004</u>	Fiscal <u>2005</u>	Fiscal <u>2006</u>	Fiscal <u>2007 (2)</u>
Information technology	\$ 86	\$ 76	\$ 75	\$ 61	\$ 88	\$ 67
Infrastructure	235	274	251	262	283	366
Environment	156	134	113	122	142	152
Housing	106	112	121	122	129	141
Public safety	8	37	20	18	19	18
Transportation						
CA/T project	1,296	1,015	691	509	318	321
Non-CA/T projects	612	682	767	791	871	902
Economic development						
Convention centers	134	225	113	54	12	2
Other	99	86	64	39	30	44
School building assistance	—	—	—	565	435	-
Total Uses:	<u>\$2,732</u>	<u>\$2,641</u>	<u>\$2,215</u>	<u>\$2,543</u>	<u>\$2,327</u>	\$2,013
SOURCES:						
Funds from general obligation Debt	\$1,847	\$1,472	\$1,285	\$1,850	\$1,647	\$1,317
Funds from special obligation debt	139	230	119	64	9	2
Funds from grant anticipation notes	9	24	-	-	-	-
Operating revenues	195	354	133	194	44	50
Third-party payments	52	52	63	99	274	103
Federal reimbursements	490	509	615	336	353	541(3)
Total Sources:	<u>\$2,732</u>	<u>\$2,641</u>	<u>\$2,215</u>	<u>\$2,543</u>	<u>\$2,327</u>	<u>\$2,013</u>

SOURCE: Fiscal 2002-2006, Office of the State Comptroller; Fiscal 2007, Executive Office for Administration and Finance.

(1) Totals may not add due to rounding.

(2) Based on current estimates; subject to change.

(3) Includes \$118 million of federal reimbursements for the Central Artery/Ted Williams Tunnel project that are still being withheld from the project by the federal government pending approval of the Turnpike Authority's finance plan for the project. If not expended on the CA/T project during the federal fiscal year ending September 30, 2007, these federal reimbursements will be applied to reimburse costs of other road and bridge projects. Until the CA/T finance plan is approved and \$118 million of federal grant funds are permitted to be applied to the project, the Commonwealth has been temporarily financing the related costs of the project. See "Central Artery/Ted Williams Tunnel Project."

For fiscal 2008 through fiscal 2012, the Executive Office for Administration and Finance has re-characterized capital spending into 13 categories based on spending purpose, rather than spending agency: higher education, transportation, economic development, housing, energy and environment, public safety, corrections, information technology, health and human services, state office buildings and facilities, courts, community investments and building maintenance. This new 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. Similarly, expenditures for Department of Conservation and Recreation roads and bridges appear in the transportation category, rather than the energy and environment category.

Projected spending for fiscal 2008 through fiscal 2012 is presented according to these categories in the table below; for comparison purposes, projected fiscal year 2007 spending is also presented according to the new categories:

Projected Commonwealth Capital Spending (in millions) (1)(2)

	Fiscal 2007	Fiscal 2008	Fiscal 2009	Fiscal 2010	Fiscal 2011	Fiscal 2012
Higher Education	\$ 43.7	\$ 124.9	\$ 133.1	\$ 146.0	\$ 172.0	\$ 200.0
Transportation (3)	896.9	1,120.7	990.5	1,003.0	1,239.6	1,364.3
Economic Development	23.0	64.7	117.4	147.0	143.0	159.0
Housing	128.0	170.5	170.5	161.8	166.5	166.5
Energy & Environment	138.5	141.7	138.0	136.7	122.2	116.4
Public Safety	44.3	45.1	54.8	75.9	71.7	43.0
Corrections	34.3	17.5	19.2	24.6	34.7	46.9
Information Technology	67.0	161.6	107.7	82.2	83.0	79.7
Health & Human Services	32.0	46.4	59.0	77.3	96.0	88.0
State Office Buildings & Facilities	31.7	26.2	33.9	41.8	53.8	43.8
Courts	117.0	58.5	72.2	92.6	86.0	83.3
Community Investment Program	205.8	271.1	272.2	272.6	266.5	266.5
Building Maintenance	<u>30.2</u>	<u>30.5</u>	<u>30.2</u>	<u>31.0</u>	<u>29.7</u>	<u>30.2</u>
Total:	<u>\$1,792.4</u>	<u>\$2,279.2</u>	<u>\$2,198.7</u>	<u>\$2,292.4</u>	<u>\$2,564.8</u>	<u>\$2,686.5</u>

SOURCE: Executive Office for Administration and Finance.

(1) Totals may not add due to rounding.

(2) Based on current estimates; subject to change.

(3) Does not include certain amounts related to the CA/T project for fiscal year 2007 that are reflected in the historical table above. To be consistent with the way in which the capital investment plan reflects spending for projects being carried out by other governmental entities, the new presentation of capital spending for the CA/T project only includes Commonwealth funding for such projects. Specifically, this table does not reflect federal and other third-party funds for the CA/T project that are reflected in the historical capital spending table above.

The capital investment plan is funded from a variety of sources, including proceeds of Commonwealth bonds (including bonds subject to the bond cap and project-funded bonds, as described above), federal funds, contributions from other governmental entities and third parties, and other sources of Commonwealth funds. The projected amount of Commonwealth bonds supporting the five-year capital investment plan is based on the debt affordability analysis described above. The bond cap for fiscal 2008 consists of the \$1.5 billion of new bonds referenced in the table above based on the debt affordability analysis, plus \$55.7 million of unexpended bond proceeds expected to be carried forward from fiscal 2007. The federal and other sources of funding supporting the Commonwealth's capital budget are estimates based on historical experience and projections of certain state investments. The following table shows the estimated sources of capital funds for fiscal 2007 and for the next five fiscal years:

Projected Capital Funding Sources (in millions) (1)

	Fiscal 2007 (2)	Fiscal 2008	Fiscal 2009	Fiscal 2010	Fiscal 2011	Fiscal 2012
Bond cap	\$1,317.6	\$1,555.7	\$1,625.0	\$1,750.0	\$1,875.0	\$2,000.0
Federal funds	395.6	494.2	459.9	475.3	526.7	517.5
Project-funded bonds	2.2	75.5	51.2	62.7	157.8	162.0
Other/third party	<u>77.0</u>	<u>153.8</u>	<u>62.6</u>	<u>4.4</u>	<u>5.3</u>	<u>7.0</u>
Total:	<u>\$1,792.4</u>	<u>\$2,279.2</u>	<u>\$2,198.7</u>	<u>\$2,292.4</u>	<u>\$2,564.8</u>	<u>\$2,686.5</u>

SOURCE: Executive Office for Administration and Finance.

(1) Based on current estimates; subject to change.

(2) Does not include certain amounts related to the CA/T project for fiscal year 2007 that are reflected in the historical table above. To be consistent with the way in which the capital investment plan reflects spending for projects being carried out by other governmental entities, the new presentation of capital spending for the CA/T project only includes Commonwealth funding for such projects. Specifically, this table does not reflect federal and other third party funds for the CA/T project that are reflected in the historical capital spending table above.

Central Artery/Ted Williams Tunnel Project

Following the approval on May 15, 2007 by the members of the Turnpike Authority of the Commonwealth's proposal relating to the \$210 million funding shortfall for the Central Artery/Ted Williams Tunnel project described in the May Information Statement under the heading "COMMONWEALTH CAPITAL ASSET INVESTMENT PLAN – Central Artery/Ted Williams Tunnel Project; *Project Budget and Oversight and Delay of Federal Funding*," the Turnpike Authority and the Commonwealth entered into an agreement to implement such proposal. On May 23, 2007 the Massachusetts Turnpike Authority filed a finance plan update with the Federal Highway Administration. See the May Information Statement under the heading "COMMONWEALTH CAPITAL ASSET INVESTMENT PLAN – Central Artery/Ted Williams Tunnel Project; *Project Budget and Oversight and Delay of Federal Funding*." The finance plan update is currently under review by the Federal Highway Administration and the Inspector General of the U. S. Department of Transportation.

On June 29, 2007 the Governor filed legislation to implement the provisions of the agreement referenced above between the Turnpike Authority and the Commonwealth relating to the funding shortfall for the CA/T project. Among other provisions, the legislation provides for all CA/T project-related cost recoveries, insurance proceeds and certain real estate proceeds to be deposited into the Statewide Road and Bridge and Central Artery/Tunnel Infrastructure Fund (TIF) for purposes of paying costs of the project or reimbursing the Commonwealth for such costs. Such legislation is currently pending in the state Legislature.

On June 4, 2007 the Commonwealth received final payment of a \$58.5 million settlement with American International Group for reimbursement of overpayments to the owner-controlled insurance program for the CA/T project and accrued interest on such overpayments. In connection with this settlement, the Commonwealth has credited approximately \$23.7 million of the principal reimbursement allocable to prior federal contributions to the insurance program to offset current federal grant payment obligations to the Commonwealth. The Commonwealth has also been informed that a portion of the interest portion of the settlement payment must be credited against the federal government's remaining funding commitment for the CA/T project. The balance of the settlement amount has been expended by the Commonwealth for general purposes, with the exception of approximately \$13 million which will be transferred to the TIF if the legislation described above is enacted. After taking the credit, the remaining \$13 million from the settlement and other adjustments into account, there is a net funding shortfall since the filing of the updated finance plan of approximately \$5 million dollars. When the federal review of the finance plan update is completed, it is anticipated that a supplement to the finance plan will be filed by the Turnpike Authority in order to address the funding shortfall related to the federal interest credit described above and to address any cost or other issues that might be raised in connection with the federal review.

With respect to the \$50 million balance of the purchase price Massport is required to pay to the Commonwealth for the transfer to Massport of certain portions of the CA/T project as described in the May Information Statement under the heading "COMMONWEALTH CAPITAL ASSET INVESTMENT PLAN – Central Artery/Ted Williams Tunnel Project; *July, 2006 Incident and Other Quality Concerns*," Massport paid \$25.1 million to the Commonwealth on June 15, 2007 and \$12.5 million to the Commonwealth on July 20, 2007. The \$12.4 million balance is expected to be paid in installments as the Turnpike Authority completes the improvements it agreed to make to the property before it is transferred.

On July 1, 2007 the Secretary of Transportation and Public Works became the Chairman of the Turnpike Authority by operation of law, leaving the position on the board to which he had previously been appointed currently vacant.

On July 10, 2007 the National Transportation Safety Board released its findings pertaining to the collapse of several concrete suspended ceiling panels in the Interstate 90 connector. See the May Information Statement under the heading "COMMONWEALTH CAPITAL ASSET INVESTMENT PLAN – Central Artery/Ted Williams Tunnel Project; *July, 2006 Incident and Other Quality Concerns*." The Board's assessment was that the proximate cause of the failure was the use of a fast-setting epoxy anchoring system which was susceptible to "creep" -- the tendency for slippage or elongation with the application of sustained tensile loads. Subsequent to the collapse, a full inspection was conducted, and continues today, inspecting all aspects of the project's design, construction and life safety systems. Immediate concerns have been remediated with additional design modifications and adjustments made as necessary to ensure the safety of the motoring public.

LONG-TERM LIABILITIES

The following table shows long-term debt of the Commonwealth as issued and retired from fiscal 2003 through fiscal 2007:

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

	<u>Fiscal 2003</u>	<u>Fiscal 2004</u>	<u>Fiscal 2005</u>	<u>Fiscal 2006</u>	<u>Fiscal 2007(4)</u>
Fiscal Year Beginning Balance (as of July 1)	\$14,955,135	\$15,962,506	\$17,382,172	\$17,856,799	\$18,461,406
General and special obligation debt issued	1,845,458(2)	1,925,990(3)	1,267,281	1,770,346	1,552,913
Subtotal	16,800,593	17,888,496	18,649,453	19,627,145	20,014,319
Debt retired or defeased, exclusive of refunded debt	(737,832)	(758,444)	(882,266)	(1,024,542)	(1,188,478)
Refunding debt issued, net of refunded debt	(100,255)	252,120	89,612	(141,197)	(118,786)
Fiscal Year Ending Balance (June 30)	<u>\$15,962,506</u>	<u>\$17,382,172</u>	<u>\$17,856,799</u>	<u>\$18,461,406</u>	<u>\$18,944,627</u>

SOURCE: Office of the Comptroller.

- (1) Including premium, discount and accretion of capital appreciation bonds. Capital appreciation bonds are reported at original net proceeds for the purposes of calculating debt limit compliance.
- (2) Includes \$30.1 million of bonds, which, although not legally defeased, will be paid in fiscal 2008 from funds held in escrow by a third-party trustee. Also includes a series of \$209.5 million of bonds, which, although not legally defeased, will be paid in fiscal 2008 and 2012 from funds held in escrow by a third-party trustee.
- (3) Includes \$408.0 million of grant anticipation notes, which, although not legally defeased, will be paid in fiscal 2009 and 2011 from funds held in escrow by a third-party trustee.
- (4) Amounts are preliminary.

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

Calculation of the Debt Limit (in thousands)

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Balance as of June 30	\$15,962,506	\$17,382,172	\$17,856,799	\$18,461,406	\$18,944,627
Less amounts excluded:					
(Discount)/premium and issuance costs	(68,718)	1,120	70,937	112,673	132,578
1991 refunding/restructuring	(10,600)	-	-	-	-
Special obligation debt (1)	(748,124)	(1,347,822)	(1,485,548)	(1,291,266)	(1,260,941)
Federal grant anticipation notes (1)	(1,500,000)	(1,908,015)	(1,908,015)	(1,789,876)	(1,666,690)
Assumed county debt	(855)	(675)	(600)	(525)	(450)
MBTA forward funding	(680,869)	(601,027)	(511,546)	(416,830)	(368,873)
Transportation Infrastructure Fund	(1,386,869)	(1,066,638)	(1,336,741)	(1,476,287)	(1,462,870)
MSBA	-	-	(500,000)	(1,000,002)	(986,489)
Outstanding Direct Debt(2)	<u>\$11,566,472</u>	<u>\$12,459,055</u>	<u>\$12,185,286</u>	<u>\$12,599,293</u>	<u>\$13,330,892</u>
Statutory Debt Limit	<u>\$12,211,823</u>	<u>\$12,822,414</u>	<u>\$13,463,535</u>	<u>\$14,136,712</u>	<u>\$14,843,547</u>

SOURCE: Office of the Comptroller.

- (1) Includes three series of outstanding crossover refunding bonds, two of which are special obligation bonds and one of which consists of federal grant anticipation notes. The refunding escrows funded by these bonds and related premiums are used to pay interest on the refunding bonds until the refunded bonds are callable and then to redeem the refunded bonds. Interest on the refunded bonds prior to redemption continues to be paid from pledged revenues as before.

(2) Capital appreciation bonds reported at original net proceeds for the purposes of calculating debt limit, not at maturity value.

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

Long Term Commonwealth Debt (in thousands) (1)

	<u>Fiscal 2003</u>	<u>Fiscal 2004</u>	<u>Fiscal 2005</u>	<u>Fiscal 2006</u>	<u>Fiscal 2007(3)</u>
General Obligation Debt	\$13,714,382	\$14,126,275	\$14,463,236	\$15,383,366	\$16,020,737
Special Obligation Debt (2)	748,124	1,347,882	1,485,548	1,288,595	1,258,270
Federal Grant Anticipation Notes (2)	<u>1,500,000</u>	<u>1,908,015</u>	<u>1,908,015</u>	<u>1,789,445</u>	<u>1,665,620</u>
TOTAL	<u>\$15,962,506</u>	<u>\$17,382,172</u>	<u>\$17,856,799</u>	<u>\$18,461,406</u>	<u>\$18,944,627</u>

SOURCE: Office of the Comptroller.

(1) The amount of debt is calculated based on net proceeds.

(2) Includes three series of outstanding crossover refunding bonds, two of which are special obligation bonds and one of which consists of federal grant anticipation notes. Amounts attributable to such bonds are shown in this table beginning in fiscal 2004. 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 are preliminary.

On May 30, 2007, the Commonwealth issued general obligation bonds to defease all outstanding Massachusetts Convention Center Authority and Foxborough Industrial Development Financing Authority bonds with respect to which the Commonwealth was liable for general obligation contract assistance. In addition, on May 30, 2007 the Commonwealth reduced its budgetary contract assistance liability for lease revenue bonds issued by the Route 3 North Transportation Improvements Association by issuing general obligation bonds to defease approximately \$53.4 million of such bonds.

The following table sets forth, as of July 1, 2007, 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 exchange agreement, the debt service schedule assumes payment of the fixed rate due under such agreement. For other variable rate bonds and for auction rate securities, the schedule assumes a 5% interest rate.

Debt Service Requirements on Commonwealth Bonds as of July 1, 2007
(in thousands)(1)

Fiscal Year	General Obligation Bonds			Federal Grant Anticipation Notes(2)			Special Obligation Bonds			Total Debt Service Commonwealth Bonds	
	Principal	Current Interest	Interest on CABS at Maturity	Sub Total	Principal	Interest	Sub Total	Principal	Interest		Sub Total
2008	\$ 1,009,870	\$ 739,153	\$ 5,801	\$ 1,754,824	\$ 130,240	\$ 81,469	\$ 211,709	\$32,545	\$48,898	\$81,443	\$2,047,976
2009	1,034,361	725,855	6,900	1,767,116	137,230	74,478	211,708	33,960	64,631	98,591	2,077,415
2010	977,212	673,619	6,905	1,657,736	158,815	66,835	225,650	35,530	63,067	98,597	1,981,983
2011	992,112	621,312	7,763	1,621,187	214,620	57,206	271,826	37,240	61,359	98,599	1,991,612
2012	876,068	568,652	8,370	1,453,090	226,420	45,694	272,114	39,135	59,470	98,605	1,823,809
2013	951,768	521,127	8,944	1,481,839	208,410	35,110	243,520	41,150	57,438	98,588	1,823,947
2014	841,577	476,936	7,031	1,325,544	302,820	21,697	324,517	38,925	55,200	94,125	1,744,186
2015	860,301	433,173	6,542	1,300,016	287,065	7,185	294,250	87,430	53,210	140,640	1,734,906
2016	907,775	392,352	5,164	1,305,291	-	-	-	90,760	48,593	139,353	1,444,644
2017	884,829	348,861	3,612	1,237,302	-	-	-	108,385	43,803	152,188	1,389,490
2018	630,271	310,798	2,708	943,777	-	-	-	46,350	38,425	84,775	1,028,552
2019	621,474	278,105	20,239	919,818	-	-	-	48,775	36,121	84,896	1,004,714
2020	696,990	246,400	1,429	944,819	-	-	-	49,020	33,499	82,519	1,027,338
2021	891,411	207,088	1,302	1,099,801	-	-	-	51,515	31,064	82,579	1,182,380
2022	683,087	168,119	1,080	852,286	-	-	-	54,355	28,292	82,647	934,933
2023	590,906	136,171	856	727,933	-	-	-	36,960	25,428	62,388	790,321
2024	514,918	109,016	512	624,446	-	-	-	28,990	23,443	52,433	676,879
2025	447,415	86,123	216	533,754	-	-	-	30,625	21,848	52,473	586,227
2026	302,768	67,615	130	370,513	-	-	-	32,360	20,164	52,524	423,037
2027	314,431	53,006	23	367,460	-	-	-	34,190	18,384	52,574	420,034
2028	121,595	42,055	-	163,650	-	-	-	36,125	16,504	52,629	216,279
2029	198,890	33,979	-	232,869	-	-	-	38,170	14,517	52,687	285,556
2030	205,555	23,654	-	229,209	-	-	-	40,330	12,418	52,748	281,957
2031	215,380	12,786	-	228,166	-	-	-	42,610	10,199	52,809	280,975
2032	23,415	6,942	-	30,357	-	-	-	45,020	7,856	52,876	83,233
2033	24,460	5,908	-	30,368	-	-	-	47,565	5,380	52,945	83,313
2034	25,545	4,826	-	30,371	-	-	-	50,250	2,764	53,014	83,385
2035	26,680	3,697	-	30,377	-	-	-	-	-	-	30,377
2036	27,865	2,518	-	30,383	-	-	-	-	-	-	30,383
2037	29,105	1,286	-	30,391	-	-	-	-	-	-	30,391
TOTAL	\$15,928,034	\$7,301,132	\$95,527	\$23,324,693	\$1,665,620	\$389,674	\$2,055,294	\$1,258,270	\$901,975	\$2,160,245	\$27,540,232

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

(1) Amounts are preliminary.

(2) Includes three series of outstanding crossover refunding bonds, two of which are special obligation bonds and one of which consists of federal grant anticipation notes. 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. The amount of debt is calculated based on net proceeds as provided under state finance law relative to debt limits.

STATE WORKFORCE

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

Budget-Funded Workforce (1)

	<u>June 2003</u>	<u>June 2004</u>	<u>June 2005</u>	<u>June 2006</u>	<u>June 2007</u>
Executive Office	94	73	71	66	79
Office of the Comptroller	102	102	124	122	124
Executive Departments					
Administration and Finance	2,921	2,791	2,913	2,990	2,791
Energy and Environmental Affairs (3)	2,156	1,997	1,984	2,057	2,168
Housing and Community Development	98	92	94	91	
Early Education and Care	-	-	-	164	189
Health and Human Services	21,440	20,682	21,066	21,022	21,072
Transportation and Public Works	445	344	1,139(2)	1,078	1,087
Board of Library Commissioners	13	12	11	12	13
Economic Development (3)	922	879	935	960	
Housing and Economic Development (3)					610
Labor and Workforce Development (3)					320
Department of Education	248	223	241	266	269
Board of Higher Education	14,117	11,844	13,198	12,932	13,319
Public Safety and Homeland Security	9,148	8,765	8,109(2)	8,430	8,457
Elder Affairs	<u>38</u>	<u>28</u>	<u>51</u>	<u>34</u>	<u>44</u>
Subtotal under Governor's authority	51,742	47,832	49,934	50,223	50,543
Judiciary	7,233	7,175	7,435	7,630	7,993
Other (4)	<u>7,256</u>	<u>7,220</u>	<u>7,352</u>	<u>7,594</u>	<u>7,947</u>
Total	<u>66,232</u>	<u>62,227</u>	<u>64,721</u>	<u>65,447</u>	<u>66,483</u>

SOURCE: Executive Office for Administration and Finance.

- (1) Excludes employees whose positions are established in accounts funded by capital projects funds, direct federal grants, expendable trusts and other non-appropriated funds, as well as seasonal help, members of boards and commissions and staff of independent authorities. Numbers represent full-time equivalent positions (FTEs), not individual employees. Total may not add due to rounding.
- (2) Effective July, 2004, the Registry of Motor Vehicles was transferred from the Executive Office of Public Safety to the Executive Office of Transportation and Public Works. Approximately 814 FTEs were involved in the transfer.
- (3) Effective April 11, 2007 the Executive Office of Economic Development was divided into the Executive Office of Housing and Economic Development, incorporating the former Department of Housing and Community Development, and the Executive Office of Labor and Workforce Development. The Department of Public Utilities and the Department of Energy Resources were transferred to the renamed Executive Office of Energy and Environmental Affairs from the Executive Office of Economic Development, a net shift of 100 FTEs.
- (4) Other includes members of the Legislature and their staff, the offices of the State Treasurer, Secretary, Auditor and Attorney General, the eleven District Attorneys, the seven former county sheriffs that have become state agencies, and other agencies independent from the Governor.

Unions and Labor Negotiations

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

The Trial Court, the Lottery Commission, state sheriffs, the Registries of Deeds under the control of the Secretary of the Commonwealth and public higher education management negotiate directly with their respective employee representatives, but all wage increases and other economic provisions contained in agreements negotiated by the Lottery Commission, state sheriffs, Registries of Deeds and higher education management are subject to the review of the Governor and to funding approval by the Legislature. If the Governor does not recommend the

requested appropriation to fund contractual increases, he may refer the contracts back to the parties for further negotiation.

Approximately 39,331 executive branch full-time-equivalent state employees are organized in 12 bargaining units, the employees of the Commonwealth's colleges and universities are organized in 28 bargaining units, and the employees of the judicial branch and the Lottery Commission are organized in 7 bargaining units. Public employees of the Commonwealth do not have a legal right to strike or otherwise withhold services. Negotiations are currently underway with the Coalition of Public Safety, representing employees in Unit 5, to replace their contract which expired June 30, 2004; and with the International Brotherhood of Correctional Officers/National Association of Government Employees in Unit 4A, to replace their contract which expired June 30, 2007.

The Commonwealth has outstanding agreements with the following bargaining units (negotiations are underway with the units that have contracts due to expire in June, 2007):

(1) The Massachusetts Nurses Association is under contract through December, 2007. A one-year contract from July, 2004 to June, 2005 did not provide for any salary increases. A two-and-a-half-year contract from July, 2005 to December, 2007 provided for a 3% increase in July, 2005, a directed job upgrade of approximately 4.4% for specific titles within the unit, including nurses, effective January, 2006, a 2% increase in January, 2006, a 3% increase in July, 2006 and a 1.5% increase in January, 2007 and provides for a 1.5% increase in July, 2007. The total estimated cost of the contract is \$58.6 million.

(2) The Service Employees International Union, representing employees in units 8 and 10, has a one-year contract from January, 2007 to December 2007 that provides a 4% increase in January 2007. The total estimated cost of the contract is approximately \$27 million.

(3) The Massachusetts Organization of State Engineers and Scientists has a one-year contract from July, 2007 to June, 2008 that provides a 3% increase in July, 2007. The total estimated cost of the contract is \$2.5 million.

(4) The National Association of Government Employees, representing Units 1, 3 and 6, has a one-year contract from July, 2007 to June, 2008 that provides a 3% increase in July, 2007. The total estimated cost of the contract is \$15.9 million.

(5) The Alliance Unit 2 (American Federation of State, Country and Municipal Employees) has a one-year contract from July, 2007 to June, 2008 that provides a 3% increase in July, 2007. The total estimated cost of the contract is \$10.5 million.

(6) The State Police Association of Massachusetts is under contract until December, 2008. A two-year contract from January, 2007 to December, 2008 provided a 3.75% increase in January, 2007 and provides a 3.75% increase in January, 2008. The total estimated cost of the contracts is \$108.7 million.

