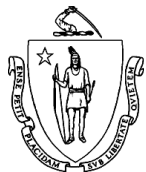


PRELIMINARY OFFICIAL STATEMENT DATED FEBRUARY 11, 2009

REFUNDING/NEW MONEY ISSUE - BOOK-ENTRY-ONLY

In the opinion of Edwards Angell Palmer & Dodge LLP, Bond Counsel, based upon an analysis of existing law and assuming, among other matters, compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under the Internal Revenue Code of 1986. Interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although interest on the Bonds is included in adjusted current earnings when calculating corporate alternative minimum taxable income. 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 expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. See "TAX EXEMPTION" herein.



THE COMMONWEALTH OF MASSACHUSETTS

\$430,315,000*
General Obligation Bonds
Consolidated Loan of 2009
Series A

\$96,465,000*
General Obligation
Refunding Bonds
2009 Series A

Dated: Date of Delivery

Due: As shown on the inside cover hereof

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 September 1, 2009 and semiannually thereafter on March 1 and September 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 Edwards Angell Palmer & Dodge LLP, 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, Nixon Peabody LLP, Boston, Massachusetts. The Bonds are expected to be available for delivery at DTC in New York, New York, on or about March 2, 2009.

Goldman, Sachs & Co.

Barclays Capital

Citi

Fidelity Capital Markets Services

J.P. Morgan

Morgan Stanley

Banc of America Securities LLC
Eastern Bank Capital Markets
M.R. Beal & Company
Oppenheimer & Co. Inc.
Ramirez & Co., Inc.

Cabrera Capital Markets, Inc.
Edward Jones
Merrill Lynch & Co.
Piper Jaffray & Co.
Raymond James & Associates, Inc.
Southwest Securities Inc.

DEPFA First Albany Securities LLC
Janney Montgomery Scott LLC
Morgan Keegan & Company, Inc.
RBC Capital Markets
Siebert Brandford Shank & Co., LLC

February __, 2009

* Preliminary, subject to change.

This Preliminary Official Statement and the information contained herein are subject to completion or amendment. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of any offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.

THE COMMONWEALTH OF MASSACHUSETTS

\$430,315,000*

General Obligation Bonds

Consolidated Loan of 2009, Series A

Dated: Date of Delivery

Due: March 1, as shown below

\$358,565,000* Serial Bonds

| <u>Maturity</u> * | <u>Amount</u> * | <u>Interest Rate</u> | <u>Price or Yield</u> | <u>CUSIP Number</u> ** | <u>Maturity</u> * | <u>Amount</u> * | <u>Interest Rate</u> | <u>Price or Yield</u> | <u>CUSIP Number</u> ** |
|-------------------|-----------------|----------------------|-----------------------|------------------------|-------------------|-----------------|----------------------|-----------------------|------------------------|
| 2010 | \$11,945,000 | | | | 2020 | \$17,400,000 | | | |
| 2011 | 12,545,000 | | | | 2021 | 18,160,000 | | | |
| 2012 | 12,885,000 | | | | 2022 | 19,070,000 | | | |
| 2013 | 13,245,000 | | | | 2023 | 20,020,000 | | | |
| 2014 | 13,705,000 | | | | 2024 | 20,920,000 | | | |
| 2015 | 14,255,000 | | | | 2025 | 21,970,000 | | | |
| 2016 | 14,825,000 | | | | 2026 | 23,065,000 | | | |
| 2017 | 15,415,000 | | | | 2027 | 24,220,000 | | | |
| 2018 | 16,060,000 | | | | 2028 | 25,430,000 | | | |
| 2019 | 16,730,000 | | | | 2029 | 26,700,000 | | | |

\$31,525,000* % Term Bonds Due March 1, 2034* to Yield ____% - CUSIP Number ** :

\$40,225,000* % Term Bonds Due March 1, 2039* to Yield ____% - CUSIP Number ** :