(7) The Massachusetts Correction Officers Federated Union is under contract until June, 2009. The period from January, 2004 to June 2005 did not provide for any salary increases. A 3 year contract and an accompanying one-year extension cover the period from July, 2005 to June, 2009 and provide for an 8% increase in October, 2006, and 3% increases in July, 2007 and July, 2008. The total estimated cost of the contracts is \$49.6 million.

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

Human Resources Division Bargaining Units(1)(2)

Contract Unit	Bargaining Union	Type of Employee	FTEs	Contract Expiration Dates
1	National Association of Government Employees	Clerical	2,866	6/30/08
2	Alliance/American Federation of State, County & Municipal Employees and Service Employees International Union	Institutional services	9,225	6/30/08
3	National Association of Government Employees	Skilled trades	595	6/30/08
4	Massachusetts Correction Officers Federated Union	Corrections	3,751	6/30/09

4A	Corrections Captains	Corrections	87	6/30/07
5	Coalition of Public Safety	Law enforcement	232	6/30/04
5A	State Police Association of Massachusetts	State Police	1,928	12/31/08
6	National Association of Government Employees	Administrative professionals	8,174	6/30/08
7	Massachusetts Nurses Association	Health professionals	1,720	12/31/07
8	Alliance/Service Employees International Union	Social workers	7,249	12/31/07
9	Massachusetts Organization of State Engineers and Scientists	Engineers/scientists	2,818	6/30/08
10	Alliance/Service Employees International Union	Secondary education	584	12/31/07
		Total	<u>39,329</u>	

SOURCE: Executive Office for Administration and Finance.

(1) Totals may not add due to rounding.

(2) Numbers represent full-time equivalent filled positions (FTEs) in the standard workforce as of July 7, 2007 whose positions are established in accounts funded by all sources (the annual operating budget, capital projects funds, direct federal grants and expendable trusts and other non-appropriated funds).

LEGAL MATTERS

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

Programs and Services

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

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

On July 14, 2004, a subset of plaintiffs filed a motion to reopen the case and enforce the final order of May 25, 1993, asserting various reasons why the Department of Mental Retardation is not in compliance with the 1993 final order, mostly relating to the Commonwealth's plan to close the Fernald Developmental Center. Another subgroup of plaintiffs (representing class members from the Dever and Wrentham Developmental Centers) have sought to re-open the case as well. The Department filed a responsive pleading on August 16, 2004, asserting that all of the requirements of the final order were met. On August 28, 2004, the Disability Law Center filed a motion to intervene, asserting an interest on behalf of persons with disabilities in the closing of the facility, which was allowed. On February 8, 2006, the judge ordered all transfers from Fernald halted indefinitely and appointed United States Attorney Michael Sullivan as court monitor over the closure of Fernald. On March 6, 2007, the United States Attorney issued his long-awaited report, in which he did not find any violations by the Department of federal or state law, but nonetheless recommended that the Fernald Developmental Center remain open to serve any residents who wish to remain there. Shortly thereafter, the Court declared that its 2006 order prohibiting transfers from the Fernald Center (absent a specific written order to the contrary) would remain in effect pending further order of the Court. As of mid-July, 2007, motions filed by the Department and by the Disability Law Center to dissolve the 2006 injunction were pending before the Court.

Catherine Hutchinson, by her Guardian, Sandy Julien, et al v. Deval L. Patrick, et al (United States District Court). The plaintiffs, who claim to represent a class of over 1,000 persons with serious brain injuries, allege that the Commonwealth's failure to provide long-term care in community settings has resulted in their unnecessary institutionalization. An answer to the complaint was filed July 16, 2007.

Taxes

There are several tax cases pending that could result in significant refunds if taxpayers prevail. It is the policy of the Attorney General and the Commissioner of Revenue to defend such actions vigorously on behalf of the Commonwealth, and the descriptions that follow are not intended to imply that the Commissioner has conceded any liability whatsoever. As of, July 20, 2007, approximately \$ 100 million in contingent liabilities exist in the aggregate in tax cases pending before the Appellate Tax Board, Appeals Court or Supreme Judicial Court. These contingent liabilities include both taxes and interest. Several cases comprise a sizeable share of these liabilities.

TJX Companies v. Commissioner of Revenue (Appellate Tax Board). The taxpayer is challenging a tax liability of approximately \$23.5 million 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. On August 8, 2006, the Appellate Tax Board issued its decision in favor of the Commissioner. The Board's findings of fact and report have been requested but not yet issued.

MBNA America Bank v. Commissioner of Revenue, Greenwood Trust Co. v. Commissioner of Revenue, Providian Nat'l Bank v. Commissioner of Revenue (Appellate Tax Board). These are financial excise "nexus" cases involving credit card businesses. The total potential refund is approximately \$24.8 million. On October 13, 2006, the Appellate Tax Board issued a decision for the Commission in the similar case of *Capital One Bank and Capital One F.S.B.* The findings of fact and report in *Capital One* were issued on June 22, 2007, and the taxpayer has expressed its intention to appeal by August 21, 2007.

Other Revenues

Cutting Edge Enterprises, Inc. v. National Association of Attorneys General et al (United States District Court, Southern District of New York); *Cutting Edge Enterprises, Inc. v. National Association of Attorneys General et al* (U.S. Bankruptcy Court, Middle District of North Carolina). The plaintiff, now in bankruptcy, is a Subsequent Participating Manufacturer ("SPM") which has filed suit against numerous states including Massachusetts alleging that the states' refusal to list the plaintiff as an approved SPM on their Directories violates the terms of the MSA and the Sherman Anti-Trust Act. In its complaint filed in Bankruptcy Court, Cutting Edge asks the Court to declare that the states' refusal to list the plaintiff as an approved SPM on their Directories violates the terms of the MSA and the Sherman Anti-Trust Act and tortiously interferes with the plaintiff's business. If the Court finds no breach of the MSA, Cutting Edge asks it to find that certain provisions of the MSA are pre-empted by the Sherman Anti-Trust Act and unenforceable. If Cutting Edge ultimately obtains a judgment invalidating portions of the MSA, that result could make it more likely that future payments to Massachusetts and other states under the MSA would be reduced by amounts that could be significant but cannot be estimated at this time.

The Arborway Committee v. Executive Office of Transportation and Public Works et al. (Suffolk Superior Court). The plaintiff, a volunteer group of residents and merchants in Jamaica Plain, filed a complaint in February, 2007, seeking to compel the Commonwealth to restore electric light rail service between Heath Street and the Forest Hills station in Boston. Green Line service along this route, known as the Arborway line, was discontinued in 1985. The plaintiff claims that the Commonwealth's failure to restore the Arborway Line is a breach of a memorandum of understanding entered into between the Commonwealth and the Conservation Law Foundation in 1990. The Commonwealth has answered the complaint and the case is moving into the discovery phase.

In re Aggregate Industries Settlement. In late June, 2007, the Attorney General and the United States Attorney resolved four civil cases and one criminal matter with Aggregate Industries NE, Inc., arising out of Aggregate's supply of concrete products to the Central Artery/Ted Williams Tunnel project. In addition to a guilty plea on a charge of conspiracy to defraud the government, the settlement requires Aggregate to make total payments of \$50 million, including approximately \$6.2 million to the Commonwealth, approximately \$1.1 million of which the Commonwealth must in turn pay to "relators" (whistleblowers). In addition, the settlement provides that approximately \$27.1 million plus accrued interest will be paid into a trust fund for future repairs and maintenance of structures related to the project. The four civil cases resolved by this agreement are: *Commonwealth of Massachusetts ex rel. Chase v. Aggregate Industries, Inc. et al* in Suffolk Superior Court and *United States ex rel.*

Harrington and Finney v. Aggregate Industries, Inc. et al, United States ex rel. Chase v. Aggregate Industries, Inc. et al, and United States ex rel. Johnston v. Aggregate Industries PLC et al, all in the United States District Court.

Other

Historical Nipmuc Tribe v. Commonwealth of Massachusetts (Land Court). By this recently filed complaint, the Historical Nipmuc Tribe seeks the return of “State Parks and other unsettled Lands” in Central Massachusetts that are allegedly illegally obtained Nipmuc tribal homelands, as well as restitution for the Commonwealth’s use of this property.

In re Delayed Release of Inmates. The Department of Correction has identified a group of inmates who were not released on their actual release dates, resulting in incarceration beyond their sentences. An initial group of 14 inmates has been identified who were released from one day to three years late. Although litigation has not been commenced, two of these inmates have already made demands for compensation in excess of the statutory cap, arguing that their delayed release violated their civil rights. The Department is continuing to review its records to identify any additional inmates who may have been released late.

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

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

AVAILABILITY OF OTHER FINANCIAL INFORMATION

Questions regarding this Information Statement Supplement or requests for additional information concerning the Commonwealth should be directed to Patrick F. Landers, III, Assistant Treasurer, Office of the Treasurer and Receiver-General, One Ashburton Place, 12th floor, Boston, Massachusetts 02108, telephone (617) 367-3900 (ext. 226), or to Jay Gonzalez, Assistant Secretary for Capital Finance and Intergovernmental Affairs, Executive Office for Administration and Finance, State House, Room 373, Boston, Massachusetts 02133, telephone (617) 727-2040. Questions regarding legal matters relating to this Information Statement 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/ Leslie A. Kirwan
Leslie A. Kirwan
Secretary of Administration and Finance

August 8, 2007

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ECONOMIC INFORMATION

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

All information is presented on a calendar-year basis unless otherwise indicated. **The section was prepared for release on July 20, 2007. Information in the text, tables, charts, and graphs was current as of June 30, 2007.** Sources of information are indicated in the text or immediately following the charts and tables, and also on the *Sources List* on the last page of the Exhibit A section. Although the Commonwealth considers the sources to be reliable, the Commonwealth has made no independent verification of the information presented herein and does not warrant its accuracy.

Statistical Overview

Population (p. A-2)

	<u>Massachusetts</u>	<u>United States</u>
Estimated Percent Change in Population, April 1, 2000–July 1, 2006	1.4%	6.4%

Personal Income, Consumer Prices, and Poverty (p. A-7)

Per Capita Personal Income, 2006	\$45,877	\$36,276
Average Annual Pay, All Industries, 2005	\$50,095	\$40,677
Percent Change in CPI-U, 2005-2006*	3.1%	3.2%
Percent Change in CPI-U, M ay 2006-M ay 2007*	1.5%	2.7%
Poverty Rate, 2003-2005 Average	9.9%	12.6%
Average Weekly Earnings, M anufacturing Production Workers: 2007ytd (5mo.)	\$764.51	\$699.32
Percent Change 2007ytd (M ay 07 prelim.), over same period last year	4.7%	2.4%

Employment (p. A-15)

Percent Change in Nonfarm Payroll Employment, M ay 2006-M ay 2007(p)	1.0%	1.4%
Unemployment Rate, 2006	5.0%	4.6%
Unemployment Rate, M ay, 2007 (seasonally adjusted)	5.1%	4.5%

Economic Base and Performance (p. A-20)

Percent Change in Gross State Product, 2005-2006	5.5%	6.3%
Percent Change in International Exports, 2005-2006	9.1%	14.7%
Percent Change in Housing Permits Authorized, 2005-2006	-20.2%	-14.7%

Human Resources and Infrastructure (p. A-38)

Expenditure Per Pupil, 2004	\$11,267	\$8,701
Percent of Adults with a Bachelor's Degree or higher, 2005	36.9%	27.2%

*NOTE: Percent changes in the Consumer Price Index for All Urban Consumers (CPI-U) are for the Boston-Worcester-Lawrence, M A-NH-ME-CT C M S A & the United States.

Massachusetts is a densely populated state with a well-educated population, comparatively high income levels, low rates of unemployment, and a relatively diversified economy. While the total population of Massachusetts has remained fairly stable in the last twenty-five years, significant changes have occurred in the age distribution of the population: dramatic growth in residents between the ages of 20 and 44 since 1980 is expected to lead to a population distributed more heavily in the 65 and over age group in the next twenty-five years. Just as the working-age population has increased, income levels in Massachusetts since 1980 have grown significantly more than the national average, and a variety of measures of income show that Massachusetts residents have significantly higher amounts of annual income than the national average. These higher levels of income have been accompanied by a significantly lower poverty rate and, with the exception of the recession of the early 1990s, considerably lower unemployment rates in Massachusetts than in the United States since 1980. The state is now recovering from the recession of 2001, but is lagging behind the nation in many indicators, particularly employment levels.

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

POPULATION CHARACTERISTICS

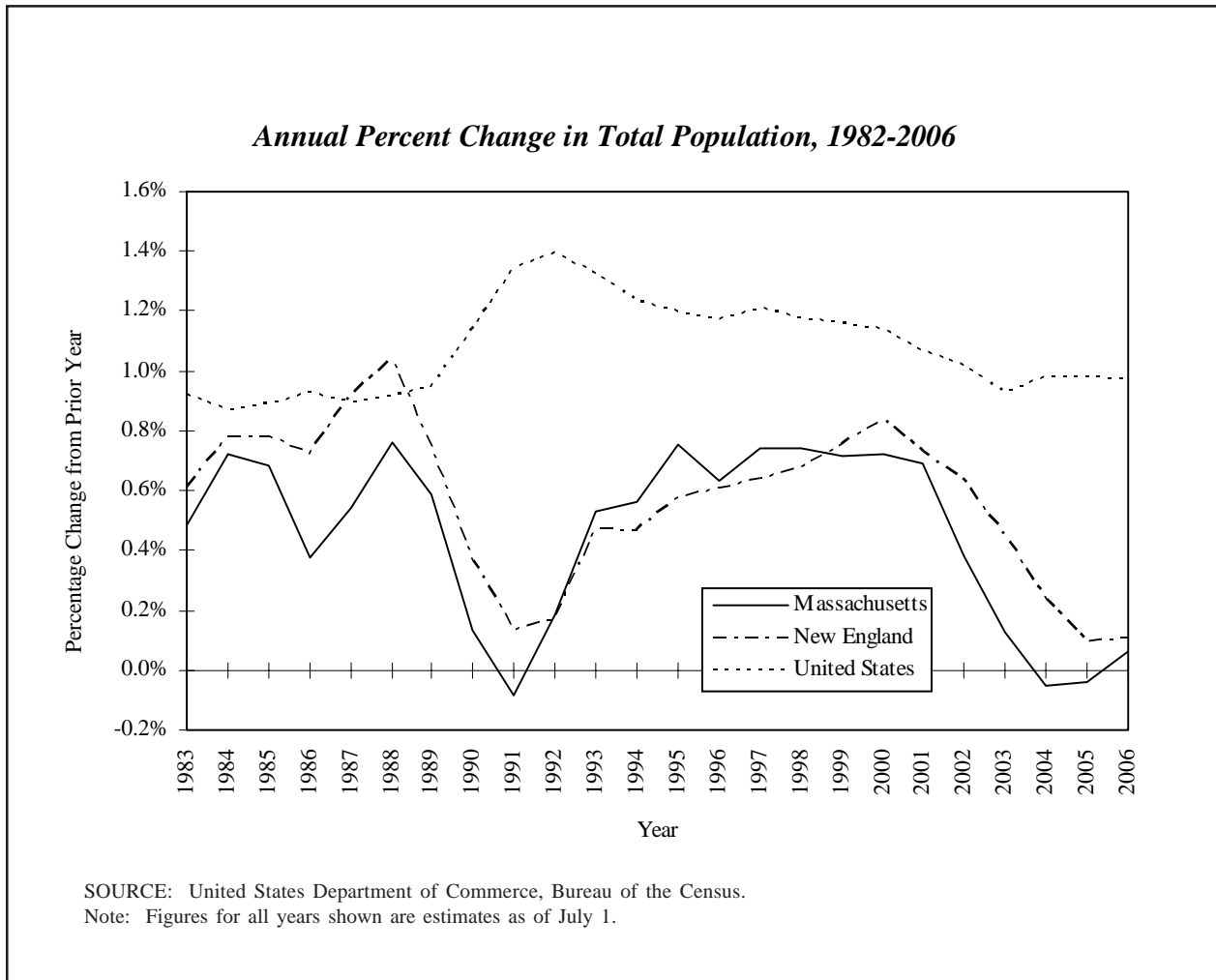
Massachusetts is a relatively slow growing but densely populated state with a comparatively large percentage of its residents living in metropolitan areas. The population density of Massachusetts was estimated as of July 1, 2006 to be 821.1 persons per square mile, as compared to 84.6 for the United States as a whole. Among the 50 states, only Rhode Island and New Jersey have a greater population density. Massachusetts also ranked just behind the same two states in percentage of residents living in metropolitan areas according to the metropolitan definitions released in 2003 which are based on whole counties. According to this new definition, the entire state is considered metropolitan except for the two island counties (99.6 percent of state residents in 2005) while Rhode Island, New Jersey and D.C. are wholly metropolitan.

The State's population is concentrated in its eastern portion. The city of Boston is the largest city in New England, with a 2006 population estimated at 590,763, or 9.2 percent of the state's population. Boston is the hub of the seven-county Boston-Cambridge-Quincy, MA-NH Metropolitan Statistical Area (MSA), which includes the two southeastern New Hampshire counties, and which had a total population in 2006 estimated at 4,455,217 or 31 percent of the total New England population. The three-county Boston-Quincy, MA Metropolitan Division is the largest component of that MSA, with a total population in 2006 estimated at 1,835,986.

The second largest MSA in the state is the Worcester, MA MSA, with a 2006 population estimated at 784,992. The city of Worcester, situated approximately 40 miles west of Boston with a 2006 population estimated at 175,454, is the second largest city in New England as well as the second largest in the state. As a major medical and educational center, the Worcester area is home to 18 patient care facilities, including the University of Massachusetts Medical School, and thirteen other colleges and universities.

The third largest MSA in Massachusetts is the three-county Springfield MSA, with a 2006 population estimated at 686,174. Springfield, the third largest city in the Commonwealth with a 2006 population estimated at 151,176, is located in the Connecticut River Valley in Western Massachusetts and enjoys a diverse body of corporate employers, the largest of which are Baystate Health System, Big Y Supermarkets, MassMutual Financial Group, and Hasbro Games (Milton Bradley). In addition, Springfield is home to three independent colleges.

As the following chart and table indicate, the population in Massachusetts generally grows more slowly than the population of New England and much more slowly than the nation as a whole. According to the Census Bureau's latest revised estimates released in December, 2006, Massachusetts population has grown by 1.4% since Census 2000, and only five states have grown more slowly. All of that growth occurred between 2000 and 2003; the estimate has been essentially flat since then.



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

Population, 1972-2006

(in thousands)

<i>Year</i>	<i>Massachusetts</i>		<i>New England</i>		<i>United States</i>	
	<i>Total</i>	<i>Percent Change</i>	<i>Total</i>	<i>Percent Change</i>	<i>Total</i>	<i>Percent Change</i>
1972	5,760	0.4%	12,082	0.7%	209,284	1.2%
1973	5,781	0.4%	12,140	0.5%	211,357	1.0%
1974	5,774	-0.1%	12,146	0.0%	213,342	0.9%
1975	5,758	-0.3%	12,163	0.1%	215,465	1.0%
1976	5,744	-0.2%	12,192	0.2%	217,563	1.0%
1977	5,738	-0.1%	12,239	0.4%	219,760	1.0%
1978	5,736	0.0%	12,283	0.4%	222,095	1.1%
1979	5,738	0.0%	12,322	0.3%	224,567	1.1%
1980	5,737	0.0%	12,348	0.2%	226,546	0.9%
1981	5,769	0.6%	12,436	0.7%	229,466	1.3%
1982	5,771	0.0%	12,468	0.3%	231,664	1.0%
1983	5,799	0.5%	12,544	0.6%	233,792	0.9%
1984	5,841	0.7%	12,642	0.8%	235,825	0.9%
1985	5,881	0.7%	12,741	0.8%	237,924	0.9%
1986	5,903	0.4%	12,833	0.7%	240,133	0.9%
1987	5,935	0.5%	12,951	0.9%	242,289	0.9%
1988	5,980	0.8%	13,085	1.0%	244,499	0.9%
1989	6,015	0.6%	13,182	0.7%	246,819	0.9%
1990	6,023	0.1%	13,230	0.4%	249,623	1.1%
1991	6,018	-0.1%	13,248	0.1%	252,981	1.3%
1992	6,029	0.2%	13,271	0.2%	256,514	1.4%
1993	6,061	0.5%	13,334	0.5%	259,919	1.3%
1994	6,095	0.6%	13,396	0.5%	263,126	1.2%
1995	6,141	0.8%	13,473	0.6%	266,278	1.2%
1996	6,180	0.6%	13,555	0.6%	269,394	1.2%
1997	6,226	0.7%	13,642	0.6%	272,647	1.2%
1998	6,272	0.7%	13,734	0.7%	275,854	1.2%
1999	6,317	0.7%	13,838	0.8%	279,040	1.2%
2000	6,363	0.7%	13,954	0.8%	282,217	1.1%
2001	6,407	0.7%	14,056	0.7%	285,226	1.1%
2002	6,431	0.4%	14,145	0.6%	288,126	1.0%
2003	6,440	0.1%	14,208	0.4%	290,796	0.9%
2004	6,436	-0.1%	14,241	0.2%	293,638	1.0%
2005	6,433	0.0%	14,255	0.1%	296,507	1.0%
2006	6,437	0.1%	14,270	0.1%	299,398	1.0%

SOURCE: United States Department of Commerce, Bureau of the Census. 1980 figures are census counts as of April 1, 1980; figures for all other years shown are estimates as of July 1.

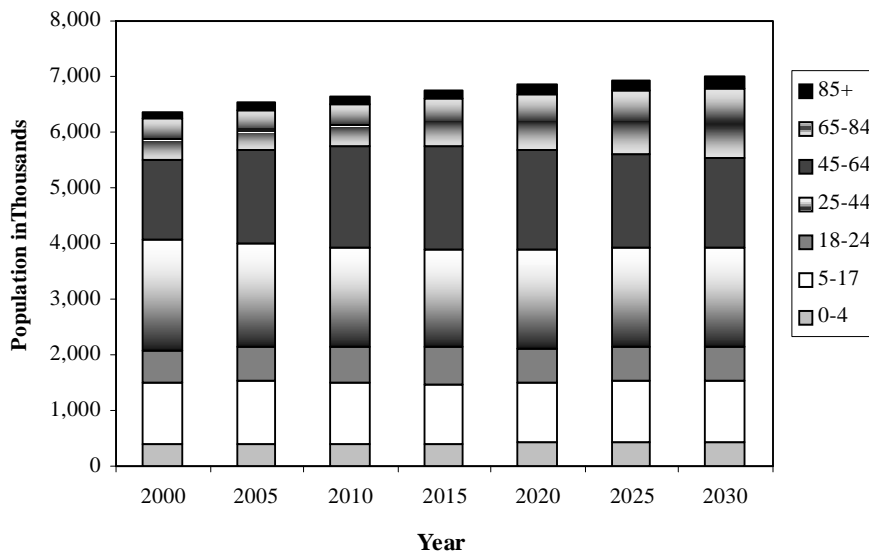
The next twenty-five years are expected to bring about a continued change in the age distribution of the Massachusetts population. As the following table and chart show, the share of the 65 and over age group and especially the 85 and over age group will continue to grow. The chart, table and population pyramids (below, and on the following page) show the projected population by age for Massachusetts for 2000 through 2030.

Projected Massachusetts Population by Age Group, 2000-2030
(in thousands)

<i>Year</i>	<i>0-4</i>	<i>5-17</i>	<i>18-24</i>	<i>25-44</i>	<i>45-64</i>	<i>65-84</i>	<i>85+</i>	<i>All Ages</i>	<i>Median Age</i>
2000	397.3	1,102.8	579.3	1,989.8	1,419.8	743.5	116.7	6,349.1	36.5
2005	406.3	1,119.2	611.8	1,874.6	1,649.0	720.7	137.4	6,518.9	37.8
2010	400.7	1,083.1	670.2	1,769.7	1,817.1	750.6	158.0	6,649.4	38.8
2015	409.7	1,064.2	656.0	1,746.1	1,857.1	856.5	168.9	6,758.6	39.2
2020	422.3	1,070.9	617.5	1,775.8	1,809.3	987.8	172.0	6,855.5	39.5
2025	431.0	1,087.7	616.2	1,782.5	1,703.3	1,137.8	180.1	6,938.6	39.7
2030	430.6	1,115.0	610.7	1,783.9	1,608.7	1,251.2	211.9	7,012.0	40.2

Actual Census 2000 counts as of April 1; all other figures are projections as of July 1 of the indicated year.
Interim Population Projections through 2030 released April 21, 2005 by the Population Division, Bureau of the Census, United States Department of Commerce. More recent estimates of the 2005 population are somewhat lower.