\$96,465,000*

General Obligation Refunding Bonds,

2009 Series A

Dated: Date of Delivery

Due: March 1, as shown below

| <u>Maturity</u> * | <u>Amount</u> * | <u>Interest Rate</u> | <u>Price or Yield</u> | <u>CUSIP Number</u> ** | <u>Maturity</u> * | <u>Amount</u> * | <u>Interest Rate</u> | <u>Price or Yield</u> | <u>CUSIP Number</u> ** |
|-------------------|-----------------|----------------------|-----------------------|------------------------|-------------------|-----------------|----------------------|-----------------------|------------------------|
| 2010 | \$5,585,000 | | | | 2017 | \$7,645,000 | | | |
| 2011 | 5,810,000 | | | | 2018 | 8,020,000 | | | |
| 2012 | 5,990,000 | | | | 2019 | 8,430,000 | | | |
| 2013 | 6,285,000 | | | | 2020 | 8,845,000 | | | |
| 2014 | 6,600,000 | | | | 2021 | 9,285,000 | | | |
| 2015 | 6,935,000 | | | | 2022 | 9,755,000 | | | |
| 2016 | 7,280,000 | | | | | | | | |

* Preliminary, subject to change.

** 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.

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.

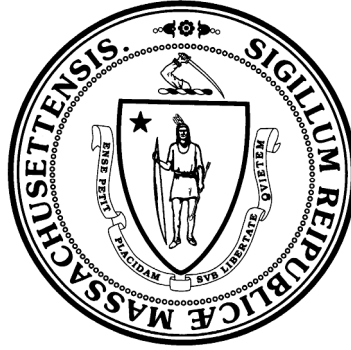
THE UNDERWRITERS HAVE PROVIDED THE FOLLOWING SENTENCE FOR INCLUSION IN THIS OFFICIAL STATEMENT: THE UNDERWRITERS HAVE REVIEWED THE INFORMATION IN THIS OFFICIAL STATEMENT IN ACCORDANCE WITH, AND AS PART OF, THEIR RESPECTIVE RESPONSIBILITIES TO INVESTORS UNDER THE FEDERAL SECURITIES LAWS AS APPLIED TO 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.

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THE COMMONWEALTH OF MASSACHUSETTS



CONSTITUTIONAL OFFICERS

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

LEGISLATIVE OFFICERS

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

OFFICIAL STATEMENT

THE COMMONWEALTH OF MASSACHUSETTS

\$430,315,000*

**General Obligation Bonds
Consolidated Loan of 2009, Series A**

\$96,465,000*

**General Obligation Refunding Bonds
2009 Series A**

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 \$430,315,000* aggregate principal amount of its General Obligation Bonds, Consolidated Loan of 2009, Series A (the "Series A Bonds"), and of its \$96,465,000* aggregate principal amount of its General Obligation Refunding Bonds, 2009 Series A (the "Refunding Bonds") (the Series A Bonds and the Refunding Bonds, together, being 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 Series A Bonds are being issued to finance certain authorized capital projects of the Commonwealth and to retire certain bond anticipation notes issued by the Commonwealth. The Refunding Bonds are being issued to refund on a current basis certain certificates of participation, as set forth in "The Bonds - Plan of Finance" and in Appendix B – Table of Refunded Obligations. The list of obligations set forth in Appendix B to be refunded from the proceeds of the Refunding Bonds is not final and is subject to change prior to the issuance of the Refunding Bonds. The Commonwealth reserves the right not to refund any or all of the obligations listed in Appendix B and to refund any or all of its obligations not listed in Appendix B, including without limitation general obligation bonds of the Commonwealth. See "The Bonds – Plan of Finance" and "Application of Series A Proceeds."

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 August 22, 2008 (the "August Information Statement"), as it appears as Appendix A in the Official Statement dated September 4, 2008 of the Commonwealth with respect to the Commonwealth's General Obligation Bonds, Consolidated Loan of 2008, Series A (the "September Official Statement"). A copy of the September Official Statement 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 August Information Statement has been supplemented by the Commonwealth's Information Statement Supplement dated February 5, 2009 (the "February Supplement"),

* Preliminary, subject to change.

which is attached hereto as Appendix A. The August Information Statement and the February Supplement are referred to herein collectively as the "Information Statement." The Information Statement contains certain fiscal, budgetary, financial and other general information concerning the Commonwealth. Exhibit A to the Information Statement contains certain economic information concerning the Commonwealth. Exhibits B and C to the Information Statement contain the financial statements of the Commonwealth for the fiscal year ended June 30, 2008, prepared on a statutory basis and on a GAAP basis, respectively. 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."