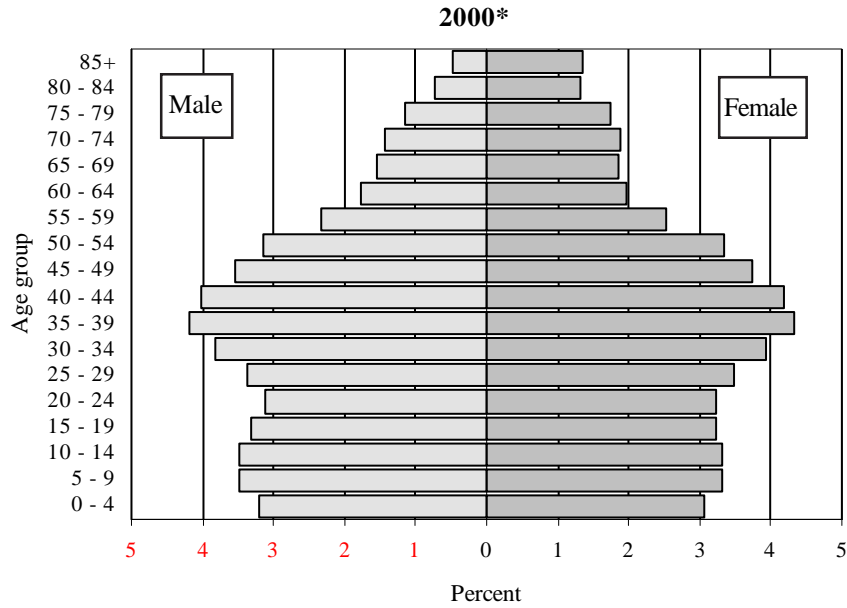
Projected Massachusetts Population by Age Group
2000-2030



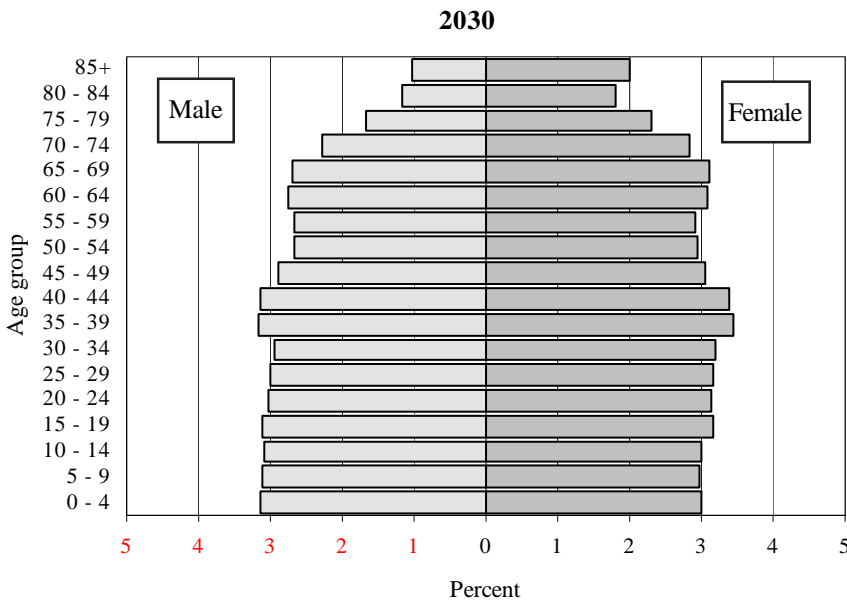
Actual Census 2000 counts as of April 1; all other figures are projections as of July 1 of the indicated year.
Interim Population Projections through 2030 released April 21, 2005 by the Population Division, Bureau of the Census, United States Department of Commerce. More recent estimates of the 2005 population are somewhat lower.

Population Pyramids of Massachusetts

(percent of total population)



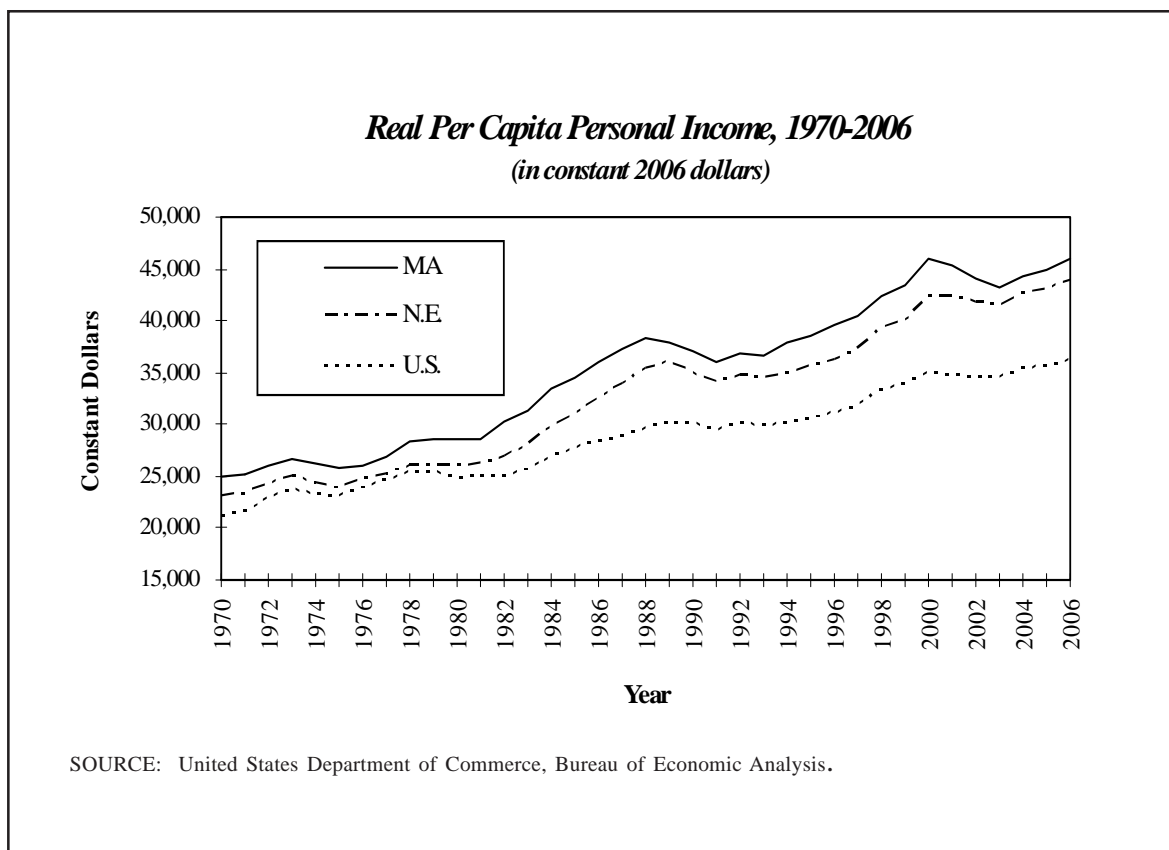
*Note: Actual Census 2000 counts as of April 1.



SOURCE: U.S. Census Bureau, Population Division, Interim State Population Projections, 2005
Internet Release Date: April 21, 2005

PERSONAL INCOME, CONSUMER PRICES, AND POVERTY

Personal Income. Since at least 1929, real and nominal per capita income levels have been consistently higher in Massachusetts than in the United States. After growing at an annual rate higher than that for the United States between 1982 and 1988, real income levels in Massachusetts declined between 1989 and 1991. Real per capita income levels in Massachusetts increased faster than the national average between 1994 and 1997. In 2000 Massachusetts had its highest per capita income growth in 16 years, exceeding the national growth rate by 2.4 percentage points. From 2000 to 2003 real income in both Massachusetts and the United States declined, with a steeper decline in Massachusetts. However, real income levels in Massachusetts remained well above the national average. In 2004, 2005, and 2006, income in the state grew faster than in the nation. For the last fourteen years only the District of Columbia, Connecticut and New Jersey have had higher levels of per capita personal income. The following graph illustrates these changes in real per capita personal income in Massachusetts, New England, and the United States since 1970.



The following table compares per capita personal income in Massachusetts, New England, and the United States for the period 1970-2006.

Per Capita Personal Income, 1970-2006

Year	Nominal Income (in current dollars)			Real Income (in 2006 dollars)			Percent Change in Real Income		
	MA	NE	U.S.	MA	NE	U.S.	MA	NE	U.S.
1970	4,483	4,445	4,085	24,880	23,096	21,225	3.4%	3.7%	4.0%
1971	4,752	4,680	4,342	25,123	23,296	21,614	1.0%	0.9%	1.8%
1972	5,109	5,029	4,717	26,083	24,255	22,750	3.8%	4.1%	5.3%
1973	5,547	5,481	5,231	26,729	24,887	23,752	2.5%	2.6%	4.4%
1974	6,016	5,958	5,707	26,214	24,364	23,337	-1.9%	-2.1%	-1.7%
1975	6,459	6,381	6,172	25,824	23,911	23,128	-1.5%	-1.9%	-0.9%
1976	6,998	6,959	6,754	26,021	24,656	23,930	0.8%	3.1%	3.5%
1977	7,620	7,593	7,405	26,942	25,260	24,634	3.5%	2.4%	2.9%
1978	8,430	8,413	8,245	28,324	26,013	25,494	5.1%	3.0%	3.5%
1979	9,385	9,392	9,146	28,604	26,080	25,397	1.0%	0.3%	-0.4%
1980	10,602	10,629	10,114	28,636	26,005	24,745	0.1%	-0.3%	-2.6%
1981	11,798	11,846	11,246	28,672	26,272	24,942	0.1%	1.0%	0.8%
1982	12,941	12,871	11,935	30,232	26,889	24,934	5.4%	2.3%	0.0%
1983	14,009	13,829	12,618	31,317	27,991	25,540	3.6%	4.1%	2.4%
1984	15,723	15,422	13,891	33,503	29,924	26,953	7.0%	6.9%	5.5%
1985	16,910	16,546	14,758	34,485	31,001	27,651	2.9%	3.6%	2.6%
1986	18,148	17,722	15,442	36,086	32,598	28,404	4.6%	5.2%	2.7%
1987	19,575	19,119	16,240	37,294	33,929	28,820	3.3%	4.1%	1.5%
1988	21,341	20,811	17,331	38,335	35,465	29,534	2.8%	4.5%	2.5%
1989	22,342	22,083	18,520	37,963	35,903	30,110	-1.0%	1.2%	1.9%
1990	23,043	22,712	19,477	37,011	35,032	30,043	-2.5%	-2.4%	-0.2%
1991	23,432	22,969	19,892	36,053	33,998	29,444	-2.6%	-3.0%	-2.0%
1992	24,538	24,172	20,854	36,840	34,733	29,966	2.2%	2.2%	1.8%
1993	25,176	24,752	21,346	36,735	34,533	29,781	-0.3%	-0.6%	-0.6%
1994	26,303	25,687	22,172	37,884	34,943	30,161	3.1%	1.2%	1.3%
1995	27,457	26,832	23,076	38,623	35,494	30,526	2.0%	1.6%	1.2%
1996	28,933	28,194	24,175	39,528	36,226	31,062	2.3%	2.1%	1.8%
1997	30,498	29,687	25,334	40,525	37,289	31,821	2.5%	2.9%	2.4%
1998	32,524	31,677	26,883	42,260	39,178	33,249	4.3%	5.1%	4.5%
1999	34,227	33,126	27,939	43,387	40,085	33,809	2.7%	2.3%	1.7%
2000	37,753	36,116	29,843	45,875	42,282	34,938	5.7%	5.5%	3.3%
2001	38,880	37,308	30,562	45,296	42,469	34,790	-1.3%	0.4%	-0.4%
2002	38,866	37,330	30,795	44,127	41,833	34,510	-2.6%	-1.5%	-0.8%
2003	39,442	37,894	31,466	43,156	41,519	34,476	-2.2%	-0.8%	-0.1%
2004	41,636	39,969	33,090	44,339	42,656	35,315	2.7%	2.7%	2.4%
2005	43,501	41,670	34,471	44,848	43,014	35,583	1.1%	0.8%	0.8%
2006	45,877	43,852	36,276	45,877	43,852	36,276	2.3%	1.9%	1.9%

SOURCE: United States Department of Commerce, Bureau of Economic Analysis.

Notes: Estimated population as of July 1. Massachusetts real income is calculated using Boston CPI-U data.

Annual Pay in Nominal Dollars has grown steadily in Massachusetts over the past decade. Average annual pay is computed by dividing the total annual payroll of employees covered by Unemployment Insurance programs by the average monthly number of employees. Data are reported by employers covered under the Unemployment Insurance programs. While levels of annual pay were nearly equal in Massachusetts and the United States in 1984, average annual pay levels in Massachusetts have grown more rapidly than the national average since that time. The level of annual pay in Massachusetts in 2005 was 23 percent higher than the national average: \$50,095 compared to \$40,677.

Wage and Salary Disbursements. Wage and Salary Disbursements by Place of Work is a component of personal income and measures monetary disbursements to employees. This includes compensation of corporate officers, commissions, tips, bonuses, and receipts in-kind. Although the data is recorded on a place-of-work basis, it is then adjusted to a place-of-residence basis so that the personal income of the recipients whose place of residence differs from their place of work will be correctly assigned to their state of residence. The table below details Wage and Salary Disbursements since 1990. Between 1991 and 2000, Massachusetts shares of the New England and overall US totals steadily increased, but in the subsequent years, its shares have dropped back somewhat from their 2000 peaks.

Annual Wage and Salary Disbursements, 1990-2006
(in millions of dollars)

Year	U.S.	N.E.	MA	MA as a pct. of N.E.
1990	\$ 2,743,016	\$171,448	\$83,129	48.5%
1991	\$ 2,811,076	\$170,333	\$82,311	48.3%
1992	\$ 2,972,287	\$177,810	\$86,014	48.4%
1993	\$ 3,076,276	\$183,236	\$89,047	48.6%
1994	\$ 3,227,483	\$190,661	\$93,164	48.9%
1995	\$ 3,415,368	\$201,946	\$99,194	49.1%
1996	\$ 3,615,699	\$213,667	\$105,573	49.4%
1997	\$ 3,874,011	\$230,032	\$113,579	49.4%
1998	\$ 4,179,922	\$247,851	\$123,054	49.6%
1999	\$ 4,463,650	\$266,554	\$134,045	50.3%
2000	\$ 4,825,906	\$293,889	\$150,842	51.3%
2001	\$ 4,939,944	\$300,698	\$153,131	50.9%
2002	\$ 4,976,522	\$298,534	\$150,107	50.3%
2003	\$ 5,107,298	\$304,756	\$151,955	49.9%
2004	\$ 5,386,149	\$321,384	\$160,141	49.8%
2005	\$ 5,659,282	\$332,623	\$164,988	49.6%
2006	\$ 6,017,428	\$350,117	\$173,997	49.7%

SOURCE: U.S. Department of Commerce, Bureau of Economic Analysis.

Consumer Prices. Higher income levels in Massachusetts relative to the rest of the United States are offset to some extent by the higher cost of living in Massachusetts. The following table presents consumer price trends for the Boston metropolitan area and the United States for the period between 1970 and 2006. The table shows the annual average of the Consumer Price Index for All Urban Consumers (CPI-U) and the percentage change in that average from the previous year. In 2006, the CPI-U for Boston increased by 3.1 percent over the average for 2005, while the index for the United States as a whole increased by a comparable 3.2 percent. The latest available data for May 2007 show that the CPI-U for the Boston metropolitan area grew at a rate of 1.5 percent from May 2006, compared with 2.7 percent for the U.S.

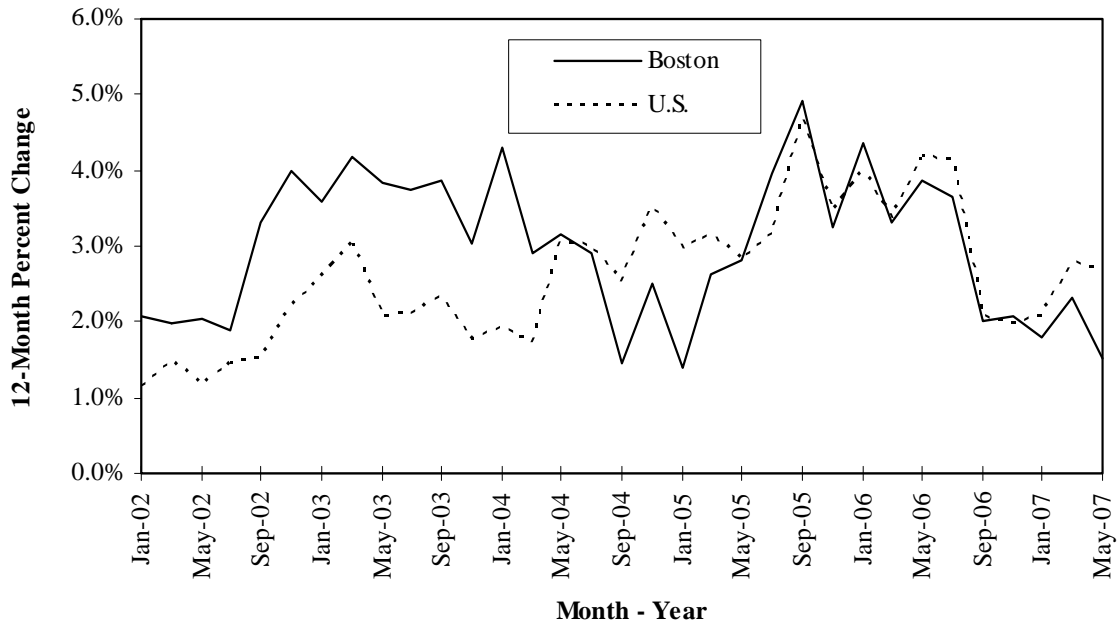
Consumer Price Index for All Urban Consumers (CPI-U), 1970-2006

(not seasonally adjusted; 1982-1984 base period average=100)

<i>Year</i>	<i>Boston Metro Area</i>		<i>United States</i>	
	<i>CPI-U</i>	<i>Pct.Change</i>	<i>CPI-U</i>	<i>Pct. Change</i>
1970	40.2		38.8	
1971	42.2	5.0%	40.5	4.4%
1972	43.7	3.6%	41.8	3.2%
1973	46.3	5.9%	44.4	6.2%
1974	51.2	10.6%	49.3	11.0%
1975	55.8	9.0%	53.8	9.1%
1976	60.0	7.5%	56.9	5.8%
1977	63.1	5.2%	60.6	6.5%
1978	66.4	5.2%	65.2	7.6%
1979	73.2	10.2%	72.6	11.3%
1980	82.6	12.8%	82.4	13.5%
1981	91.8	11.1%	90.9	10.3%
1982	95.5	4.0%	96.5	6.2%
1983	99.8	4.5%	99.6	3.2%
1984	104.7	4.9%	103.9	4.3%
1985	109.4	4.5%	107.6	3.6%
1986	112.2	2.6%	109.6	1.9%
1987	117.1	4.4%	113.6	3.6%
1988	124.2	6.1%	118.3	4.1%
1989	131.3	5.7%	124.0	4.8%
1990	138.9	5.8%	130.7	5.4%
1991	145.0	4.4%	136.2	4.2%
1992	148.6	2.5%	140.3	3.0%
1993	152.9	2.9%	144.5	3.0%
1994	154.9	1.3%	148.2	2.6%
1995	158.6	2.4%	152.4	2.8%
1996	163.3	3.0%	156.9	3.0%
1997	167.9	2.8%	160.5	2.3%
1998	171.7	2.3%	163.0	1.6%
1999	176.0	2.5%	166.6	2.2%
2000	183.6	4.3%	172.2	3.4%
2001	191.5	4.3%	177.1	2.8%
2002	196.5	2.6%	179.9	1.6%
2003	203.9	3.8%	184.0	2.3%
2004	209.5	2.7%	188.9	2.7%
2005	216.4	3.3%	195.3	3.4%
2006	223.1	3.1%	201.6	3.2%
May-06	222.9		202.5	
May-07	226.2	1.5%	207.9	2.7%

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

***12-Month Percent Change in the Consumer Price Index
for All Urban Consumers, January 2002 - May 2007***



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

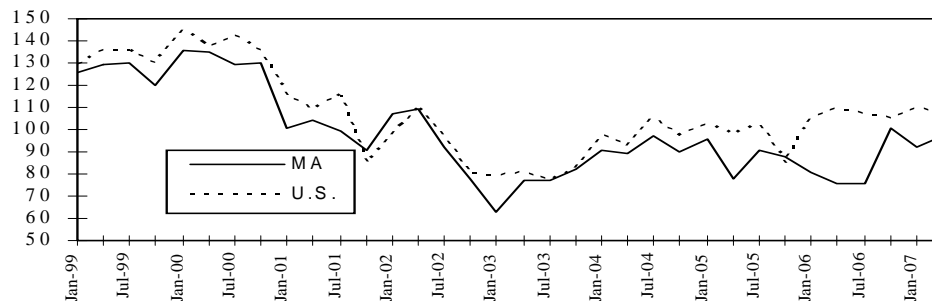
Consumer Confidence, Present Situation, and Future Expectations. These three measures offer multiple insights into consumer attitudes. The U.S. measures are compiled from a national monthly survey of 5,000 households and are published by The Conference Board, Inc. The survey for Massachusetts is conducted in a similar manner and the results are published by the Mass Insight Corporation, based on quarterly polling of 500 adult residents of Massachusetts. The "Present Situation" index measures consumers' appraisal of business and employment conditions at the time of the survey. The "Future Expectations" index focuses on consumers' expectations six months hence regarding business and employment conditions, as well as expected family income. The overall "Consumer Confidence" index is a weighted average of the two sub-indices. Although the U.S. measures are compiled by a different source than the Massachusetts measures, according to the Federal Reserve Bank of Boston the numbers are generally comparable. The Conference Board reports that in February 2007, consumer confidence nationally reached a five and a half year high point of 111.2, but has since declined a few points back to its mid-2006 levels. The Mass Insight Corporation however, reports that Massachusetts' consumer confidence rose sharply over the most recent twelve month period (by 21 points), but still lags somewhat behind the rest of the nation. A score of 100 is considered neutral. The following table and chart detail the recent record of these measures.

Consumer Confidence, Present Situation, and Future Expectations for Massachusetts and the U.S., January 2001 - April 2007 (1985=100)

	Consumer Confidence		Present Situation		Future Expectations	
	MA	U.S.	MA	U.S.	MA	U.S.
Jan-01	101.0	115.7	139.0	170.4	76.0	79.3
Apr-01	104.0	109.9	124.0	156.0	91.0	79.1
Jul-01	99.0	116.3	108.0	151.3	93.0	92.9
Oct-01	91.0	85.3	94.0	107.2	90.0	70.7
Jan-02	97.8	107.0	98.1	72.0	97.6	130.0
Apr-02	109.0	108.5	84.0	106.8	125.0	109.6
Jul-02	92.0	97.4	68.0	99.4	108.0	96.1
Oct-02	78.0	79.6	48.0	77.2	97.0	81.1
Jan-03	63.0	78.8	75.3	28.0	81.1	86.0
Apr-03	77.0	81.0	31.0	75.2	108.0	84.8
Jul-03	77.0	77.0	41.0	63.0	101.0	86.3
Oct-03	82.0	81.7	36.0	67.0	112.0	91.5
Jan-04	91.0	97.7	48.0	86.1	119.0	105.3
Apr-04	89.0	93.0	53.0	90.4	113.0	94.8
Jul-04	97.0	105.7	66.0	106.4	119.0	105.3
Oct-04	90.0	92.9	64.0	94.0	108.0	92.2
Jan-05	96.0	105.1	70.0	112.1	114.0	100.4
Apr-05	78.0	97.5	63.0	113.8	88.0	86.7
Jul-05	91.0	103.6	80.0	119.3	99.0	93.2
Oct-05	88.0	85.2	80.0	107.8	95.0	70.1
Jan-06	81.0	106.8	71.0	128.8	87.0	92.1
Apr-06	76.0	109.8	77.0	136.2	76.0	92.3
Jul-06	76.0	107.0	68.0	134.2	81.0	88.9
Oct-06	101.0	105.1	86.0	125.1	111.0	91.9
Jan-07	92.0	110.2	74.0	133.9	104.0	94.4
Apr-07	97.0	106.3	89.0	133.5	102.0	88.2

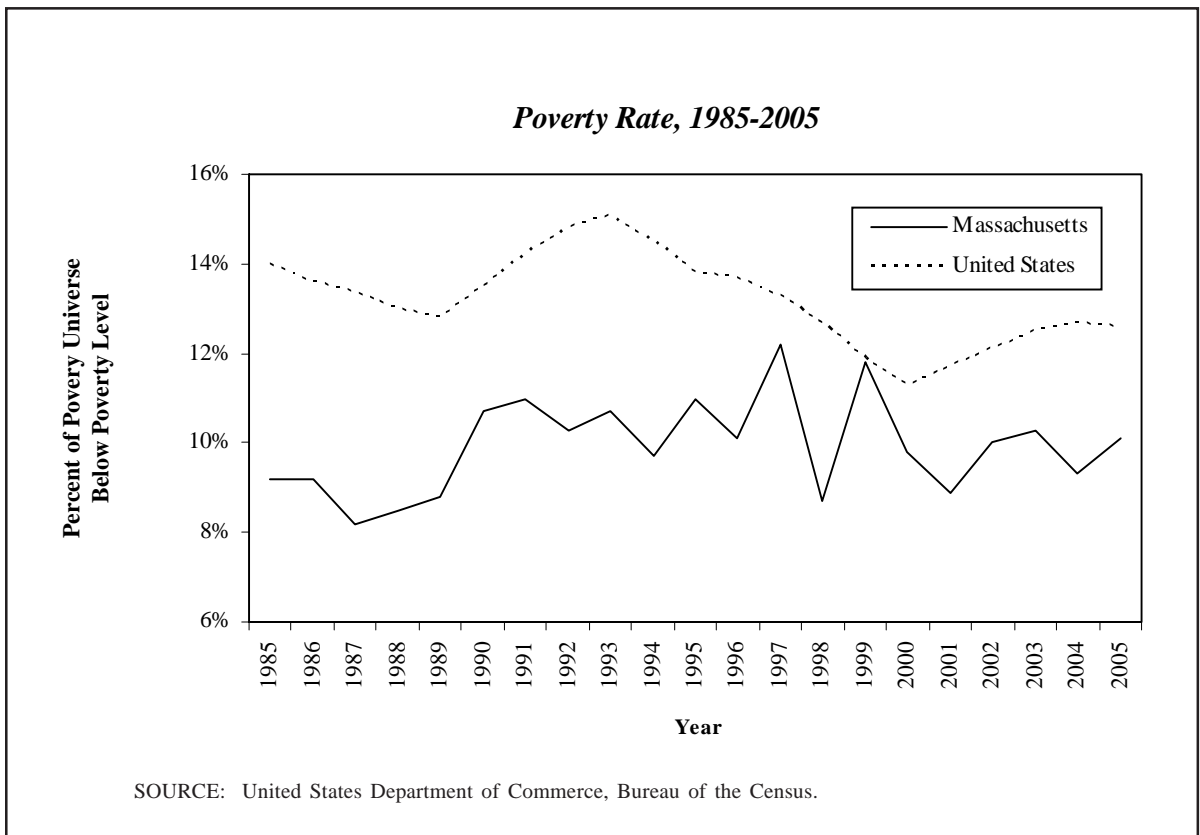
SOURCES: The Conference Board, Inc. (for U.S. measures, seasonally adjusted); Mass Insight Corporation (for MA measures, not seasonally adjusted).

Consumer Confidence: Massachusetts and the U.S., January 1999 - April 2007
(Massachusetts index not seasonally adjusted; 1985 = 100)



SOURCES: The Conference Board, Inc. (for U.S. index), Mass Insight Corporation (for MA index).

Poverty. The Massachusetts poverty rate remains well below the national average. Since 1980, the percentage of the Massachusetts poverty universe below the poverty line has varied between 7.7 percent and 12.2 percent. During the same time, the national poverty rate varied between 11.3 percent and 15.1 percent. In 2005, the estimated poverty rate in Massachusetts increased to 10.1 percent while the poverty rate in the United States dropped slightly to 12.6 percent. These official poverty estimates are based on a sample of households and are not adjusted for regional differences in the cost of living. The following chart illustrates the lower poverty rates in Massachusetts (1985 - 2005) compared with the national average during similar periods. Poverty estimates for states are not as reliable as national estimates. One should use caution when comparing poverty rate estimates across states, or poverty rates for the same state across years, because their variability is high. In particular the estimated rates for Massachusetts are based on a sample of fewer than two thousand households, and the apparent 2005 increase is not considered large enough to be statistically significant. Not everyone has a poverty status determined; the poverty universe excludes foster children, college students in dormitories, military personnel in barracks, nursing home residents, and other groups of people in institutionalized settings.

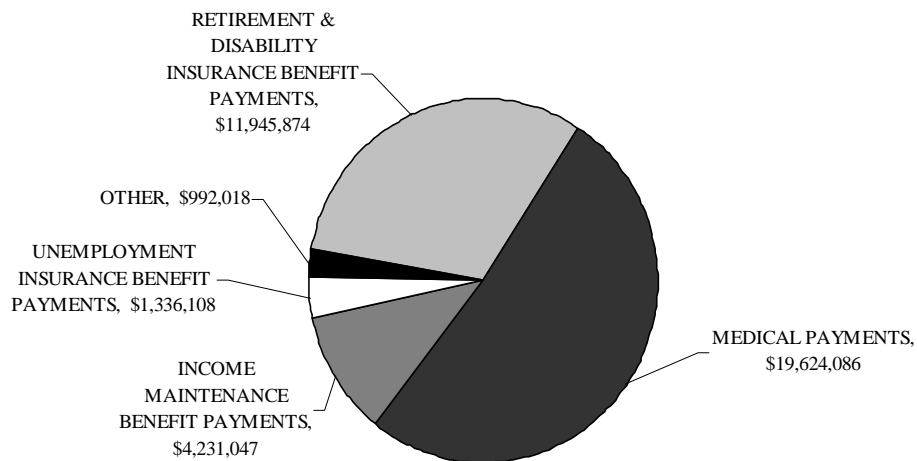


Transfer Payments. Transfer payment income is payment to individuals from all levels of government and from businesses, for which no current services are performed, including payments to nonprofit institutions serving individuals. These payments accounted for more than 14 percent of total personal income in Massachusetts in 2005. The chart below does not include transfer payments from business or payments to non-profit organizations. Total transfer payments to individuals in Massachusetts from governments & businesses totaled 38.6 billion dollars for 2005. Over 51 percent of government transfer payments to individuals were medical payments.

***Transfer Payments from Governments to Individuals in
Massachusetts in 2005***

(From Annual State Personal Income Estimates)

(in thousands of current dollars)



SOURCE: U.S. Department of Commerce, Bureau of Economic Analysis.

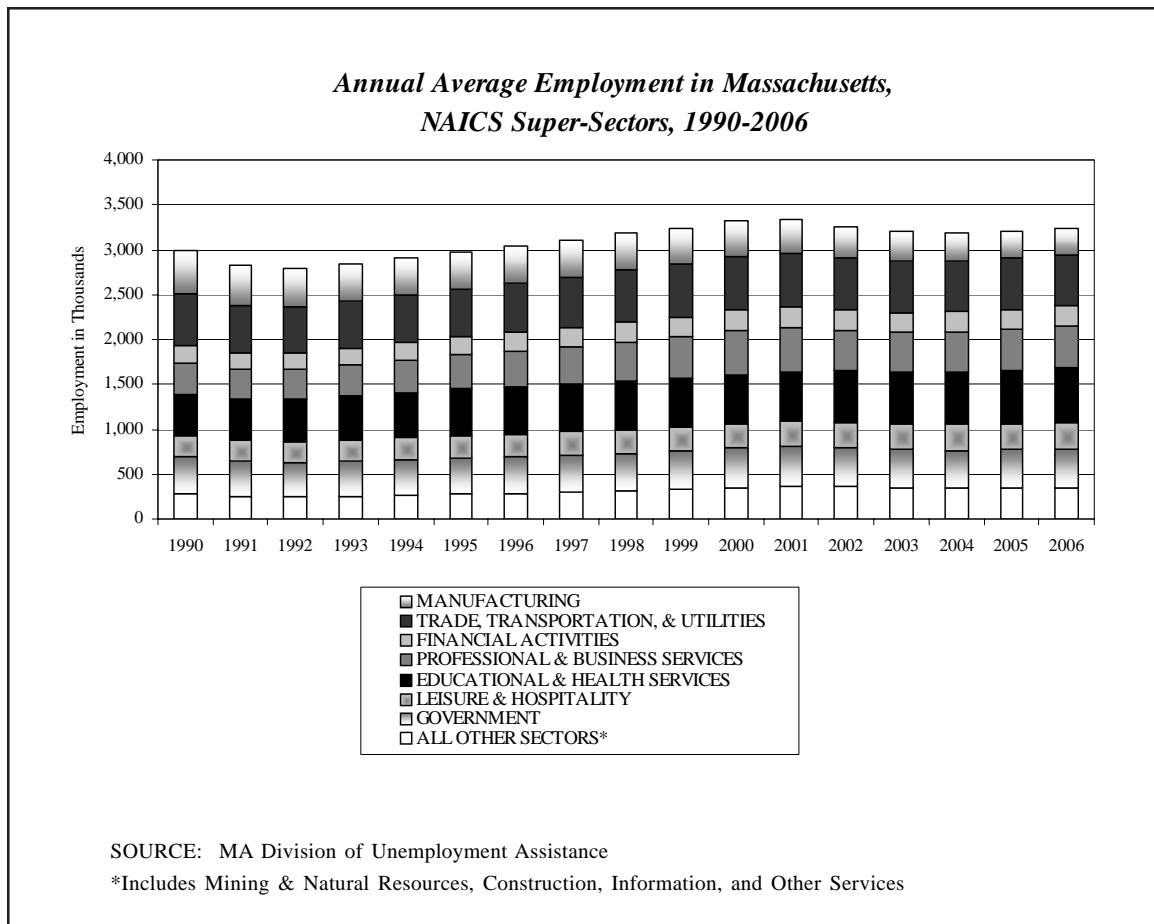
NOTE: The category "other" includes veterans' benefit payments, federal education and training assistance payments, and a small residual of miscellaneous other payments to individuals.

EMPLOYMENT

Employment by Industry The chart on this page shows the annual level of non-agricultural payroll employment in Massachusetts on the North American Industry Classification System (NAICS) basis for the seven largest NAICS supersectors starting with 1990, the earliest year for which NAICS data are available. The chart on the following page compares the super-sector shares for the 2005-2006 period with the corresponding shares for the 1990-1991 period. Like many industrial states, Massachusetts has seen a steady decline of its manufacturing jobs base over the last two decades, not only as a share of total employment, but in absolute numbers of jobs as well. Several NAICS service sectors and the Financial Activities sector have grown to take the place of manufacturing in driving the Massachusetts economy and now account for more than half of total payroll employment, while Government, Information, Trade, Transportation & Utilities have remained level or declined in share.

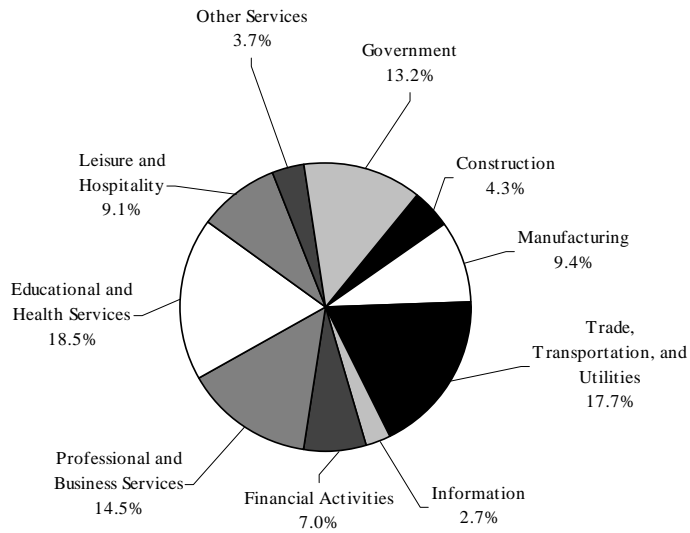
After significant declines in 2002 and 2003, total non-agricultural employment in Massachusetts declined only 0.1 percent in 2004 and increased 0.5 percent in 2005. The average level for 2006 is a healthier 1.0 percent above that of 2005, but the state still has 84 thousand (2.5%) fewer jobs than in the peak year of 2001. The comparable growth rate for the nation is 1.8 percent. In the first five months of 2007, the estimates have continued to be about one percent above the comparable 2006 figures. If this trend continues through all of 2007, the average for the year will finally equal its 2001 peak.

In 2004, manufacturing employment declined 3.5 percent from the year before; a smaller decline than the steep annual declines in the previous three years. The estimate for manufacturing for 2005 was only 2.4 percent below the 2004 level, which was better than the long-term average rate of decline since 1990 (3.0 percent per year). The average for 2006 is 2.1 percent below the comparable 2005 level, the best year for manufacturing in Massachusetts since 2000. The estimates for the first five months of 2007 are even more encouraging, averaging only one percent below the comparable 2006 figures.

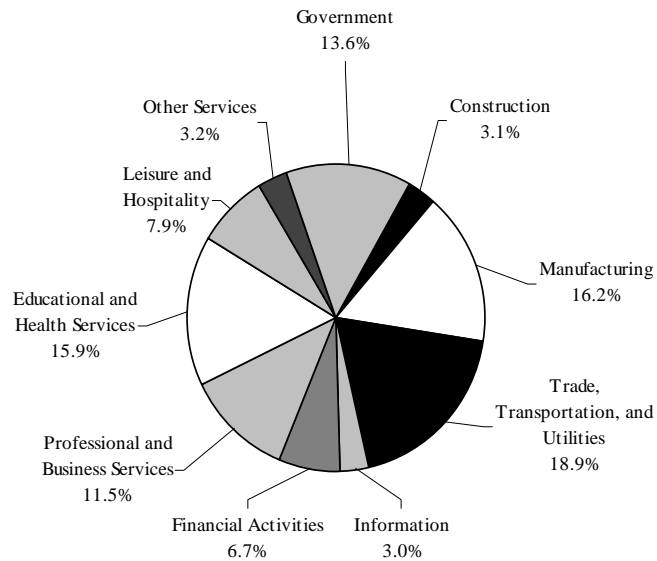


**Massachusetts Non-Farm Payroll Employment
(NAICS Industry basis)**

NAICS Super-Sectors: 2005-2006 Average Share



NAICS Super-Sectors: 1990-1991 Average Share



SOURCE: MA Division of Unemployment Assistance.

Largest Employers in Massachusetts. The following table lists the twenty-five largest private employers in Massachusetts based upon employment covered by the Unemployment Insurance system for June, 2006. The list is now the same as the lists released in 2005 except for name changes reflecting two corporate mergers.

Twenty-five Largest Private Employers in Massachusetts in June, 2006

(listed alphabetically)

Bank Of America NA	Harvard University
Baystate Medical Center, Inc.	Home Depot U.S.A., Inc.
Beth Israel Deaconess Medical Center	Massachusetts Institute of Technology
Big Y Foods, Inc.	Raytheon Company
Boston Medical Center Corporation	S & S Credit Company, Inc.
Boston University	Shaw's Supermarkets, Inc.
Brigham & Women's Hospital, Inc.	Southcoast Hospitals Group, Inc.
The Children's Hospital Corporation	State Street Bank & Trust Company
Demoulas Super Markets, Inc.	UMass Memorial Medical Center, Inc.
E.M.C. Corporation	United Parcel Service, Inc.
Federated Retail Holdings Inc.	Verizon New England, Inc.
Friendly Ice Cream Corporation	Wal-Mart Associates, Inc.
General Hospital Corporation	

SOURCE: MA Division of Unemployment Assistance.

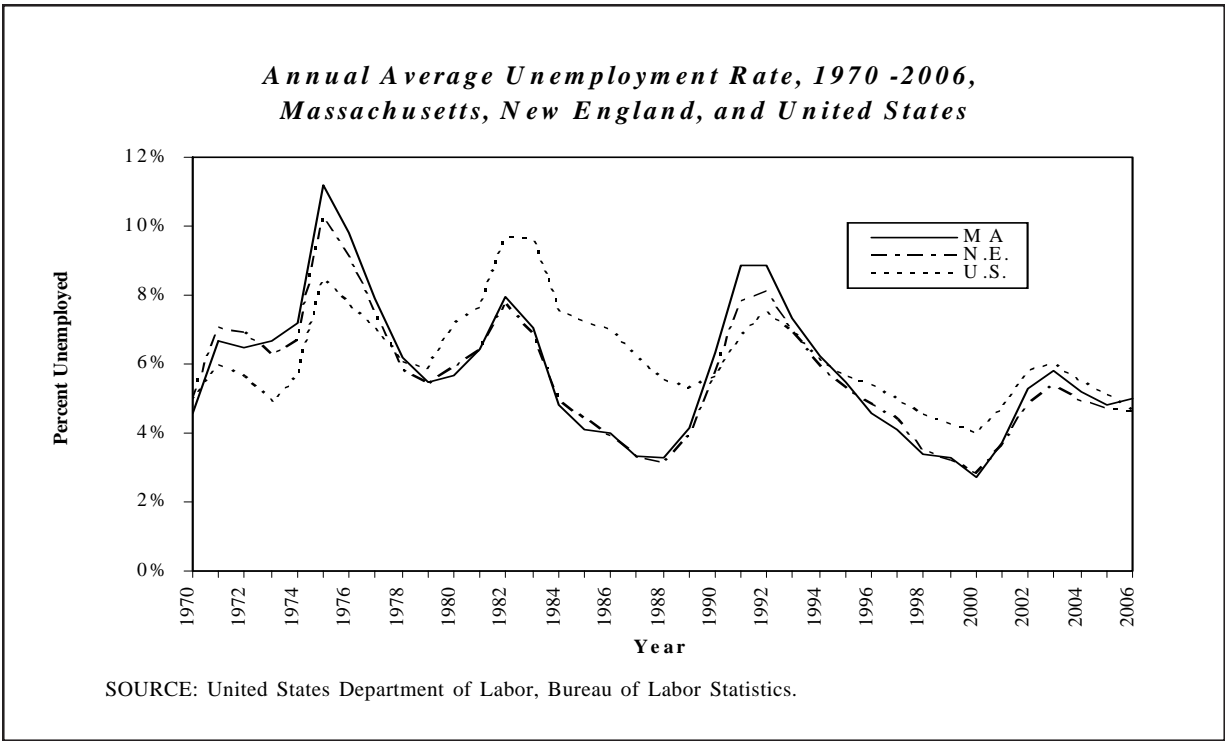
Unemployment. The economic recession of the early 1990s caused unemployment rates in Massachusetts to rise significantly above the national average, as much as 2.1 points above in 1991. Then from 1995 through the end of 2005 the unemployment rate in Massachusetts was consistently below the national average. Since January, 2006 the state rate has been at or above the national rate and the differences between the two have generally been increasing, reaching a peak in February, 2007. The following table compares the annual civilian labor force, the number unemployed, and the unemployment rates of Massachusetts, the New England states, and the United States from 1970 to 2006.

Annual Average Civilian Labor Force and Unemployment, 1970 - 2006

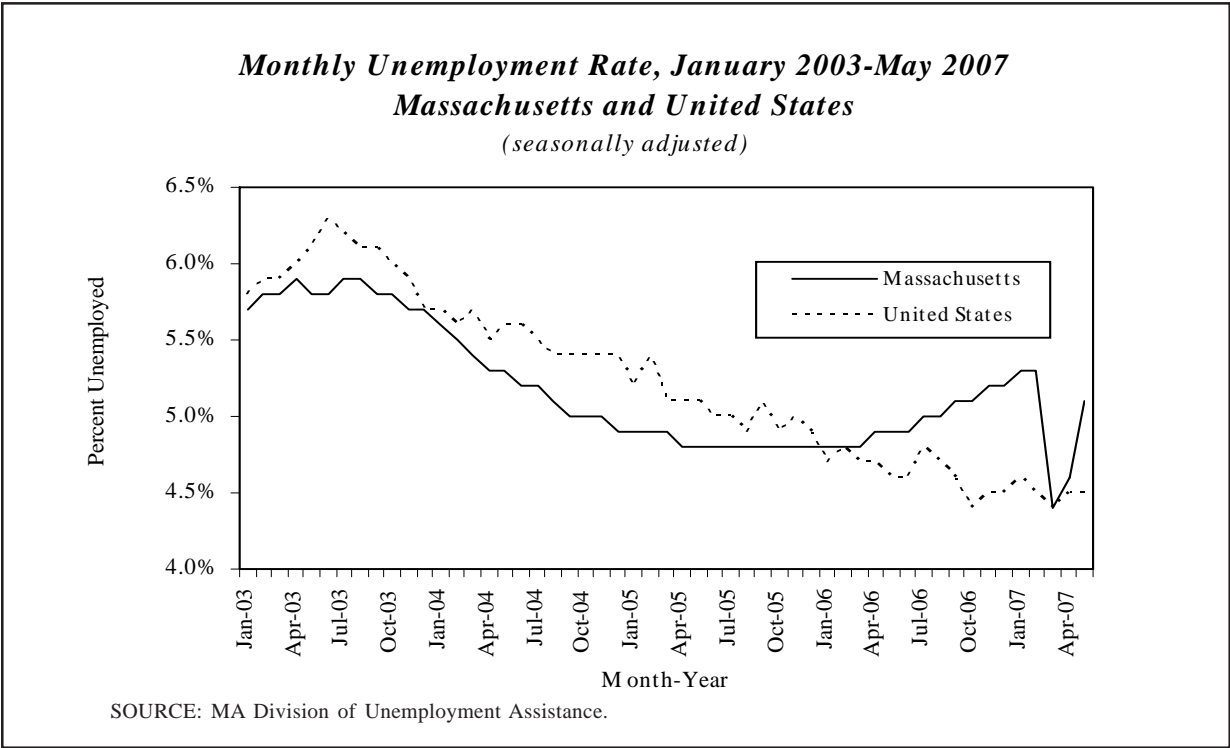
(in thousands)

Year	Civilian Labor Force			Unemployed			Unemployment Rate			MA Rate as
	MA	N.E.	U.S.	MA	N.E.	U.S.	MA	N.E.	U.S.	Pct. of U.S.
1970	2,465	5,128	82,771	113	253	4,093	4.6%	4.9%	4.9%	92.9%
1971	2,459	5,157	84,383	163	364	5,016	6.6%	7.1%	5.9%	111.8%
1972	2,487	5,260	87,035	161	363	4,882	6.5%	6.9%	5.6%	115.4%
1973	2,557	5,387	89,430	171	336	4,365	6.7%	6.2%	4.9%	136.7%
1974	2,637	5,514	91,951	190	368	5,156	7.2%	6.7%	5.6%	128.4%
1975	2,725	5,633	93,775	305	578	7,928	11.2%	10.3%	8.5%	132.2%
1976	2,726	5,714	96,158	268	521	7,406	9.8%	9.1%	7.7%	127.5%
1977	2,760	5,820	99,009	218	437	6,991	7.9%	7.5%	7.1%	112.1%
1978	2,809	5,936	102,251	173	343	6,202	6.2%	5.8%	6.1%	101.8%
1979	2,863	6,080	104,962	156	326	6,137	5.5%	5.4%	5.8%	93.4%
1980	2,886	6,154	106,940	164	365	7,637	5.7%	5.9%	7.1%	79.6%
1981	2,938	6,268	108,670	189	400	8,273	6.4%	6.4%	7.6%	84.6%
1982	2,966	6,345	110,204	236	489	10,678	8.0%	7.7%	9.7%	82.3%
1983	2,972	6,386	111,550	209	434	10,717	7.0%	6.8%	9.6%	73.2%
1984	3,032	6,540	113,544	146	318	8,539	4.8%	4.9%	7.5%	63.9%
1985	3,049	6,630	115,461	125	290	8,312	4.1%	4.4%	7.2%	56.8%
1986	3,080	6,724	117,834	123	264	8,237	4.0%	3.9%	7.0%	57.0%
1987	3,114	6,827	119,865	104	228	7,425	3.4%	3.3%	6.2%	54.1%
1988	3,156	6,907	121,669	104	215	6,701	3.3%	3.1%	5.5%	60.0%
1989	3,189	7,004	123,869	132	274	6,528	4.2%	3.9%	5.3%	78.9%
1990	3,226	7,128	125,840	204	409	7,047	6.3%	5.7%	5.6%	112.9%
1991	3,199	7,112	126,346	283	558	8,628	8.8%	7.8%	6.8%	129.4%
1992	3,181	7,105	128,105	281	573	9,613	8.8%	8.1%	7.5%	117.7%
1993	3,173	7,062	129,200	232	486	8,940	7.3%	6.9%	6.9%	105.8%
1994	3,188	7,041	131,056	199	415	7,996	6.2%	5.9%	6.1%	102.1%
1995	3,205	7,053	132,304	176	375	7,404	5.5%	5.3%	5.6%	97.9%
1996	3,231	7,118	133,943	148	340	7,236	4.6%	4.8%	5.4%	84.6%
1997	3,293	7,228	136,297	135	315	6,739	4.1%	4.4%	4.9%	82.6%
1998	3,322	7,257	137,673	113	253	6,210	3.4%	3.5%	4.5%	75.2%
1999	3,355	7,327	139,368	110	234	5,880	3.3%	3.2%	4.2%	77.4%
2000	3,366	7,348	142,583	92	204	5,692	2.7%	2.8%	4.0%	67.5%
2001	3,401	7,424	143,734	126	266	6,801	3.7%	3.6%	4.7%	78.7%
2002	3,424	7,496	144,863	181	363	8,378	5.3%	4.8%	5.8%	91.4%
2003	3,409	7,534	146,510	198	409	8,774	5.8%	5.4%	6.0%	96.7%
2004	3,381	7,511	147,401	177	368	8,149	5.2%	4.9%	5.5%	94.5%
2005	3,374	7,552	149,320	163	353	7,591	4.8%	4.7%	5.1%	94.1%
2006	3,404	7,635	151,428	170	349	7,001	5.0%	4.6%	4.6%	108.7%

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



The unemployment rate in Massachusetts was consistently below the national average from mid-1995 to December, 2005. The two rates generally showed similar patterns of decline from their mid-2003 peaks through early 2005 when the rates became very close. The Massachusetts rate has now been equal to or higher than the U.S. rate for seventeen months, with six of the last eight differences exceeding 0.5%. The following graph illustrates the movement of the state and national unemployment rates over the past fifty-three months.



Unemployment Insurance Trust Fund. The unemployment insurance system is a federal-state cooperative program established by the Social Security Act and the Federal Unemployment Tax Act to provide for the payment of benefits to eligible individuals when they become unemployed through no fault of their own. Benefits are paid from the Commonwealth's Unemployment Insurance Trust Fund, financed through employer contributions. The assets and liabilities of the Commonwealth Unemployment Insurance Trust Fund are not assets and liabilities of the Commonwealth. As of May 31, 2007, the Massachusetts Unemployment Trust Fund had a balance of \$1.321 billion, of which the private contributory account portion was \$1.210 billion. The Division of Unemployment Assistance's February 2007 Unemployment Insurance Trust Fund report indicates that under the current economic outlook the refinancing measures included in Chapter 142 of the Massachusetts Acts of 2003 (effective January 1, 2004), provide for employer contributions that should result in private contributory account reserves of \$2.080 billion at the end of 2011.

ECONOMIC BASE AND PERFORMANCE

According to the Bureau of Economic Analysis, Gross Domestic Product by State (GDP) is the value added in production by the labor and property located in a state. GDP for a State is derived as the sum of the gross state product originating in all industries in a State. In concept, an industry's GDP, referred to as its "value added", is equivalent to its gross output (sales or receipts and other operating income, commodity taxes, and inventory change) minus its intermediate inputs (consumption of goods and services purchased from other U.S. industries or imported).

Real GDP is an inflation-adjusted measure of each state's gross product that is based on national prices for the goods and services produced within that state. The estimates of real GDP and of quantity indexes with a base year of 2000 are derived by applying national implicit price deflators to the current-dollar GDP estimates for the 63 SIC industries for years 1977-1997, and for the 81 NAICS industries for years 1997 forward. Then, the chain-type index formula that is used in the national accounts is used to calculate the estimates of total real GDP and of real GDP at more aggregated industry levels.

Between 1997 and 2006 gross state product in Massachusetts, New England and the sum of all states GDP grew approximately 52.2, 51.9 and 59.6 percent respectively in current dollars. Between 1997 and 2006 gross state product in Massachusetts, New England and the sum of all states GDP grew approximately 28.9, 25.7 and 27.5 percent respectively in chained 2000 dollars. The Massachusetts economy is the largest in New England, contributing 47.2 percent to New England's total GDP, and thirteenth largest in the U.S., contributing 2.6 percent to the nation's total GDP. Massachusetts had the third highest GDP per capita in 2006, \$46,721.

Gross Domestic Product - Cumulative Change, 1997-2006

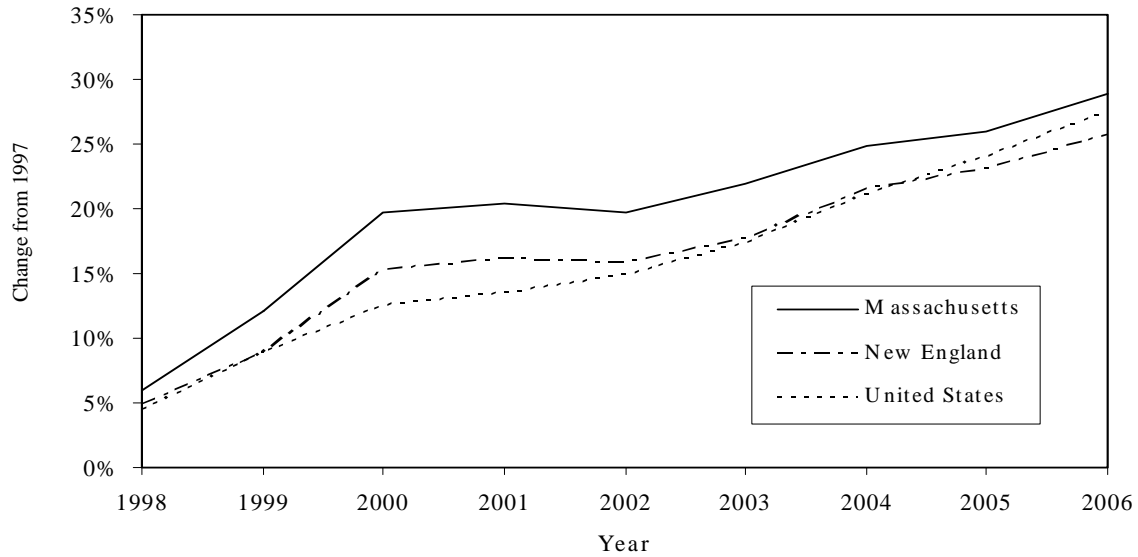
(millions of chained 2000 dollars)

Year	Massachusetts		New England		United States	
	GSP	Change from 1997	GSP	Change from 1997	GSP	Change from 1997
1997	\$227,074		\$487,671		\$8,620,955	
1998	\$240,617	6.0%	\$511,374	4.9%	\$9,004,670	4.5%
1999	\$255,189	12.0%	\$531,902	8.9%	\$9,404,251	8.9%
2000	\$274,949	19.8%	\$565,835	15.3%	\$9,749,103	12.6%
2001	\$276,634	20.4%	\$570,313	16.0%	\$9,836,576	13.5%
2002	\$274,997	19.8%	\$568,750	15.8%	\$9,981,850	14.9%
2003	\$280,881	21.9%	\$579,651	17.7%	\$10,225,679	17.4%
2004	\$289,295	24.9%	\$602,292	21.6%	\$10,608,934	21.1%
2005	\$292,225	25.9%	\$611,440	23.1%	\$10,923,951	24.1%
2006	\$300,753	28.9%	\$627,027	25.7%	\$11,291,375	27.5%

Source: Bureau of Economic Analysis, U.S. Department of Commerce. Last revised: June 2007
Next release date: October 2008.

**Gross Domestic Product - Cumulative Percent Change
1997-2006**

(chained 2000 dollars)



Source: Bureau of Economic Analysis, U.S. Department of Commerce. Last revised: June 2007
Next release date: October 2008.

The table below indicates the Gross Domestic Product for Massachusetts, the New England states, and the United States. The United States figure is the sum of the fifty states.

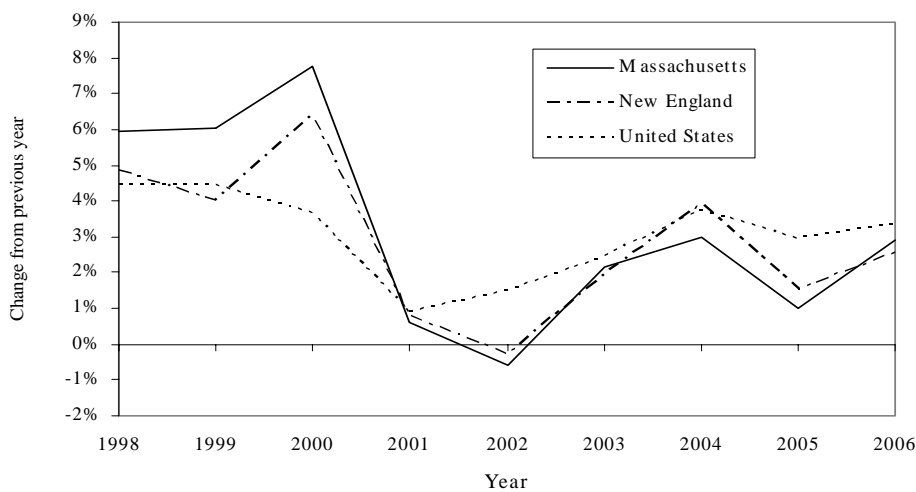
Gross Domestic Product - Annual Change, 1997-2006

(millions of chained 2000 dollars)

Year	Massachusetts		New England		United States	
	GSP	Annual change	GSP	Annual change	GSP	Annual change
1997	\$227,074		\$487,671		\$8,620,955	
1998	\$240,617	6.0%	\$511,374	4.9%	\$9,004,670	4.5%
1999	\$255,189	6.1%	\$531,902	4.0%	\$9,404,251	4.4%
2000	\$274,949	7.7%	\$565,835	6.4%	\$9,749,103	3.7%
2001	\$276,634	0.6%	\$570,313	0.8%	\$9,836,576	0.9%
2002	\$274,997	-0.6%	\$568,750	-0.3%	\$9,981,850	1.5%
2003	\$280,881	2.1%	\$579,651	1.9%	\$10,225,679	2.4%
2004	\$289,295	3.0%	\$602,292	3.9%	\$10,608,934	3.7%
2005	\$292,225	1.0%	\$611,440	1.5%	\$10,923,951	3.0%
2006	\$300,753	2.9%	\$627,027	2.5%	\$11,291,375	3.4%

Source: Bureau of Economic Analysis, U.S. Department of Commerce. Last revised: June 2007
Next release date: October 2008.

Gross Domestic Product - Annual Percent Change, 1997-2006
(chained 2000 dollars)



U.S. Department of Commerce, Bureau of Economic Analysis. Revised October 2006

The commercial base of Massachusetts is anchored by the twenty 2007 Fortune 1000 companies (ten of which are Fortune 500) headquartered in Massachusetts. Exiting the Massachusetts 2006 Fortune 1000 list were PerkinElmer (897th) and Boston Properties (990th). Global Partners, an energy company, joined the Fortune 500 (491st). When comparing the 2007 Fortune 1000 to 2006's, seventeen Massachusetts companies gained and only three lost rank. Perini, the Framingham based construction services firm and Fortune 1000 member, climbed 236 places on the list (from 884th to 648th); the largest leap for a Massachusetts company.

Massachusetts Companies in the 2006 Fortune 500 and 1000 Lists

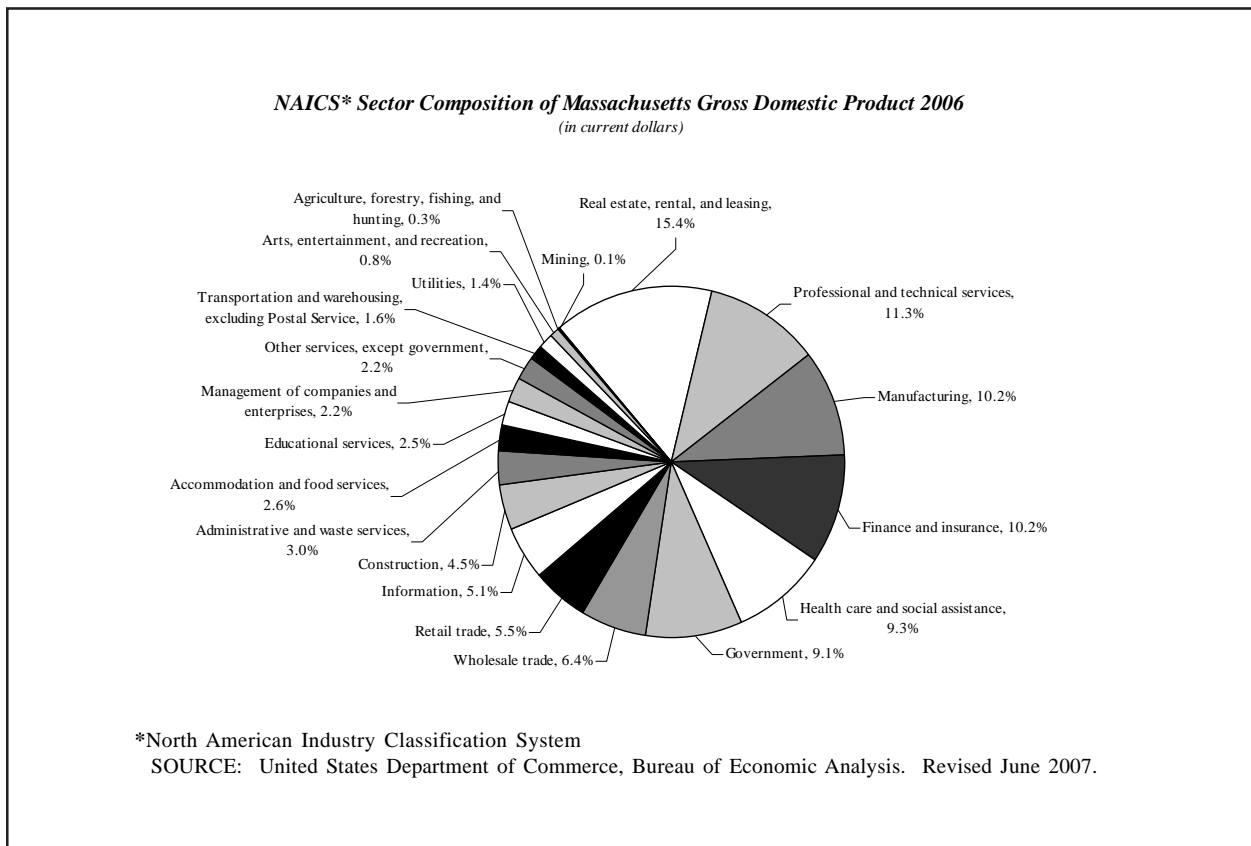
Rank		Company	Industry	2005 revenues (millions)
2006	2005			
92	83	Mass. Mutual Life Ins. (Springfield)	Insurance: Life, Health (mutual)	\$22,799
97	103	Raytheon (Waltham)	Aerospace and Defense	\$21,894
102	111	Liberty Mutual Ins. Group (Boston)	Insurance: P & C (stock)	\$21,161
137	146	Staples (Framingham)	Specialty Retailers	\$16,079
138	141	TJX (Framingham)	Specialty Retailers	\$16,058
249	266	EMC (Hopkinton)	Computer Peripherals	\$9,664
288	284	BJ's Wholesale Club (Natick)	Specialty Retailers	\$7,950
307	341	State St. Corp. (Boston)	Commercial Banks	\$7,496
346	352	Boston Scientific (Natick)	Medical Products & Equipment	\$6,283
574	575	NSTAR (Boston)	Utilities: Gas & Electric	\$3,243
622	N/A	Hanover Insurance Group (Worcester)	Insurance: P & C (stock)	\$2,968
643	713	Genzyme (Cambridge)	Pharmaceuticals	\$2,735
658	680	Thermo Electron (Waltham)	Scientific, Photo, Control Equipment	\$2,633
706	708	Biogen Idec (Cambridge)	Pharmaceuticals	\$2,423
712	623	Analog Devices (Norwood)	Semiconductors and Other Electronic Components	\$2,389
772	775	Cabot (Boston)	Chemicals	\$2,125
783	811	Iron Mountain (Boston)	Diversified Outsourcing	\$2,078
837	817	Commerce Group (Webster)	Insurance: P & C (stock)	\$1,884
884	799	Perini (Framingham)	Engineering, Construction	\$1,734
897	855	PerkinElmer (Wellesley)	Scientific, Photo, Control Equipment	\$1,698
990	962	Boston Properties (Boston)	Real Estate	\$1,447

N/A: not available

SOURCE: *Fortune*, April 2006

ECONOMIC BASE AND PERFORMANCE - SECTOR DETAIL (NAICS BASIS)

The Massachusetts economy remains diversified among several industrial and non-industrial sectors. The four largest sectors of the economy (real estate and rental and leasing, professional and technical services, manufacturing, and finance and insurance, on the 2002 NAICS basis) contributed 47.2 percent of the GDP in 2006. The following pie chart displays the latest sector contributions to the Massachusetts GDP.



GDP subsectors. When measured in chained 2000 dollars, the cumulative change in Massachusetts total GDP was 5.6 percent between 2001 and 2005. Between 2001 and 2005 (the latest data available for subsector data), several industries grew much faster than the state average. Industry subsectors that experienced substantial cumulative growth or reduction are listed in the following chart.

Industry Subsectors with a Substantial Growth or Reduction
(chained 2000 dollars)

NAICS* Industry Subsector	Cumulative percent change 2001-2005
Motor vehicle, body, trailer, and parts manufacturing	103.4%
Computer and electronic product manufacturing	54.9%
Chemical manufacturing	22.1%
Wood product manufacturing	20.1%
Apparel manufacturing	-19.6%
Textile and textile product mills	-19.7%
Miscellaneous manufacturing	-23.1%
Primary metal manufacturing	-25.6%

*North American Industry Classification System.
SOURCE: United States Department of Commerce, Bureau of Economic Analysis. Revised June 2007.

Gross Domestic Product by Industry in Massachusetts, 1999-2006
(millions of chained 2000 dollars)

NAICS* Industry Sector	1999	2000	2001	2002	2003	2004	2005	2006
Total Gross Domestic Product by State	\$255,189	\$274,949	\$276,634	\$274,997	\$280,881	\$289,295	\$292,225	\$300,753
Private industries	231,945	251,645	253,140	251,272	257,997	266,675	269,593	278,071
Agriculture, forestry, fishing, and hunting	469	540	587	668	701	744	793	807
Mining	109	124	141	139	142	145	126	112
Utilities	3,218	3,453	3,162	3,137	3,486	3,594	3,607	3,663
Construction	10,995	11,159	11,850	11,412	10,544	10,611	10,548	10,193
Manufacturing	30,126	37,204	35,011	35,376	38,071	37,103	37,761	39,957
Wholesale trade	17,749	16,173	17,819	17,214	17,959	17,769	16,851	17,901
Retail trade	13,650	14,519	15,713	15,997	16,644	16,998	17,467	17,423
Transportation and warehousing, excluding Postal Service	4,766	5,172	5,063	4,915	4,835	4,907	4,975	4,946
Information	12,083	13,017	13,710	13,676	13,936	15,429	17,238	18,357
Finance and insurance	26,693	29,915	29,890	29,781	30,529	32,482	29,900	30,432
Real estate, rental, and leasing	34,129	35,587	37,683	37,379	37,952	39,671	40,170	42,027
Professional and technical services	24,648	28,560	28,572	27,397	27,486	30,504	32,421	33,876
Management of companies and enterprises	6,870	7,506	6,152	5,673	5,778	5,846	6,160	6,041
Administrative and waste services	8,252	8,382	7,400	7,042	7,459	7,502	7,802	8,108
Educational services	5,591	5,915	5,851	5,978	6,003	6,087	6,017	5,993
Health care and social assistance	19,496	20,363	20,484	21,179	22,241	22,722	23,608	24,569
Arts, entertainment, and recreation	1,906	1,911	2,023	2,152	2,244	2,245	2,221	2,159
Accommodation and food services	6,251	6,594	6,510	6,556	6,734	6,931	6,898	6,995
Other services, except government	5,307	5,549	5,477	5,570	5,596	5,511	5,438	5,454
Government	23,272	23,304	23,493	23,710	22,960	22,791	22,830	22,966

* North American Industry Classification System

SOURCE: United States Department of Commerce, Bureau of Economic Analysis. 2003-05 Revised June 2007

Cumulative Percent Change in GDP by Industry in Massachusetts, 1999-2006
(millions of chained 2000 dollars)

NAICS* Industry Sector	1999 to	2000	2001	2002	2003	2004	2005	2006
Total Gross State Product		7.7%	8.4%	7.8%	9.9%	12.9%	13.9%	16.8%
Private industries		8.5%	9.1%	8.3%	11.0%	14.4%	15.5%	18.6%
Agriculture, forestry, fishing, and hunting		15.1%	23.8%	37.6%	42.6%	48.7%	55.3%	57.1%
Mining		13.8%	27.5%	26.1%	28.2%	30.3%	17.2%	6.1%
Utilities		7.3%	-1.1%	-1.9%	9.2%	12.3%	12.7%	14.2%
Construction		1.5%	7.7%	4.0%	-3.6%	-3.0%	-3.6%	-6.9%
Manufacturing		23.5%	17.6%	18.6%	26.3%	23.7%	25.5%	31.3%
Wholesale trade		-8.9%	1.3%	-2.1%	2.2%	1.2%	-4.0%	2.2%
Retail trade		6.4%	14.6%	16.4%	20.4%	22.6%	25.3%	25.1%
Transportation and warehousing, excluding Postal Service		8.5%	6.4%	3.5%	1.9%	3.3%	4.7%	4.2%
Information		7.7%	13.1%	12.8%	14.7%	25.4%	37.1%	43.6%
Finance and insurance		12.1%	12.0%	11.6%	14.1%	20.5%	12.6%	14.4%
Real estate, rental, and leasing		4.3%	10.2%	9.4%	10.9%	15.4%	16.7%	21.3%
Professional and technical services		15.9%	15.9%	11.8%	12.1%	23.1%	29.4%	33.9%
Management of companies and enterprises		9.3%	-8.8%	-16.6%	-14.7%	-13.5%	-8.2%	-10.1%
Administrative and waste services		1.6%	-10.1%	-15.0%	-9.1%	-8.5%	-4.5%	-0.6%
Educational services		5.8%	4.7%	6.9%	7.3%	8.7%	7.6%	7.2%
Health care and social assistance		4.4%	5.0%	8.4%	13.4%	15.6%	19.5%	23.6%
Arts, entertainment, and recreation		0.3%	6.1%	12.5%	16.8%	16.8%	15.8%	13.0%
Accommodation and food services		5.5%	4.2%	4.9%	7.6%	10.6%	10.1%	11.5%
Other services, except government		4.6%	3.3%	5.0%	5.4%	3.9%	2.6%	2.9%
Government		0.1%	0.9%	1.9%	-1.3%	-2.0%	-1.9%	-1.3%

* North American Industry Classification System

SOURCE: United States Department of Commerce, Bureau of Economic Analysis. 2003-05 Revised June 2007

Gross Domestic Product by Industry in Massachusetts, 1999-2006
(as a percent of total GSP chained 2000 dollars)

NAICS* Industry Sector	1999	2000	2001	2002	2003	2004	2005	2006
Total Gross State Product	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Private industries	90.9%	91.5%	91.5%	91.4%	91.9%	92.2%	92.3%	92.5%
Agriculture, forestry, fishing, and hunting	0.2%	0.2%	0.2%	0.2%	0.2%	0.3%	0.3%	0.3%
Mining	0.0%	0.0%	0.1%	0.1%	0.1%	0.1%	0.0%	0.0%
Utilities	1.3%	1.3%	1.1%	1.1%	1.2%	1.2%	1.2%	1.2%
Construction	4.3%	4.1%	4.3%	4.1%	3.8%	3.7%	3.6%	3.4%
Manufacturing	11.8%	13.5%	12.7%	12.9%	13.6%	12.8%	12.9%	13.3%
Wholesale trade	7.0%	5.9%	6.4%	6.3%	6.4%	6.1%	5.8%	6.0%
Retail trade	5.3%	5.3%	5.7%	5.8%	5.9%	5.9%	6.0%	5.8%
Transportation and warehousing, excluding Postal Service	1.9%	1.9%	1.8%	1.8%	1.7%	1.7%	1.7%	1.6%
Information	4.7%	4.7%	5.0%	5.0%	5.0%	5.3%	5.9%	6.1%
Finance and insurance	10.5%	10.9%	10.8%	10.8%	10.9%	11.2%	10.2%	10.1%
Real estate, rental, and leasing	13.4%	12.9%	13.6%	13.6%	13.5%	13.7%	13.7%	14.0%
Professional and technical services	9.7%	10.4%	10.3%	10.0%	9.8%	10.5%	11.1%	11.3%
Management of companies and enterprises	2.7%	2.7%	2.2%	2.1%	2.1%	2.0%	2.1%	2.0%
Administrative and waste services	3.2%	3.0%	2.7%	2.6%	2.7%	2.6%	2.7%	2.7%
Educational services	2.2%	2.2%	2.1%	2.2%	2.1%	2.1%	2.1%	2.0%
Health care and social assistance	7.6%	7.4%	7.4%	7.7%	7.9%	7.9%	8.1%	8.2%
Arts, entertainment, and recreation	0.7%	0.7%	0.7%	0.8%	0.8%	0.8%	0.8%	0.7%
Accommodation and food services	2.4%	2.4%	2.4%	2.4%	2.4%	2.4%	2.4%	2.3%
Other services, except government	2.1%	2.0%	2.0%	2.0%	2.0%	1.9%	1.9%	1.8%
Government	9.1%	8.5%	8.5%	8.6%	8.2%	7.9%	7.8%	7.6%

* North American Industry Classification System

SOURCE: United States Department of Commerce, Bureau of Economic Analysis. 2003-05 Revised June 2007

Rank of Industry Contribution to GDP in Massachusetts, 1999-2006
(millions of chained 2000 dollars)

NAICS* Industry Sector	1999	2000	2001	2002	2003	2004	2005	2006
Total Gross State Product								
Private industries								
Agriculture, forestry, fishing, and hunting	19	19	19	19	19	19	19	19
Mining	20	20	20	20	20	20	20	20
Utilities	17	17	17	17	17	17	17	17
Construction	10	10	10	10	10	10	10	10
Manufacturing	2	1	2	2	1	2	2	2
Wholesale trade	7	7	7	7	7	7	9	8
Retail trade	8	8	8	8	8	8	7	9
Transportation and warehousing, excluding Postal Service	16	16	16	16	16	16	16	16
Information	9	9	9	9	9	9	8	7
Finance and insurance	3	3	3	3	3	3	4	4
Real estate, rental, and leasing	1	2	1	1	2	1	1	1
Professional and technical services	4	4	4	4	4	4	3	3
Management of companies and enterprises	12	12	13	14	14	14	13	13
Administrative and waste services	11	11	11	11	11	11	11	11
Educational services	14	14	14	13	13	13	14	14
Health care and social assistance	6	6	6	6	6	6	5	5
Arts, entertainment, and recreation	18	18	18	18	18	18	18	18
Accommodation and food services	13	13	12	12	12	12	12	12
Other services, except government	15	15	15	15	15	15	15	15
Government	5	5	5	5	5	5	6	6

* North American Industry Classification System

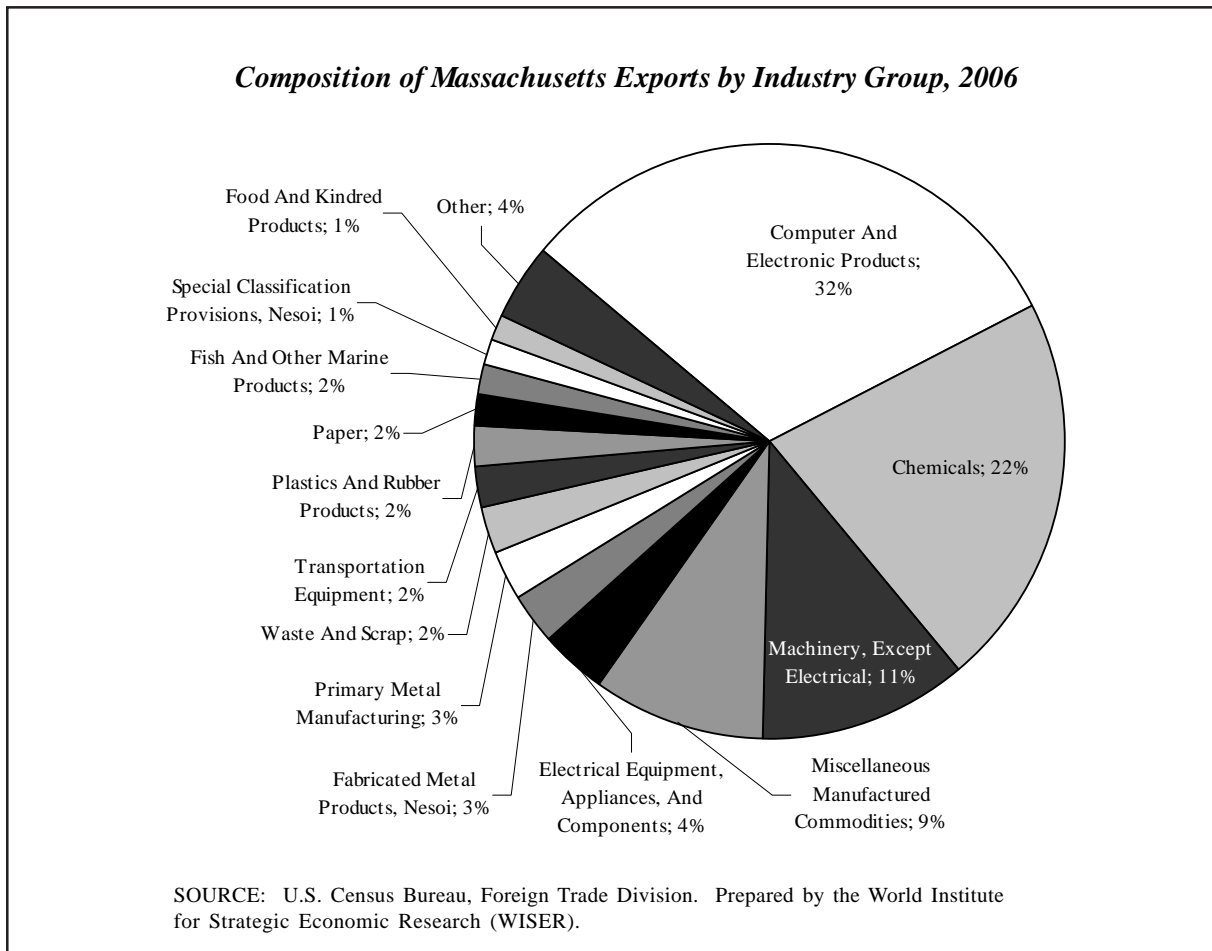
SOURCE: United States Department of Commerce, Bureau of Economic Analysis. 2003-05 Revised June 2007

GDP Overview. Between 1999 and 2006, the portion of the total GDP in chained 2000 dollars, from the private industry sector increased 1.6 percent and it decreased 1.5 percent in the government sector. Contributions by each industry to total GDP have remained steady for most sectors. The exceptions were professional and technical services, up 1.6 percent, manufacturing, up 1.5 percent and information, up 1.4 percent. When the 1999 to 2006 industry contributions to total annual GSP are ranked according to their dollar value, the top five have remained fairly constant. In 2006 they were real estate, rental and leasing, manufacturing, professional and technical services, finance and insurance, and health care and social assistance.

Trade and International Trade. Massachusetts ranked 12th in the United States, and first in New England, with \$24.05 billion in international exports in 2006. This represents a 9.1 percent increase from the previous year's exports from the Commonwealth, while national exports increased by 14.7 percent in the same period. Through May 2007, Massachusetts's exports totaled \$10.5 billion, an increase of 10.0 percent compared with exports in the first five months of 2006. National exports were up 10.8 percent and New England, 8.3 percent during the same period. It is not possible to provide balance of trade comparisons for Massachusetts because import data are not compiled on a state-by-state basis.

Massachusetts' five most important trading partners for 2006 were: Canada, with \$3.16 billion in purchases of Massachusetts exports; the Netherlands, with \$2.70 billion; Germany, with \$2.51 billion; Japan, with \$2.29 billion; and the United Kingdom, with \$1.97 billion in purchases. Between 2005 and 2006, the most significant growth in Massachusetts's exports among its top ten trading partners was in exports to China, 46.3 percent, and Japan, 20.5 percent.

Massachusetts' three most important exports account for 65 percent of all exports as shown in the following chart, are computer and electronic products, chemical products, and non-electrical machinery. These categories reflect the adoption of the NAICS classification system, which groups computers with electronic products, rather than with machinery.



Value of International Shipments from Massachusetts, 1998-2006

(top ten industry groups ranked by value of 2006 exports, in millions)

Major Industry Group	1998	1999	2000	2001	2002	2003	2004	2005	2006
Computer And Electronic Products	\$7,458	\$8,056	\$10,215	\$8,122	\$7,024	\$7,688	\$7,475	\$7,004	\$7,520
Chemicals	\$1,223	\$1,357	\$1,600	\$1,534	\$2,267	\$3,216	\$4,907	\$5,284	\$5,188
Machinery, Except Electrical	\$1,694	\$1,705	\$2,545	\$2,044	\$1,786	\$1,668	\$2,456	\$2,315	\$2,736
Miscellaneous Manufactured Commodities	\$835	\$925	\$1,053	\$1,213	\$1,210	\$1,571	\$1,927	\$2,111	\$2,240
Electrical Equipment, Appliances, And Component	\$596	\$720	\$834	\$691	\$649	\$592	\$752	\$815	\$872
Fabricated Metal Products, Nesoi	\$597	\$601	\$649	\$569	\$692	\$539	\$621	\$664	\$679
Primary Metal Manufacturing	\$335	\$283	\$358	\$272	\$248	\$425	\$423	\$405	\$647
Waste And Scrap	\$104	\$75	\$106	\$146	\$183	\$190	\$322	\$328	\$597
Transportation Equipment	\$637	\$698	\$659	\$449	\$346	\$383	\$453	\$481	\$547
Plastics And Rubber Products	\$357	\$389	\$374	\$400	\$406	\$375	\$404	\$469	\$530
Total Exports, Top Massachusetts Industries	\$13,836	\$14,809	\$18,393	\$15,438	\$14,812	\$16,648	\$19,739	\$19,877	\$21,556
Total Massachusetts Exports	\$15,878	\$16,805	\$20,514	\$17,490	\$16,708	\$18,663	\$21,837	\$22,043	\$24,047
Percent Change from Prior Year	-3.9%	5.8%	22.1%	-14.7%	-4.5%	11.7%	17.0%	0.9%	9.1%

SOURCE: World Institute for Strategic Economic Research (WISER). These figures reflect the changeover in export statistics reporting to the NAICS system from the SIC system. Categories and state totals are not comparable between systems. Pre-1997 data is not available.

Transportation and Warehousing, and Utilities. Between 1999 and 2006, the combined real gross state product of the transportation and warehousing and utilities sector increased 7.8 percent when measured with year 2000 chained dollars. These combined sectors contributed 2.8 percent to the total Massachusetts Real Gross State Product in 2006, 0.4 percent less than it did in 1999.

Massachusetts's major air and seaports are managed by the Massachusetts Port Authority (Massport), an independent public authority. Massport reported fiscal 2006 operating income of \$43.8 million, up 9.8 percent from fiscal 2005, operating revenues up 8.0 percent, \$497.6 million in 2006 versus \$460.6 million in 2005 and operating costs up 7.9 percent, \$453.8 million in 2006 versus \$420.6 million in 2005.

According to Massport, as of December 31, 2006, airline service at the Airport, both scheduled and non-scheduled, was provided by 77 airlines, including six U.S. major air carrier airlines, 31 other domestic carriers, 24 non-U.S. flag ("foreign flag") carriers and 16 regional and commuter airlines ("regional airlines"). Based on total passenger volume in calendar year 2005 data, Logan Airport was the most active airport in New England but dropped from 18th in 2004 to 19th most active in the U.S. and 37th most active in the world according to the Federal Aviation Authority. Massport reported that in 2006, Logan flights and passenger counts were down 0.7 and up 2.4 percent respectively compared to 2005. Massport also reported that as of May, year-to-date 2007, total airport flight operations were up 1.7% and total airport passengers were up 0.8% from the same period in 2006.

As of June 30, 2006, Logan was served by 11 all-cargo and small package/express carriers. According to the FAA, Logan Airport ranked 29th in the nation in total air cargo volume in calendar year 2005. In 2005, the airport handled 1.15 billion pounds of cargo, a 2.0 percent decrease from 2004. Massport reported that as of May, year-to-date 2007, the combined cargo and mail volume was down 9.7 percent from the same period in 2006. Please refer to the Aviation Activity charts on the following page.

At Massport's Port of Boston properties, 2006 total cargo throughput was 15.3 million metric tons, a 6 percent decrease from 2005. Automobile processing increased 11 percent to 12,149 units, and cruise passenger trips decreased 11 percent to 208,883. Total containerized cargo increased 7 percent to 1.6 million short tons. Massport reported that between May 2006 and April 2007, total containerized cargo was up 2.6%, 10.2% more automobiles were processed but 14.7% less cruise passengers used their facilities compared to the same period the previous year. The Army Corps of Engineers reported Massachusetts total waterborne cargo shipped or received in 2005, decreased 9.4 percent to 28.8 million short tons, from 2004. Waterborne cargo in New England and the U.S. decreased 1.9 and 1.0 percent respectively. Please refer to the Waterborne Tonnage by State charts on the following page.

Aviation Activity for Massachusetts Primary Airports

<i>Passenger Boardings</i>	<i>2000</i>	<i>2001</i>	<i>2002</i>	<i>2003</i>	<i>2004</i>	<i>2005</i>
General Edward Lawrence Logan International	13,613,507	11,739,553	11,077,238	11,087,799	12,758,020	13,214,923
Nantucket Memorial	296,451	272,460	253,422	229,300	243,313	252,757
Barnstable Municipal-Boardman/Polando Field	205,906	197,106	180,807	158,360	167,522	177,761
Worcester Regional	52,916	79,653	37,298	2,234	1,274	2,036
Laurence G Hanscom Field	82,204	71,381	40,419	19,375	17,049	13,887
Martha's Vineyard	71,150	65,374	59,500	53,011	49,480	48,977
New Bedford Regional	22,882	21,786	21,667	21,097	19,686	17,960
Provincetown Municipal	15,694	12,986	10,533	11,801	11,424	10,236
Total	14,360,710	12,460,299	11,680,884	11,582,977	13,267,768	13,738,537

<i>Cargo - Gross Landed Weight (lbs.)</i>	<i>2000</i>	<i>2001</i>	<i>2002</i>	<i>2003</i>	<i>2004</i>	<i>2005</i>
General Edward Lawrence Logan International	1,405,482,600	1,301,842,100	1,272,185,900	1,199,383,800	1,172,103,700	1,148,881,400

Change in Aviation Activity at Massachusetts Primary Airports

<i>Passenger Boardings</i>	<i>2000-2001</i>	<i>2001-2002</i>	<i>2002-2003</i>	<i>2003-2004</i>	<i>2004-2005</i>
General Edward Lawrence Logan International	-13.8%	-5.6%	0.1%	15.1%	3.6%
Nantucket Memorial	-8.1%	-7.0%	-9.5%	6.1%	3.9%
Barnstable Municipal-Boardman/Polando Field	-4.3%	-8.3%	-12.4%	5.8%	6.1%
Worcester Regional	50.5%	-53.2%	-94.0%	-43.0%	59.8%
Laurence G Hanscom Field	-13.2%	-43.4%	-52.1%	-12.0%	-18.5%
Martha's Vineyard	-8.1%	-9.0%	-10.9%	-6.7%	-1.0%
New Bedford Regional	-4.8%	-0.5%	-2.6%	-6.7%	-8.8%
Provincetown Municipal	-17.3%	-18.9%	12.0%	-3.2%	-10.4%
Total	-13.2%	-6.3%	-0.8%	14.5%	3.5%

<i>Cargo</i>	<i>2000-2001</i>	<i>2001-2002</i>	<i>2002-2003</i>	<i>2003-2004</i>	<i>2004-2005</i>
General Edward Lawrence Logan International	-7.4%	-2.3%	-5.7%	-2.3%	-2.0%

SOURCE: Federal Aviation Administration

Waterborne Tonnage by State (In Units of 1000 Tons)

<i>State</i>	<i>2000</i>	<i>2001</i>	<i>2002</i>	<i>2003</i>	<i>2004</i>	<i>2005</i>
U.S. total	2,424,596	2,386,558	2,340,292	2,394,199	2,551,939	2,527,622
Maine	31,769	30,586	29,140	31,698	32,447	32,353
Massachusetts	26,973	26,446	26,117	30,655	31,787	28,812
Connecticut	18,959	18,267	17,610	18,579	20,075	19,617
Rhode Island	9,089	9,170	8,437	9,417	9,764	10,972
New Hampshire	4,462	4,447	4,108	4,971	4,795	5,254
Vermont	0	0	0	0	0	0
New England	91,252	88,916	85,412	95,320	98,868	97,008

Waterborne Tonnage by State - Percent Change from Previous Year

<i>State</i>	<i>2000-2001</i>	<i>2001-2002</i>	<i>2002-2003</i>	<i>2003-2004</i>	<i>2004-2005</i>
U.S. total	-1.6%	-1.9%	2.3%	6.6%	-1.0%
Maine	-3.7%	-4.7%	8.8%	2.4%	-0.3%
Massachusetts	-2.0%	-1.2%	17.4%	3.7%	-9.4%
Connecticut	-3.6%	-3.6%	5.5%	8.1%	-2.3%
Rhode Island	0.9%	-8.0%	11.6%	3.7%	12.4%
New Hampshire	-0.3%	-7.6%	21.0%	-3.5%	9.6%
Vermont	-	-	-	-	-
New England	-2.6%	-3.9%	11.6%	3.7%	-1.9%

SOURCE: Army Corps of Engineers, Waterborne Commerce Statistics Center (WCSC).

Construction and Housing. In 2006, construction activity contributed 3.4 percent to the total Massachusetts Gross Domestic Product (GDP) when measured in 2000 chained dollars. The construction sector contributed 4.3 percent to state GSP in 1999. Overall loss between 1999 and 2006 was 6.9 percent in real dollars.

Housing Permits Authorized, 1969-2006

<i>Year</i>	<i>Massachusetts</i>		<i>New England</i>		<i>United States</i>	
	<i>Total Permits</i>	<i>Percent Change</i>	<i>Total Permits</i>	<i>Percent Change</i>	<i>Total Permits</i>	<i>Percent Change</i>
1969	33,572		70,539		1,330,161	
1970	38,330	14.2%	74,068	5.0%	1,354,746	1.8%
1975	17,697	-27.5%	41,645	-21.0%	934,511	-12.4%
1980	16,055	-20.4%	40,195	-25.1%	1,171,763	-23.6%
1981	15,599	-2.8%	38,067	-5.3%	985,600	-15.9%
1982	15,958	2.3%	39,470	3.7%	1,000,500	1.5%
1983	22,950	43.8%	57,567	45.9%	1,605,221	60.4%
1984	28,471	24.1%	72,356	25.7%	1,689,667	5.3%
1985	39,360	38.2%	96,832	33.8%	1,732,335	2.5%
1986	43,877	11.5%	108,272	11.8%	1,771,832	2.3%
1987	40,018	-8.8%	101,222	-6.5%	1,542,499	-12.9%
1988	31,766	-20.6%	82,123	-18.9%	1,450,583	-6.0%
1989	21,634	-31.9%	53,543	-34.8%	1,345,084	-7.3%
1990	15,276	-29.4%	36,811	-31.2%	1,125,583	-16.3%
1991	12,624	-17.4%	31,111	-15.5%	953,834	-15.3%
1992	16,346	29.5%	36,876	18.5%	1,105,083	15.9%
1993	17,715	8.4%	39,225	6.4%	1,210,000	9.5%
1994	18,302	3.3%	40,459	3.1%	1,366,916	13.0%
1995	15,946	-12.9%	37,357	-7.7%	1,335,835	-2.3%
1996	17,360	8.9%	40,425	8.2%	1,419,083	6.2%
1997	17,554	1.1%	42,047	4.0%	1,442,251	1.6%
1998	18,958	8.0%	47,342	12.6%	1,619,500	12.3%
1999	18,967	0.0%	47,632	0.6%	1,663,533	2.7%
2000	18,000	-5.1%	45,335	-4.8%	1,592,267	-4.3%
2001	17,034	-5.4%	44,594	-1.6%	1,636,676	2.8%
2002	17,465	2.5%	49,031	9.9%	1,747,678	6.8%
2003	20,257	16.0%	52,395	6.9%	1,889,214	8.1%
2004	22,477	11.0%	57,858	10.4%	2,070,077	9.6%
2005	24,549	9.2%	58,742	1.5%	2,155,316	4.1%
2006	19,580	-20.2%	46,782	-20.4%	1,838,903	-14.7%

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

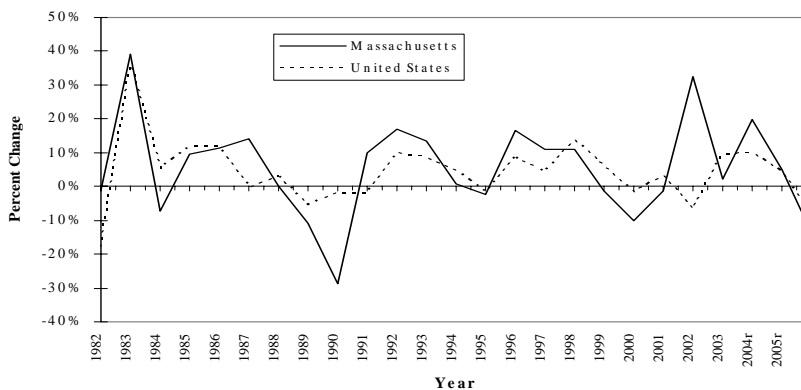
Home Sales. Sales of existing single-family homes for the Boston metropolitan area and the United States are presented in the following chart and graph. Seasonally adjusted rates are used in reporting quarterly data to factor out seasonal variations in resale activity.

Existing Home Sales, 1981-2007 1st Quarter
(Quarterly rates are seasonally adjusted, rates in thousands)

Year	Massachusetts		United States	
	Sales	% Change	Sales	% Change
1981	43.0		2,575.0	
1982	42.6	-0.8%	2,117.5	-17.8%
1983	59.2	39.0%	2,875.0	35.8%
1984	54.9	-7.3%	3,027.5	5.3%
1985	60.2	9.7%	3,382.5	11.7%
1986	67.0	11.3%	3,772.5	11.5%
1987	76.4	14.1%	3,767.5	-0.1%
1988	76.6	0.2%	3,882.5	3.1%
1989	68.2	-10.9%	3,672.0	-5.4%
1990	48.6	-28.8%	3,603.5	-1.9%
1991	53.4	10.0%	3,533.3	-1.9%
1992	62.5	17.0%	3,889.5	10.1%
1993	70.9	13.4%	4,220.3	8.5%
1994	71.4	0.7%	4,409.8	4.5%
1995	69.6	-2.6%	4,342.3	-1.5%
1996	81.2	16.6%	4,705.3	8.4%
1997	90.1	11.0%	4,908.8	4.3%
1998	99.9	10.8%	5,585.3	13.8%
1999	98.5	-1.3%	5,922.8	6.0%
2000	88.7	-10.0%	5,831.8	-1.5%
2001	87.5	-1.4%	6,026.3	3.3%
2002	115.9	32.5%	5,631.0	-6.6%
2003	118.3	2.1%	6,175.0	9.7%
2004r	141.7	19.8%	6,778.0	9.8%
2005r	148.6	4.9%	7,076.0	4.4%
2006r	128.1	-13.8%	6,478.0	-8.5%
2007. I p	146.3	3.9% *	6,413.0	-6.6% *

SOURCES: National Association of Realtors. Federal Reserve Bank of Boston.
p= preliminary, *=change from previous year's quarter, r=revised

Percentage Change in Existing Home Sales
(Massachusetts and the United States 1981-2006)



SOURCES: National Association of Realtors. Federal Reserve Bank of Boston. r=revised.

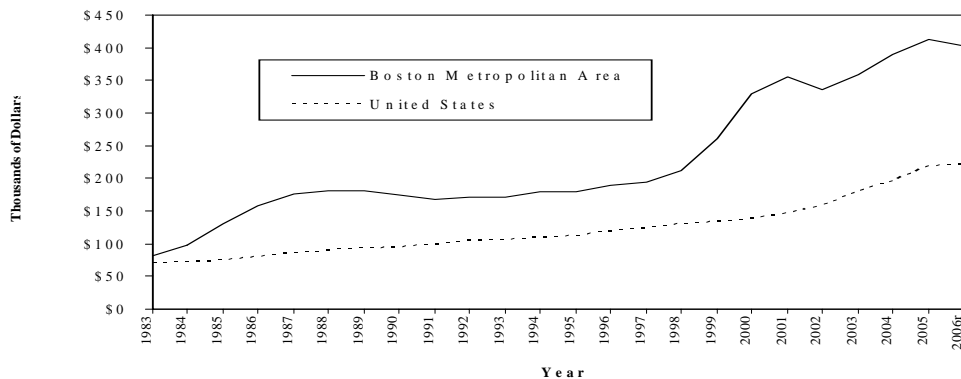
Median Home Prices. Median sales price of existing single-family homes for the Boston metropolitan area and the United States are presented in the following chart and graph.

Median Sales Price for Existing Single-Family Homes - 1983 to 2007 1st Quarter
(Quarterly price not seasonally adjusted, price in thousands)

Year	Boston Metropolitan Area	United States	Boston Prices as a Percent of the U.S.	Boston Annual Percent Change
1983	\$82	\$70	118.1%	
1984	\$98	\$72	135.4%	19.1%
1985	\$131	\$75	173.7%	33.5%
1986	\$158	\$80	197.3%	20.9%
1987	\$177	\$86	205.7%	11.6%
1988	\$181	\$90	201.9%	2.4%
1989	\$182	\$93	195.0%	0.4%
1990	\$174	\$95	182.6%	-4.2%
1991	\$169	\$99	169.5%	-3.0%
1992	\$171	\$104	164.6%	1.2%
1993	\$171	\$107	160.9%	0.5%
1994	\$179	\$109	164.7%	4.4%
1995	\$179	\$113	158.6%	-0.2%
1996	\$189	\$119	158.7%	5.7%
1997	\$195	\$124	157.1%	3.0%
1998	\$212	\$130	162.9%	8.9%
1999	\$261	\$133	196.2%	23.1%
2000	\$330	\$138	238.3%	26.4%
2001	\$355	\$146	242.4%	7.6%
2002	\$335	\$158	212.1%	-5.5%
2003	\$359	\$180	198.9%	6.9%
2004	\$390	\$195	199.6%	8.7%
2005	\$413	\$219	188.7%	6.0%
2006r	\$402	\$222	181.3%	-2.7%
2007.1p	\$388	\$212	182.8%	-1.0%*

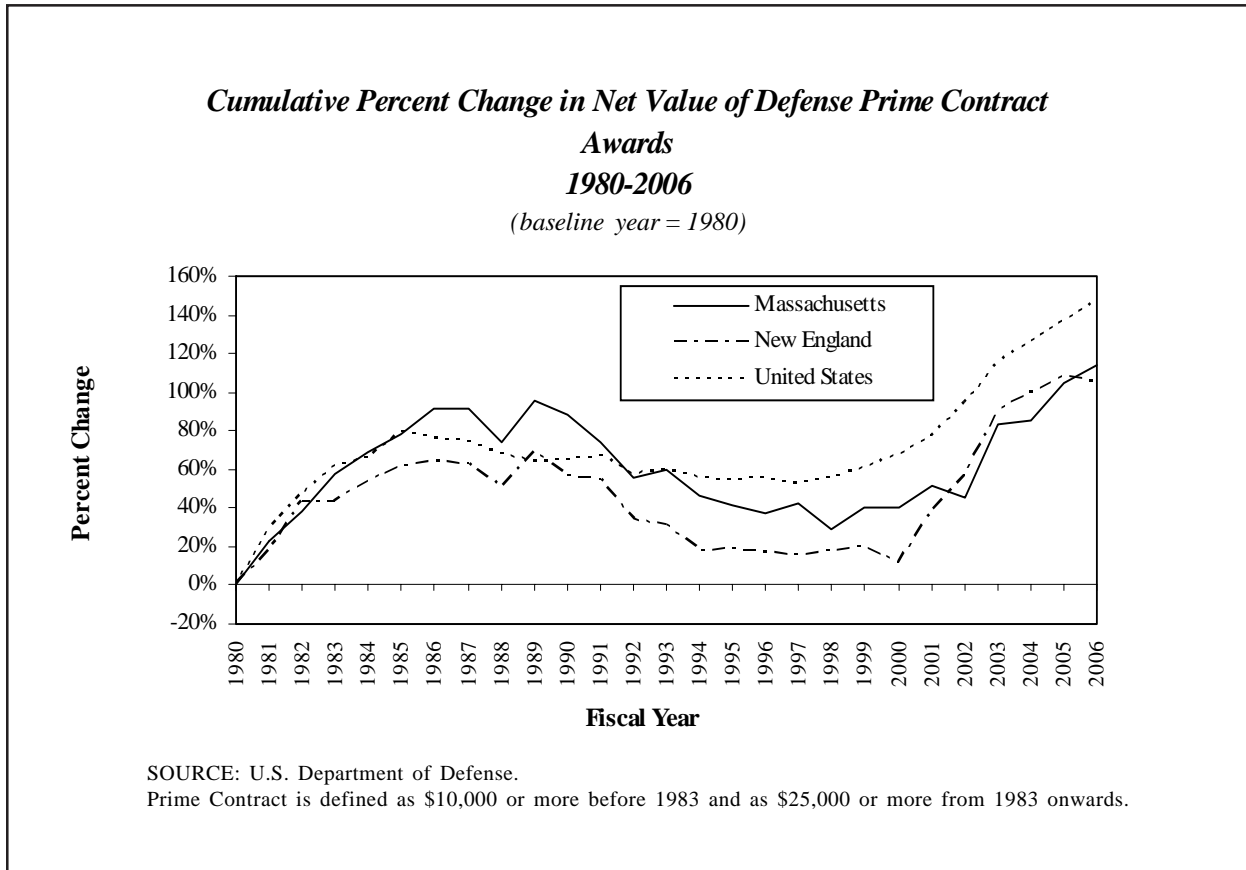
SOURCES: National Association of Realtors. Federal Reserve Bank of Boston.
 p= preliminary, *=change from previous year's quarter, r=revised

Median Sales Price, Existing Single-Family Homes
(U.S. and Boston Metro, 1983-2006)



SOURCES: Federal Reserve Bank of Boston; National Association of Realtors. p=preliminary
 Note: Boston-Cambridge-Quincy, MA-NH - Data from New Hampshire not available for 2004-2005.

Defense Industry. Massachusetts contract awards have increased every year since 1988 with the exception of 2002. The value of military prime contracts awarded to Massachusetts companies peaked in FY 2006 at \$9.1 billion and troughed in 1998 at \$4.3 billion. U.S. Navy contracts to Massachusetts companies increased by over a billion dollars in FY 2006. The chart below illustrates the yearly changes in the value of Massachusetts military prime contracts from 1980 to 2006.



From the early 1980 to 1993, the Commonwealth's share of total prime contract awards in the U.S. remained around 5 percent. In 2002, the Commonwealth's share of the national total reached its lowest point in over two decades, 3.1 percent, and has increased slightly to 3.5 percent in 2005. While Massachusetts' contract total has increased significantly in the past four years, its share of the U.S. total was only 3.5% in 2006. Massachusetts is the eighth largest recipient in defense spending.

The importance of the defense industry to the Massachusetts economy is reflected in table on the following page, which shows the value of Department of Defense prime contract awards between 1980 and 2006.

Net Value of Department of Defense Prime Contract Awards Since 1980-2006

(in millions)

<i>Fiscal Year</i>	<i>MA</i>	<i>N.E.</i>	<i>U.S.</i>	<i>Massachusetts' Share (as a Percent)</i>	
				<i>of New England</i>	<i>of U.S.</i>
1980*	\$3,743	\$8,775	\$68,070	42.7%	5.5%
1981*	4,605	10,372	87,761	44.4%	5.2%
1982*	5,317	13,037	103,858	40.8%	5.1%
1983	6,328	12,967	118,744	48.8%	5.3%
1984	7,029	14,249	123,995	49.3%	5.7%
1985	7,714	15,487	140,096	49.8%	5.5%
1986	8,735	15,748	136,026	55.5%	6.4%
1987	8,685	15,606	133,262	55.7%	6.5%
1988	7,212	13,673	125,767	52.7%	5.7%
1989	8,757	16,268	119,917	53.8%	7.3%
1990	8,166	14,271	121,254	57.2%	6.7%
1991	6,933	13,889	124,119	49.9%	5.6%
1992	5,686	11,033	112,285	51.5%	5.1%
1993	5,936	10,779	114,145	55.1%	5.2%
1994	5,106	9,329	110,316	54.7%	4.6%
1995	4,846	9,375	109,005	51.7%	4.4%
1996	4,675	9,237	109,408	50.6%	4.3%
1997	4,910	9,152	106,561	53.6%	4.6%
1998	4,245	9,284	109,386	45.7%	3.9%
1999	4,715	9,456	114,875	49.9%	4.1%
2000	4,737	8,745	123,295	54.2%	3.8%
2001	5,248	11,094	135,225	47.3%	3.9%
2002	4,929	13,029	158,737	37.8%	3.1%
2003	6,800	17,544	191,221	38.8%	3.6%
2004	6,961	19,062	212,740	36.5%	3.3%
2005	8,333	20,699	236,986	40.3%	3.5%
2006	9,077	20,243	257,456	44.8%	3.5%

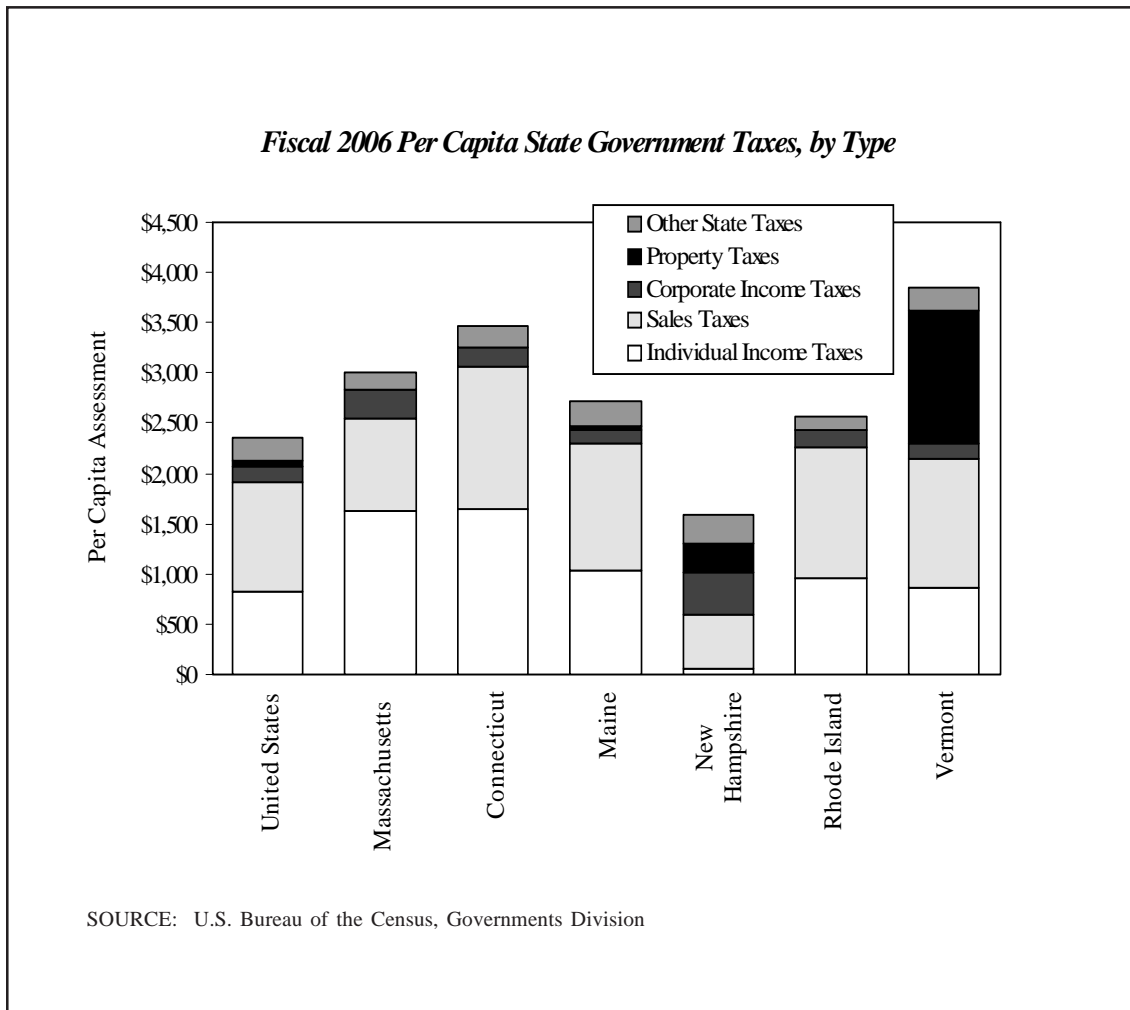
SOURCE: United States Department of Defense. *Prime Contract is defined as \$10,000 and above for these years; beginning in 1983 it is defined as \$25,000 and above.

Travel and Tourism. The travel and tourism industry represents an important component of the overall Massachusetts economy. In 2005, the arts, entertainment, recreation and accommodations industries contributed 1.6 percent to Massachusetts total GDP. The Massachusetts Office of Travel and Tourism reported an annual increase of 4.8 percent in museum and attraction attendance in 2006. March 2007 year-to-date attendance, 1,723,954, is 3.7 percent less than the same period in 2006.

The Massachusetts Office of Travel and Tourism estimates that 23.3 million domestic travelers traveled to or within the Commonwealth in 2006, an increase of 3.3 percent from 2005. Additionally, 4.0 million international travelers visited Massachusetts in 2006, a decrease of 4.4 percent from 2005.

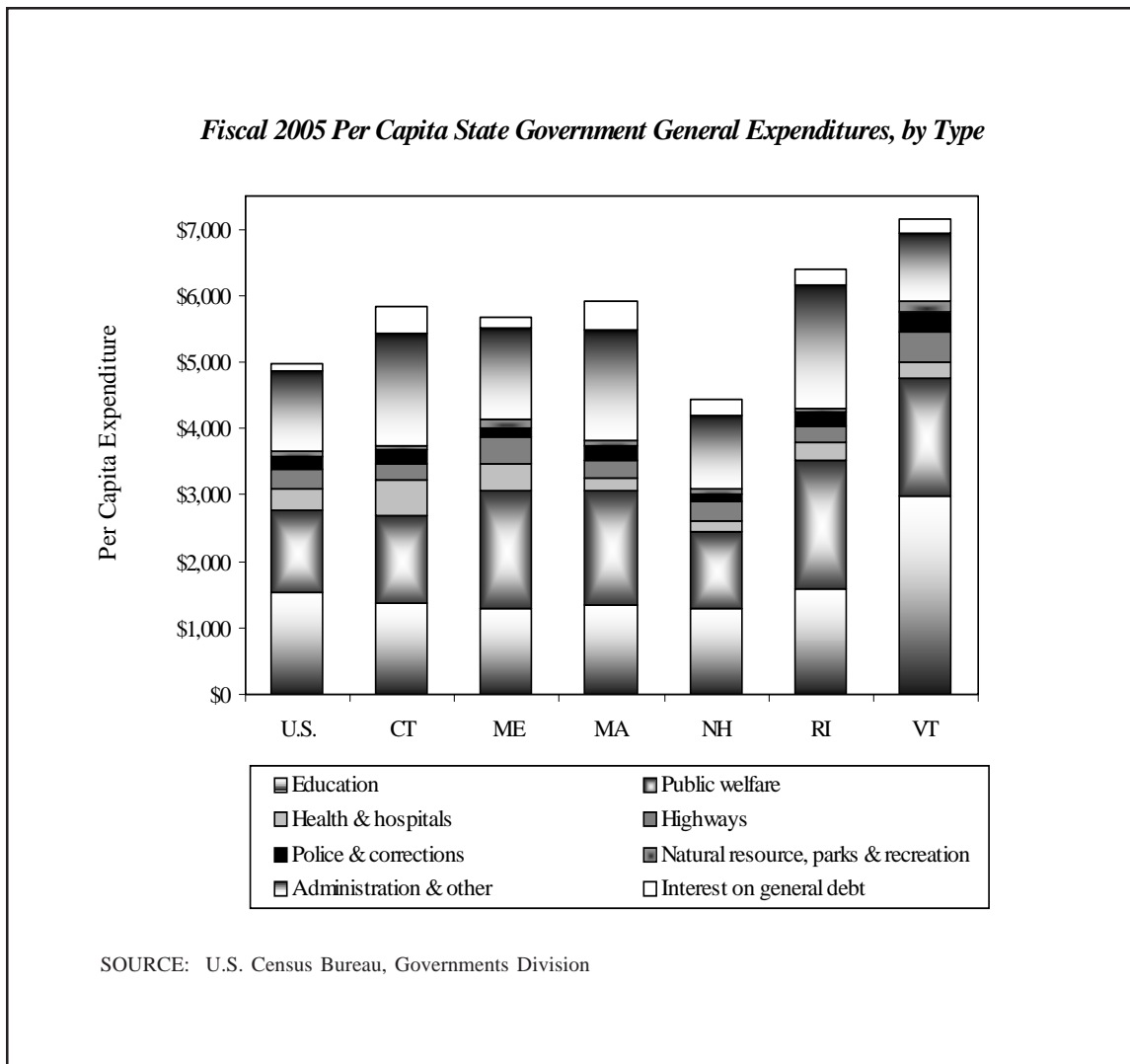
State Taxes. Per capita state taxes in Massachusetts are significantly higher, 27.7 percent, than the national average. In fiscal year 2006, the total per capita state tax bill in the United States was \$2,359. Citizens of the Commonwealth however, paid \$3,013 on average, the ninth highest (seventh last year) in the nation and an increase of 7.0 percent from the previous year's \$2,815. In New England, citizens in Connecticut and Vermont paid more per capita, and all New England states except New Hampshire (48th), ranked in the top fifth for per capita state tax collections.

In fiscal year 2006, over half (54.1 percent) of the state taxes in Massachusetts came from the state income tax. Per capita individual income taxes in Massachusetts were \$1,629, up 7.5 percent from \$1,514 in fiscal year 2005. Also increasing in fiscal year 2006 were sales receipts, 2.1 percent and corporate net income, 38.7 percent. Other taxes (licenses, death and gift, and documentary and stock transfer) decreased 8.4 percent in Massachusetts on a per capita basis. Across the New England states, there is wide variation in both total per capita state taxes and in the breakdown of those taxes, as illustrated in the following chart.

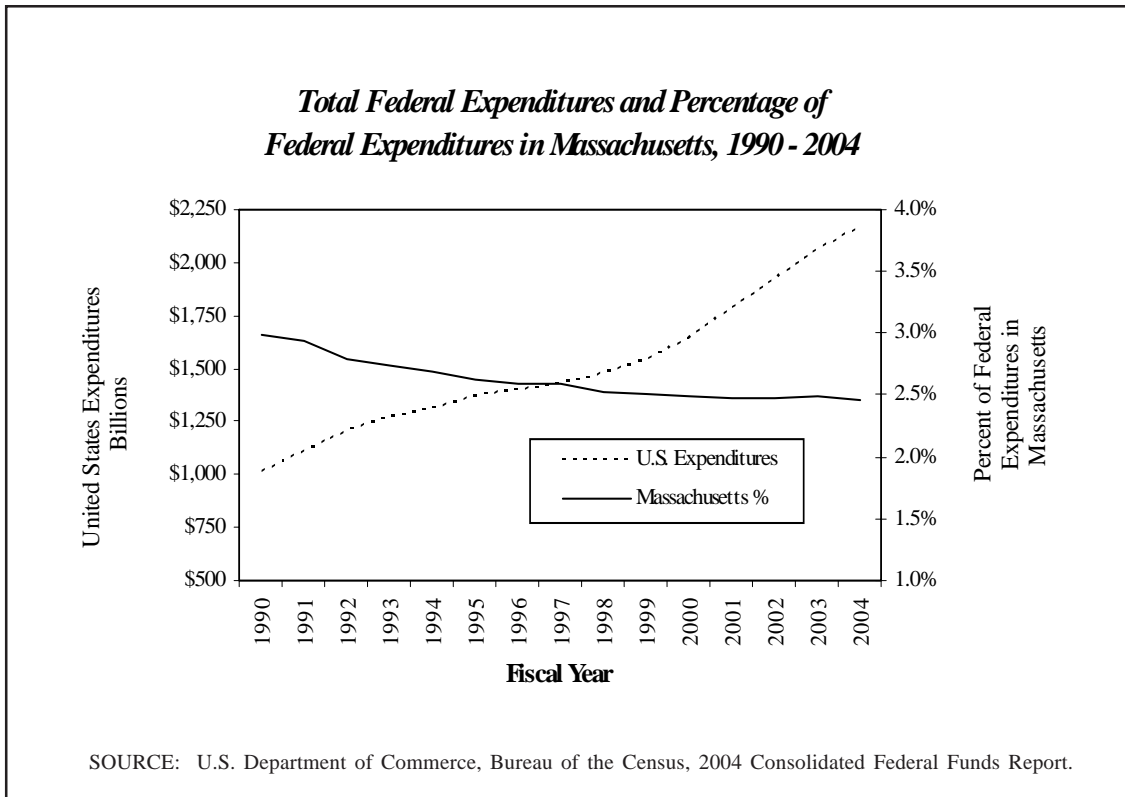


State Government Spending in Massachusetts. The following chart depicts fiscal 2005 per capita state general expenditures by category for the six New England states and the U.S. average state expenditure. Massachusetts ranked 9th in the nation in per capita expenditures, \$5,911 in 2005 while it ranked 7th and spent more, \$5,994 in 2004. This represents a 1.4 percent decrease in per capita expenditures from 2004 to 2005.

Massachusetts spent more state funds per capita on debt service, \$435 and parks, \$33 in 2005 than any of its New England neighbors. Massachusetts also spent 13.8 percent more on education, 41.4 percent less on highways and 15.6 percent less on natural resource, parks & recreation in 2005 than 2004.

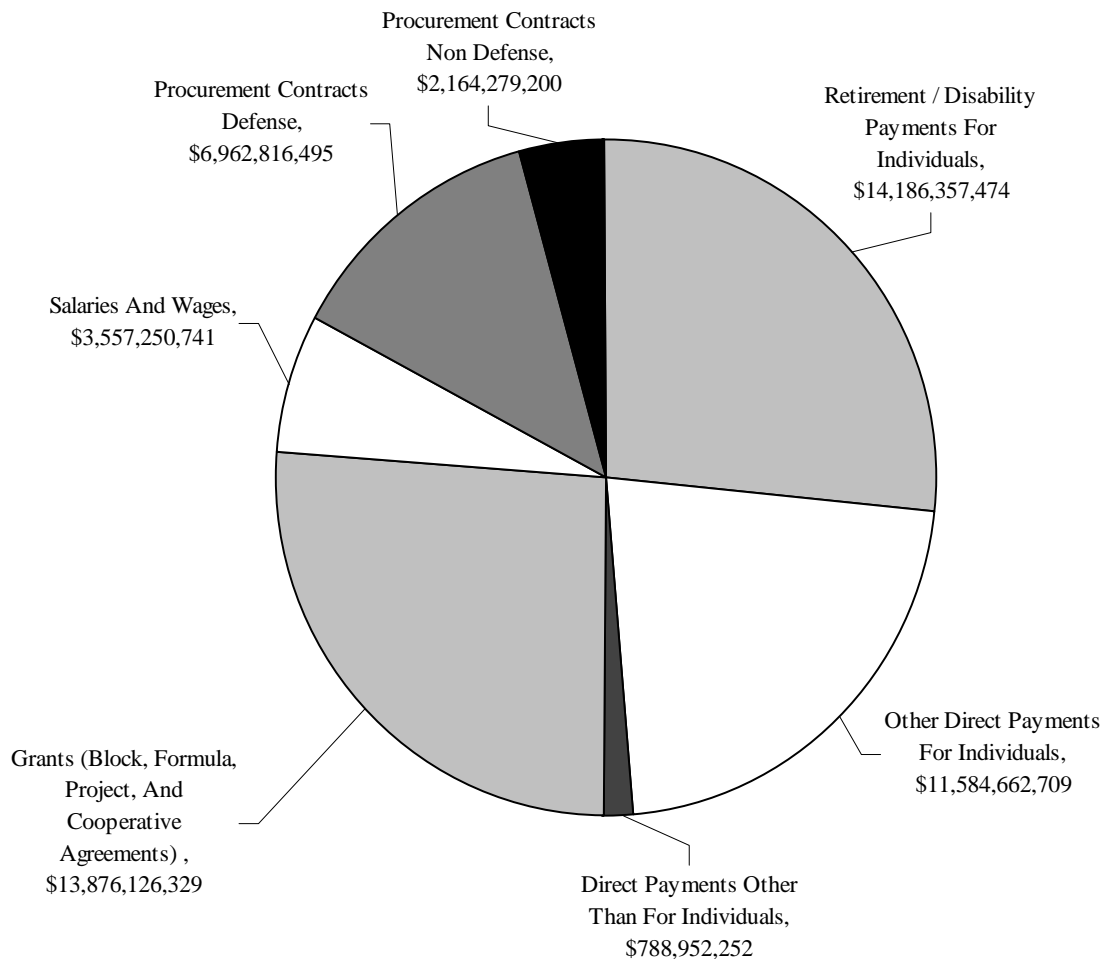


Federal Government Spending in Massachusetts. Federal government spending contributes significantly to the Massachusetts economy. In fiscal 2004, Massachusetts ranked twelfth among states in per capita distribution of federal funds, with total spending of \$8,279 per person, excluding loans and insurance. Massachusetts' share of total federal spending declined steadily between 1990 and 1999, and has stabilized in the range of 2.46 percent to 2.52 percent between 1998 and 2004. The following chart shows total federal expenditures and the percentage of federal expenditures in Massachusetts. Federal spending includes grants to state and local governments, direct payments to individuals, wage and salary employment, and procurement contracts, and includes only those expenditures that can be associated with individual states and territories.



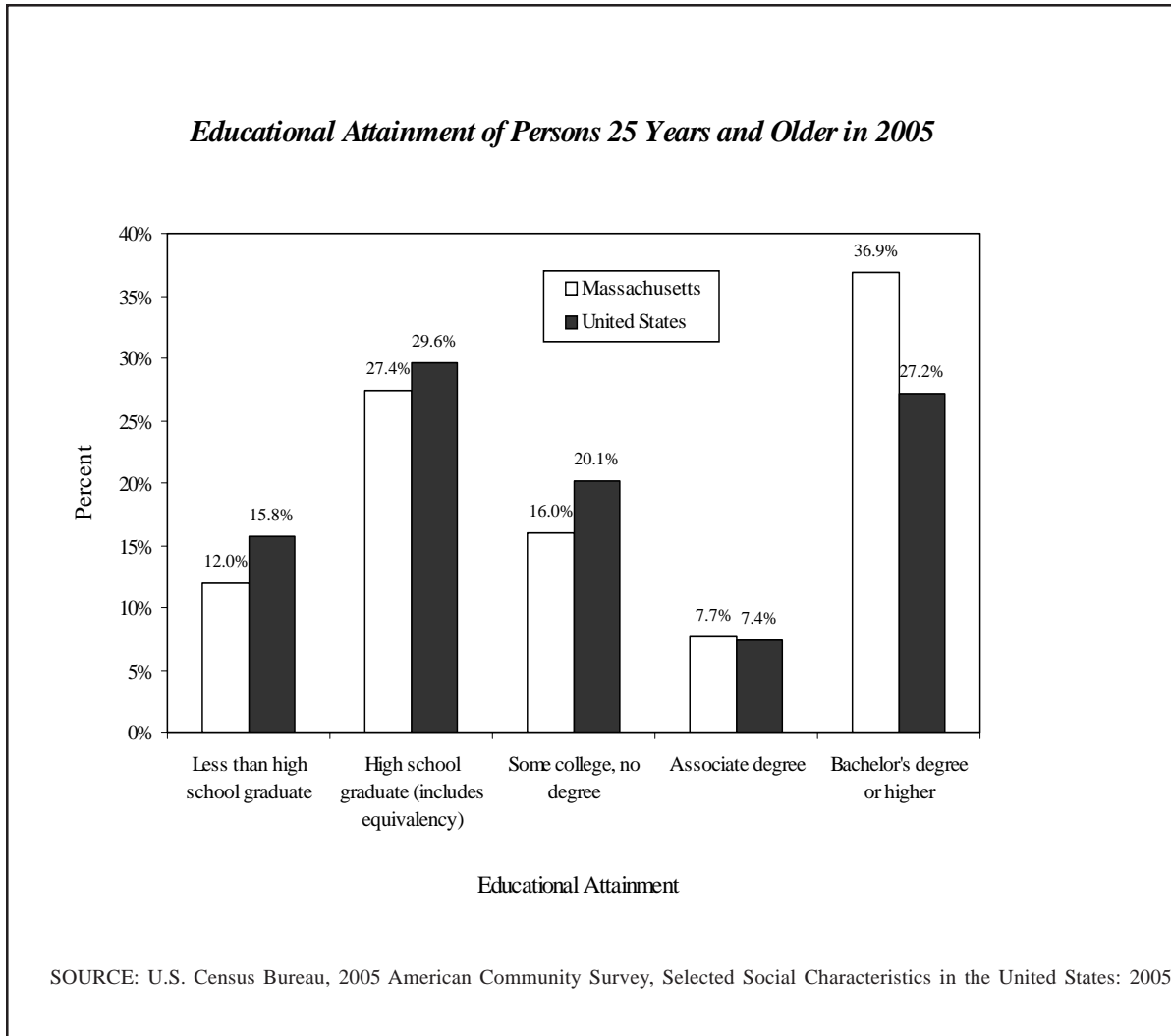
Over half of FY 2004 federal spending in Massachusetts was composed of health care and social programs like Medicare, Medicaid, Social Security, unemployment benefits and Section 8 Housing Vouchers. Massachusetts was above the national average in per capita federal grants to state and local governments, receiving \$2,163 per capita compared to a national average of \$1,545. Per capita federal spending on salaries and wages in 2004 was lower in Massachusetts than in the rest of the nation, \$554 compared to a national average of \$750, but Massachusetts was above the national average in per capita direct federal payments to individuals (\$4,139 compared to a national average of \$3,839). Massachusetts ranked 9th among states in per capita procurement contract awards, \$1,422 compared to a national average of \$1,089 in 2004. The following chart shows the composition of direct federal spending within Massachusetts in fiscal 2004, excluding loans and insurance.

**Composition of Direct Federal Spending in Massachusetts by Program
Fiscal 2004**

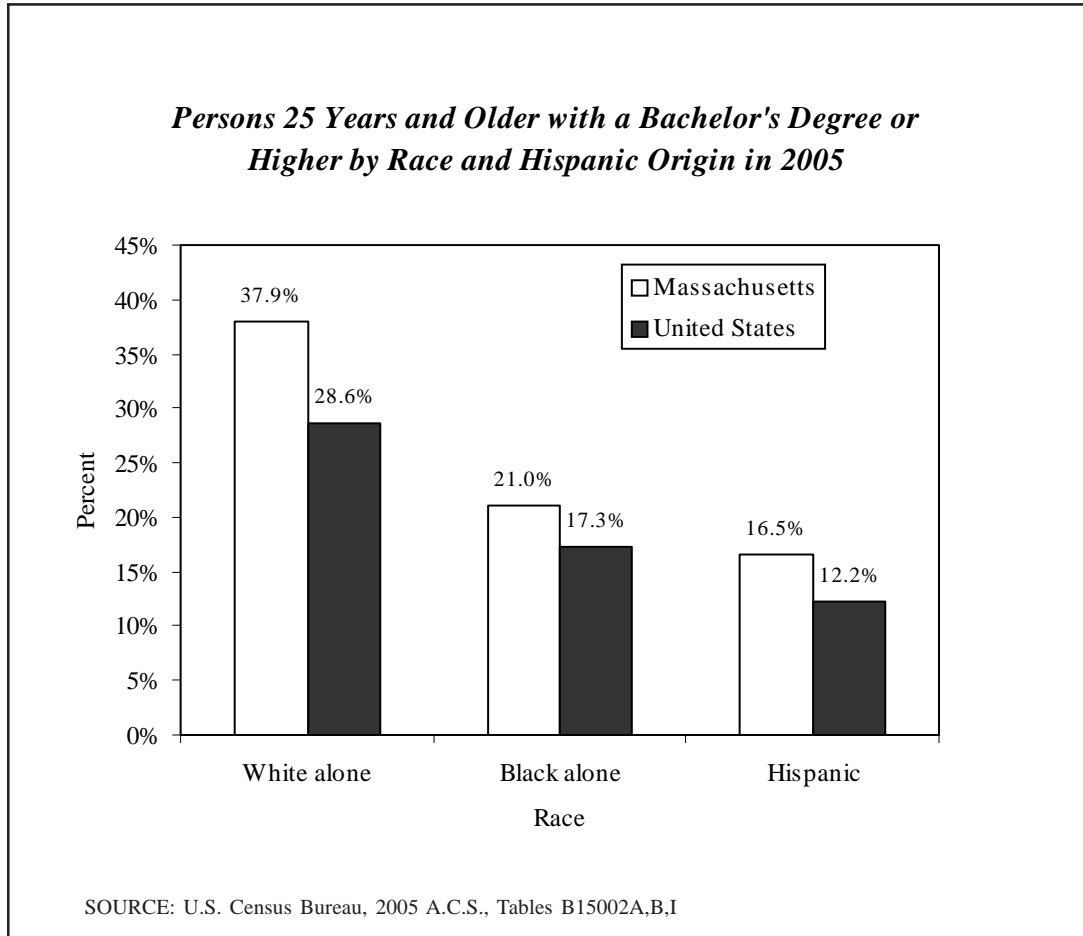


SOURCE: U.S. Census Bureau, Consolidated Federal Funds Report: FY 2004

Human Resources. The availability of a skilled and well-educated population is an important resource for the Commonwealth. The level of education reached by the population of Massachusetts compares favorably with the level in the United States as a whole. In 2005, the Census's American Community Survey (ACS) reported that Massachusetts had a smaller proportion of persons who had not completed high school (12.0 percent) than the national average (15.8 percent) and a much higher proportion of persons with a bachelor's degree or more (36.9 percent) than the nation (27.2 percent).



While Massachusetts' black and Hispanic population achieved college degrees at roughly half the rate of the white population, they fared much better than the national average.



Higher Education Data. Massachusetts has a higher minority enrollment in institutions of higher education than New England. However, the percentage of enrollment of blacks, Hispanics, and Asians in higher education in Massachusetts is below the national average. These percentages, which do not include military academy enrollment, are seen in the chart below.

Higher Education Enrollment by Race and Hispanic Origin in 2005

	Black	Asian	Native American	White	Other race	Hispanic
Massachusetts	9.2%	7.9%	0.1%	77.9%	4.9%	6.5%
New England	7.7%	5.7%	0.2%	82.1%	4.3%	6.0%
United States	14.1%	7.2%	0.8%	70.4%	7.5%	12.3%

SOURCE: U.S. Census Bureau, 2005 A.C.S., Tables B14001 A-I.

Massachusetts is an internationally recognized center for higher education, with 443,316 students in undergraduate, professional and graduate private and public programs in the 2005/2006 school year, according to the New England Board of Higher Education. According to Institute of International Education, 28,007 foreign students were enrolled in Massachusetts colleges and universities in the 2005/2006 school year. This was a 0.1 percent decrease from the previous year but Massachusetts was ranked 4th among states for foreign student enrollment.

The Massachusetts public higher education system is composed of universities, state colleges, and community colleges with a combined enrollment of 187,913 students in 2005, 43.4 percent of whom attended part-time. In addition, Massachusetts has a system of private higher education that accounted for 57.6 percent of total enrollment in Massachusetts in 2005. More than a fifth of the students attending private institutions were enrolled on a part-time basis. The strength of both public and private colleges and universities as centers for research and education contributes to the high quality of the Massachusetts work force and plays a key role in attracting and retaining business and industry within the state.

The higher education system in Massachusetts is particularly strong in post-graduate, scientific, and technical education, with 1,632 science and engineering doctorates awarded in 2005, 4th in the nation. Massachusetts conferred a total of 2,676 doctorates in 2005. Massachusetts was also ranked 2nd in the U.S. in science and engineering postdoctorates in doctorate granting institutions in 2005, with 6,502.

The pre-eminence of higher education in Massachusetts contributes not only to the quality of its work force, but also to its stature in the nation and the world as a center for basic scientific research and for academic and entrepreneurial research and development. Doctorate-granting institutions in Massachusetts received 4.5 percent (\$2.1 billion) of total national academic expenditures on R&D in fiscal 2005. Massachusetts ranked sixth in the nation behind California, New York, Texas, Maryland and Pennsylvania.

The diversity of federal funding sources reflects the variety of research and development work performed at Massachusetts educational institutions. Of the \$1.4 billion in total fiscal 2004 federal outlays for science and engineering research to universities and colleges in Massachusetts, 64.1 percent was from the Department of Health and Human Services, 16.8 percent was from the National Science Foundation, 8.3 percent from the Department of Defense, 6.3 percent was from the Department of Energy, and 2.8 percent was from the National Aeronautics and Space Administration. Massachusetts ranked 4th in the nation in 2004 in total federal outlays, \$5.3 billion, for research and development.

Given the quality of the Commonwealth's research and development sector, it is not surprising that Massachusetts fares better than the national average in homes with computer and internet access. According to Census's October 2003 Current Population Survey, 64.2 percent of Massachusetts households had access to a computer, compared to 61.8 percent nationally and 58.1 percent of its households were connected to the internet while the national average was 54.7 percent.

Primary and Secondary Education Data. Although spending on education is not necessarily an indicator of results, Massachusetts has spent from 12 to 29 percent more per pupil on primary and secondary education than the national average since at least 1981. During the 2004-2005 school year, Massachusetts increased per student expenditures to \$11,267; 29 percent higher than the national average. The table on the following page shows expenditures per pupil for Massachusetts and the United States since fiscal 1981.

***Per Pupil Expenditure in Public Elementary and Secondary Schools
1981-2005***

(in current, unadjusted dollars)

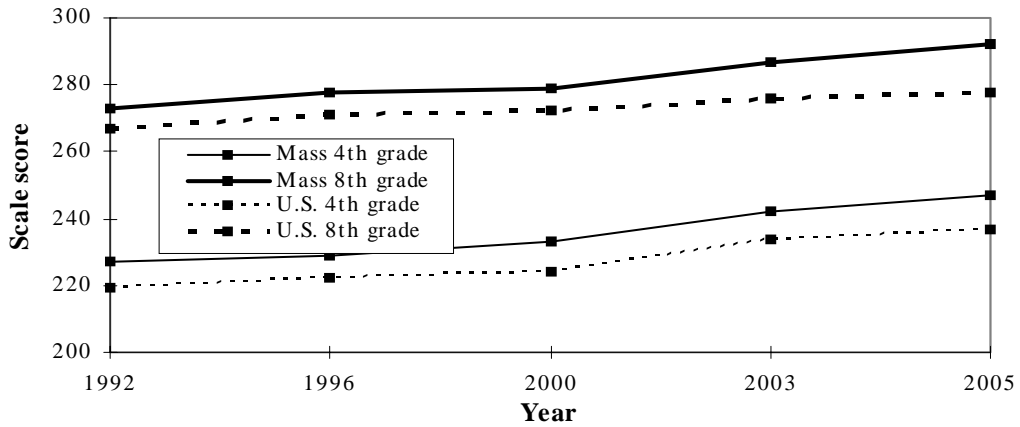
<i>Fiscal Year</i>	<i>Massachusetts</i>	<i>United States</i>	<i>Ratio (MA/U.S.)</i>
1981	\$2,735	\$2,307	1.19
1982	2,823	2,525	1.12
1983	3,072	2,736	1.12
1984	3,298	2,940	1.12
1985	3,653	3,222	1.13
1986	4,031	3,479	1.16
1987	4,491	3,682	1.22
1988	4,965	3,927	1.26
1989	5,485	4,307	1.27
1990	5,766	4,643	1.24
1991	5,881	4,902	1.20
1992	5,952	5,023	1.18
1993	6,141	5,160	1.19
1994	6,423	5,327	1.21
1995	6,783	5,529	1.23
1996	7,033	5,689	1.24
1997	7,331	5,923	1.24
1998	7,651	6,137	1.25
1999	8,106	6,458	1.26
2000	8,444	6,836	1.24
2001	9,038	7,284	1.24
2002	9,856	7,701	1.28
2003	10,223	8,019	1.27
2004	10,693	8,287	1.29
2005	11,267	8,701	1.29

SOURCE: U.S. Census Bureau, <http://www.census.gov/govs/www/school.html>

The National Assessment of Educational Progress (NAEP), also known as "the Nation's Report Card," is the only nationally representative and continuing assessment of what America's students know and can do in various subject areas. Since 1969, assessments have been conducted periodically in reading, mathematics, science, writing, U.S. history, civics, geography, and the arts. Under the current structure, the Commissioner of Education Statistics, who heads the National Center for Education Statistics in the U.S. Department of Education, is responsible by law for carrying out the NAEP project.

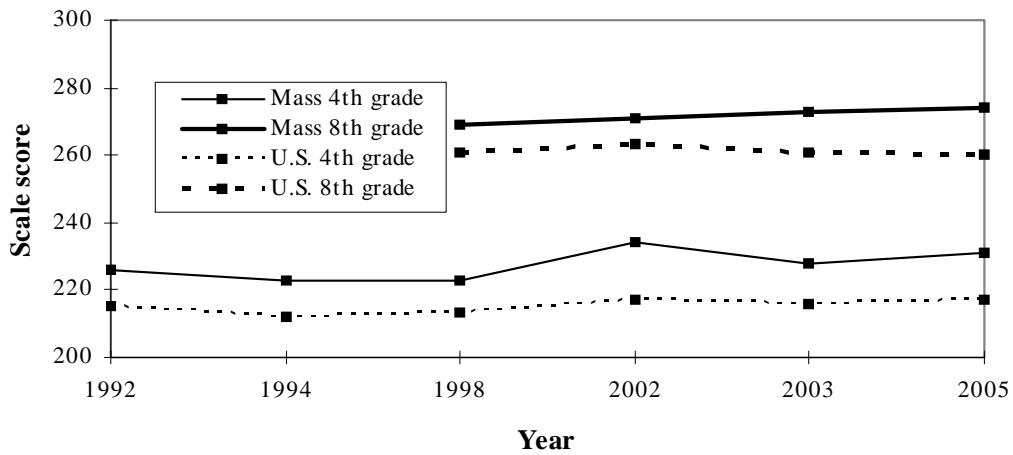
Since 1990, NAEP assessments have also been conducted to give results for participating states. Those that choose to participate receive assessment results that report on the performance of students in that state. In its content, the state assessment is identical to the assessment conducted nationally. However, because the national NAEP samples were not, and are not currently designed to support the reporting of accurate and representative state-level results, separate representative samples of students are selected for each participating jurisdiction/state. The graphs on the following page compare the data available for Massachusetts to the nation.

NAEP Mathematics Scores



SOURCE: National Center for Education Statistics

NAEP Reading Scores



SOURCE: National Center for Education Statistics

Sources List

Listed below are the the web sites of the original data sources used to compile this section (Exhibit A) of the Economic Due Diligence report. The sites are listed in section title order.

Population Characteristics

United States Department of Commerce, Bureau of the Census
<http://www.census.gov>

Personal Income, Consumer Prices, and Poverty

U.S. Department of Commerce, Bureau of Economic Analysis

<http://www.bea.doc.gov/bea/regional>

United States Department of Labor, Bureau of Labor Statistics

<http://www.bls.gov>

The Conference Board, Inc.

<http://www.conference-board.org>

Mass Insight Corporation

<http://www.massinsight.com/index.asp>

U.S. Department of Commerce, Bureau of the Census

<http://www.census.gov>

Employment

MA Division of Unemployment Assistance

<http://www.detma.org>

United States Department of Labor, Bureau of Labor Statistics

<http://www.bls.gov>

Economic Base and Performance

U.S. Department of Commerce, Bureau of Economic Analysis

<http://www.bea.doc.gov/bea/regional/gsp/>

Fortune Magazine

<http://www.fortune.com/fortune/>

Economic Base and Performance - Sector Detail (NAICS Basis)

U.S. Department of Commerce, Bureau of Economic Analysis

<http://www.bea.doc.gov/bea/regional/gsp/>

U.S. Census Bureau, Foreign Trade Division. Prepared by the World Institute for Strategic Economic Research (WISER)

<http://www.wisertrade.org>

Massport

<http://www.massport.com>

Airports Council International

<http://www.aci.aero>

Federal Aviation Administration

http://www.faa.gov/airports_airtraffic/airports/planning_capacity/passenger_allcargo_stats/

Army Corps of Engineers

<http://www.iwr.usace.army.mil.ndc/>

Federal Reserve Bank of Boston

<http://www.bos.frb.org>

United States Department of Commerce

<http://www.census.gov>

National Association of Realtors; Federal Reserve Bank of Boston

<http://www.bos.frb.org/economic/needi/needidata.htm>

U.S. Department of Defense

<http://web1.whs.osd.mil/peidhome/geostats/geostat.htm>

Massachusetts Office of Travel and Tourism

<http://www.massvacation.com>

U.S. Census Bureau, Governments Division

<http://www.census.gov/govs/www/statetax.html>

<http://www.census.gov/govs/www/state.html>

U.S. Department of Commerce, Bureau of the Census, 2003

Consolidated Federal Funds Report

<http://www.census.gov/govs/www/cffr.html>

Human Resources and Infrastructure

U.S. Census Bureau, 2003 A.C.S. PCT35A-I

<http://www.census.gov/acs/www/>

New England Board of Higher Education

<http://www.nebhe.org.connection.html>

National Science Foundation

<http://www.nsf.gov/statistics>

United States Department of Education, National Center for Education Statistics

<http://nces.ed.gov>

Institute of International Education

<http://www.iese.org>

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PROPOSED FORM OF OPINION OF BOND COUNSEL

Upon delivery of the Bonds described below, Bond Counsel proposes to deliver an opinion in substantially the following form:

MINTZ LEVIN

One Financial Center
Boston, MA 02111
617-542-6000
617-542-2241 fax
www.mintz.com

[Date of Closing]

Honorable Timothy P. Cahill
Treasurer and Receiver-General
State House, Room 227
Boston, MA 02133

We have acted as bond counsel to The Commonwealth of Massachusetts (the “Commonwealth”) in connection with the issuance by the Commonwealth of \$1,107,090,000 General Obligation Bonds, Consolidated Loan of 2007, Series C, dated the date of delivery (the “Bonds”). In such capacity, we have examined such law and such certified proceedings and other documents as we have deemed necessary to render this opinion.

As to questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications of public officials and others furnished to us without undertaking to verify the same by independent investigation.

Based upon the foregoing, we are of the opinion that, under existing law:

(a) The Bonds are valid and binding general obligations of the Commonwealth, and the full faith and credit of the Commonwealth are pledged to the payment of the principal of and interest on the Bonds. It should be noted, however, that Chapter 62F of the Massachusetts General Laws establishes a state tax revenue growth limit and does not exclude principal and interest payments on Commonwealth debt obligations from the scope of the limit. It should further be noted that Chapter 29, Section 60B, of the Massachusetts General Laws imposes an annual limitation on the percentage of total appropriations that may be expended for payment of interest and principal on general obligation debt of the Commonwealth.

(b) Interest on the Bonds will not be included in the gross income of the holders of the Bonds for federal income tax purposes. This opinion is rendered subject to the condition that the Commonwealth comply with certain requirements of the Internal Revenue Code of 1986, as amended, which must be satisfied subsequent to the issuance of the Bonds in order that interest thereon is and continues to be excluded from gross income for federal income tax purposes. Failure to comply with certain of such

Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C.

BOSTON | WASHINGTON | NEW YORK | STAMFORD | LOS ANGELES | PALO ALTO | SAN DIEGO | LONDON

requirements could cause interest on the Bonds to be included in the gross income of holders of the Bonds retroactive to the date of issuance of the Bonds. While interest on the Bonds will not constitute a preference item for purposes of computation of the alternative minimum tax imposed on certain individuals and corporations, interest on the Bonds will be included in the “adjusted current earnings” of corporate holders of the Bonds and therefore will be taken into account in the computation of the alternative minimum tax applicable to certain corporations. We express no opinion as to other federal tax consequences resulting from holding the Bonds.

(c) Interest on the Bonds is exempt from Massachusetts personal income taxes, and the Bonds are exempt from Massachusetts personal property taxes. We express no opinion as to other Massachusetts tax consequences arising with respect to the Bonds nor as to the taxability of the Bonds or the income therefrom under the laws of any state other than Massachusetts.

This opinion is given as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

Very truly yours,

Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C.

The Commonwealth of Massachusetts

§ _____
 General Obligation Bonds
 Consolidated Loan of 2007, Series C

Continuing Disclosure Undertaking
 [to be included in bond form]

On behalf of the Commonwealth, the Treasurer and Receiver-General of the Commonwealth hereby undertakes for the benefit of the owners of the Bonds to provide to each nationally recognized municipal securities information repository (each, a “NRMSIR”) within the meaning of Rule 15c2-12 of the Securities and Exchange Commission (the “Rule”) and to the state information depository for the Commonwealth, if any (the “SID”), within the meaning of the Rule, no later than 270 days after the end of each fiscal year of the Commonwealth, (i) the annual financial information described below relating to such fiscal year, together with audited financial statements of the Commonwealth for such fiscal year if audited financial statements are then available, provided, however, that if audited financial statements of the Commonwealth are not then available, such audited financial statements shall be delivered to each NRMSIR and the SID when they become available (but in no event later than 350 days after the end of such fiscal year) or (ii) notice of the Commonwealth’s failure, if any, to provide any such information. The annual financial information to be provided as aforesaid shall include financial information and operating data, in each case updated through the last day of such fiscal year unless otherwise noted, relating to the following information contained in the Commonwealth’s Information Statement dated May 9, 2007 (the “Information Statement”), as it appears as Appendix A in the Official Statement dated May 9, 2007 of the Commonwealth with respect to its \$498,565,000 General Obligation Bonds, Consolidated Loan of 2007, Series A and its \$553,135,000 General Obligation Refunding Bonds, 2007 Series A, which Official Statement has been filed with each NRMSIR and with the Municipal Securities Rulemaking Board (the “MSRB”), and substantially in the same level of detail as is found in the referenced section of the Information Statement:

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

Financial Information and Operating Data Category	Reference to Information Statement for Level of Detail
5. Summary presentation of budgeted expenditures by selected, then-current major categories on five-year comparative basis and estimated expenditures for current fiscal year	"COMMONWEALTH PROGRAMS AND SERVICES"
6. Summary presentation of the then-current, statutorily imposed funding schedule for future Commonwealth pension liabilities, if any	"COMMONWEALTH PROGRAMS AND SERVICES - Pension and Other Post-Retirement Benefit Obligations"
7. If and to the extent otherwise updated in the prior fiscal year, summary presentation of the size of the state workforce	"STATE WORKFORCE"
8. Five-year summary presentation of actual capital project expenditures	"COMMONWEALTH CAPITAL ASSET INVESTMENT PLAN - Capital Spending Plan"
9. Statement of Commonwealth debt and debt related to general obligation contract liabilities as of the end of the prior fiscal year	"LONG-TERM LIABILITIES - General Authority to Borrow - Commonwealth Debt and Debt Related to General Obligation Contract Assistance Liabilities"
10. Annual fiscal year debt service requirements for Commonwealth general obligation and special obligation bonds, beginning with the current fiscal year	"LONG-TERM LIABILITIES - Debt Service Requirements"
11. Annual fiscal year contract assistance requirements for Commonwealth general obligation contract assistance, beginning with the current fiscal year	"LONG-TERM LIABILITIES - General Obligation Contract Assistance Liabilities"
12. Annual fiscal year budgetary contractual assistance liabilities for Commonwealth, beginning with the current fiscal year	"LONG-TERM LIABILITIES - Budgetary Contractual Assistance Liabilities"
13. Five-year summary presentation of authorized but unissued general obligation debt	"LONG-TERM LIABILITIES - Authorized But Unissued Debt"
14. So long as Commonwealth statutes impose a limit on the amount of outstanding "direct" bonds, information as to compliance therewith as of the end of the prior fiscal year	"LONG-TERM LIABILITIES - General Authority to Borrow"

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

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

- (i) principal and interest payment delinquencies;
- (ii) non-payment related defaults;
- (iii) unscheduled draws on debt service reserves reflecting financial difficulties^{1/};
- (iv) unscheduled draws on credit enhancements reflecting financial difficulties;
- (v) substitution of credit or liquidity providers, or their failure to perform;
- (vi) adverse tax opinions or events affecting the tax-exempt status of the security;
- (vii) modifications to the rights of security holders;
- (viii) bond calls;
- (ix) defeasances;
- (x) release, substitution or sale of property securing repayment of the securities^{2/} and
- (xi) rating changes.

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

To the extent permitted by law, the foregoing provisions of this Bond related to the above-described undertakings to provide information shall be enforceable against the Commonwealth in accordance with the terms thereof by any owner of a Bond, including any beneficial owner acting as a third-party beneficiary (upon proof of its status as a beneficial owner reasonably satisfactory to the Treasurer and Receiver-General). To the extent permitted by law, any such owner shall have the right, for the equal benefit and protection of all owners of Bonds, by mandamus or other suit or proceeding at law or in equity, to enforce its rights against the Commonwealth and to compel the Commonwealth and any of its officers, agents or employees to perform and carry out their duties under the foregoing provisions as aforesaid, provided, however, that the sole remedy in connection with such undertakings shall be limited to an action to compel specific performance of the obligations of the Commonwealth in connection with such undertakings and shall not include any rights to monetary damages. The Commonwealth's obligations in respect of such undertakings shall terminate if no Bonds remain outstanding (without regard to an economic defeasance) or if the provisions of the Rule

^{1/}Not applicable to the Bonds, since there is no debt service reserve fund securing the Bonds.

^{2/}Not applicable to the Bonds, since there is no property securing repayment of the Bonds that could be released, substituted or sold.

concerning continuing disclosure are no longer effective, whichever occurs first. The provisions of this Bond relating to such undertakings may be amended by the Treasurer and Receiver-General of the Commonwealth, without the consent of, or notice to, any owners of the Bonds, (a) to comply with or conform to the provisions of the Rule or any amendments thereto or authoritative interpretations thereof by the Securities and Exchange Commission or its staff (whether required or optional), (b) to add a dissemination agent for the information required to be provided by such undertakings and to make any necessary or desirable provisions with respect thereto, (c) to add to the covenants of the Commonwealth for the benefit of the owners of Bonds, (d) to modify the contents, presentation and format of the annual financial information from time to time as a result of a change in circumstances that arises from a change in legal requirements, or (e) to otherwise modify the undertakings in a manner consistent with the provisions of state legislation establishing the SID or otherwise responding to the requirements of the Rule concerning continuing disclosure; provided, however, that in the case of any amendment pursuant to clause (d) or (e), (i) the undertaking, as amended, would have complied with the requirements of the Rule at the time of the offering of the Bonds, after taking into account any amendments or authoritative interpretations of the Rule, as well as any change in circumstances, and (ii) the amendment does not materially impair the interests of the owners of the Bonds, as determined either by a party unaffiliated with the Commonwealth (such as Commonwealth disclosure counsel or Commonwealth bond counsel) or by the vote or consent of owners of a majority in outstanding principal amount of the Bonds affected thereby at or prior to the time of such amendment.

4113868v.1

Specimen Bond Insurance Policies



**FINANCIAL
SECURITY
ASSURANCE®**

MUNICIPAL BOND INSURANCE POLICY

ISSUER:

Policy No.: -N

BONDS:

Effective Date:

Premium: \$

FINANCIAL SECURITY ASSURANCE INC. ("Financial Security"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of Financial Security, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which Financial Security shall have received Notice of Nonpayment, Financial Security will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by Financial Security, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in Financial Security. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by Financial Security is incomplete, it shall be deemed not to have been received by Financial Security for purposes of the preceding sentence and Financial Security shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, Financial Security shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by Financial Security hereunder. Payment by Financial Security to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of Financial Security under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless Financial Security shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment

made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to Financial Security which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

Financial Security may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to Financial Security pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to Financial Security and shall not be deemed received until received by both and (b) all payments required to be made by Financial Security under this Policy may be made directly by Financial Security or by the Insurer's Fiscal Agent on behalf of Financial Security. The Insurer's Fiscal Agent is the agent of Financial Security only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of Financial Security to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, Financial Security agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to Financial Security to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of Financial Security, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, FINANCIAL SECURITY ASSURANCE INC. has caused this Policy to be executed on its behalf by its Authorized Officer.

[Countersignature]

FINANCIAL SECURITY ASSURANCE INC.

By _____

By _____
Authorized Officer

A subsidiary of Financial Security Assurance Holdings Ltd.
31 West 52nd Street, New York, N.Y. 10019

(212) 826-0100

Form 500NY (5/90)

Financial Guaranty Insurance Policy

Obligor:

Policy Number:

Obligations:

Premium:

Ambac Assurance Corporation (Ambac), a Wisconsin stock insurance corporation, in consideration of the payment of the premium and subject to the terms of this Policy, hereby agrees to pay to The Bank of New York, as trustee, or its successor (the "Insurance Trustee"), for the benefit of the Holders, that portion of the principal of and interest on the above-described obligations (the "Obligations") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor.

Ambac will make such payments to the Insurance Trustee within one (1) business day following written notification to Ambac of Nonpayment. Upon a Holder's presentation and surrender to the Insurance Trustee of such unpaid Obligations or related coupons, uncanceled and in bearer form and free of any adverse claim, the Insurance Trustee will disburse to the Holder the amount of principal and interest which is then Due for Payment but is unpaid. Upon such disbursement, Ambac shall become the owner of the surrendered Obligations and/or coupons and shall be fully subrogated to all of the Holder's rights to payment thereon.

In cases where the Obligations are issued in registered form, the Insurance Trustee shall disburse principal to a Holder only upon presentation and surrender to the Insurance Trustee of the unpaid Obligation, uncanceled and free of any adverse claim, together with an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee duly executed by the Holder or such Holder's duly authorized representative, so as to permit ownership of such Obligation to be registered in the name of Ambac or its nominee. The Insurance Trustee shall disburse interest to a Holder of a registered Obligation only upon presentation to the Insurance Trustee of proof that the claimant is the person entitled to the payment of interest on the Obligation and delivery to the Insurance Trustee of an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee, duly executed by the Holder or such Holder's duly authorized representative, transferring to Ambac all rights under such Obligation to receive the interest in respect of which the insurance disbursement was made. Ambac shall be subrogated to all of the Holders' rights to payment on registered Obligations to the extent of any insurance disbursements so made.

In the event that a trustee or paying agent for the Obligations has notice that any payment of principal of or interest on an Obligation which has become Due for Payment and which is made to a Holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from the Holder pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such Holder will be entitled to payment from Ambac to the extent of such recovery if sufficient funds are not otherwise available.

As used herein, the term "Holder" means any person other than (i) the Obligor or (ii) any person whose obligations constitute the underlying security or source of payment for the Obligations who, at the time of Nonpayment, is the owner of an Obligation or of a coupon relating to an Obligation. As used herein, "Due for Payment", when referring to the principal of Obligations, is when the scheduled maturity date or mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity; and, when referring to interest on the Obligations, is when the scheduled date for payment of interest has been reached. As used herein, "Nonpayment" means the failure of the Obligor to have provided sufficient funds to the trustee or paying agent for payment in full of all principal of and interest on the Obligations which are Due for Payment.

This Policy is noncancelable. The premium on this Policy is not refundable for any reason, including payment of the Obligations prior to maturity. This Policy does not insure against loss of any prepayment or other acceleration payment which at any time may become due in respect of any Obligation, other than at the sole option of Ambac, nor against any risk other than Nonpayment.

In witness whereof, Ambac has caused this Policy to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.



President



Secretary

Effective Date:

Authorized Representative

THE BANK OF NEW YORK acknowledges that it has agreed to perform the duties of Insurance Trustee under this Policy.



Authorized Officer of Insurance Trustee