Attached hereto as Appendix B is a listing of the obligations to be refunded with the proceeds of the Refunding Bonds. The list of obligations set forth in Appendix B to be refunded from the proceeds of the Refunding Bonds is not final and is subject to change prior to the issuance of the Refunding Bonds. The Commonwealth reserves the right not to refund any or all of the obligations listed in Appendix B and to refund any or all of its obligations not listed on Appendix B, including without limitation general obligation bonds of the Commonwealth. Appendix C attached hereto contains the proposed form of legal opinion of Bond Counsel with respect to the Bonds. Appendix D 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.

THE BONDS

General

The Bonds will mature on March 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 September 1 and March 1 of each year, commencing September 1, 2009, 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 March 1, 20__* will not be subject to redemption prior to maturity. The Bonds maturing on and after March 1, 20__* will be subject to redemption on any date prior to their stated maturity dates on and after March 1, 20__* 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.

* Preliminary, subject to change.

Mandatory Sinking Fund Redemption. The Series A Bonds maturing on March 1, 2034* and March 1, 2039* 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 March 1 in each of the years set forth in the following table, in the principal amount specified in each such year:

| \$31,525,000* % Term Bonds Due March 1, 2034* | | | |
|--|-----------------|---------------|-----------------|
| <u>Year</u> * | <u>Amount</u> * | <u>Year</u> * | <u>Amount</u> * |
| 2030 | \$5,705,000 | 2033 | \$6,605,000 |
| 2031 | 5,990,000 | 2034† | 6,935,000 |
| 2032 | 6,290,000 | | |

* Preliminary; subject to change.

† Stated Maturity.

| \$40,225,000* % Term Bonds Due March 1, 2039* | | | |
|--|-----------------|---------------|-----------------|
| <u>Year</u> * | <u>Amount</u> * | <u>Year</u> * | <u>Amount</u> * |
| 2035 | \$7,280,000 | 2038 | \$8,425,000 |
| 2036 | 7,645,000 | 2039† | 8,850,000 |
| 2037 | 8,025,000 | | |

* Preliminary; subject to change.

† 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.

* Preliminary, subject to change.

Plan of Finance

The Refunding Bonds are being issued pursuant to the provisions of Section 53A of Chapter 29 of the Massachusetts General Laws and Section 11 of Chapter 27 of the Acts of 2007, as amended, for the purpose of refunding the obligations set forth in Appendix B (the “Refunded Obligations”). The net proceeds of the Refunding Bonds will be applied as described in the following paragraphs. The net proceeds of the Series A Bonds will be applied as described below under “Application of Series A Proceeds.”

The proceeds of the sale of the Refunding Bonds will be applied, together with other available funds allocable to the Refunded Obligations, to the payment or redemption of the Refunded Obligations as described in Appendix B. The Commonwealth expects to enter into a refunding trust agreement with Plymouth County, Massachusetts, the Plymouth County Correctional Facility Corporation and U. S. Bank National Association, as trustee for the Refunded Obligations, that will provide for the deposit of the net proceeds of the Refunding Bonds with the trustee for the Refunded Obligations, to be applied immediately upon receipt to purchase direct obligations of the United States of America and to funding, if needed, a cash deposit. Upon such deposit, the Refunded Obligations will no longer be outstanding.

The Commonwealth reserves the right to apply the proceeds of the Refunding Bonds to the refunding of other obligations, including without limitation general obligation bonds of the Commonwealth.

Application of Series A Proceeds

The net proceeds of the sale of the Series A Bonds will be applied by the Treasurer and Receiver-General of the Commonwealth (the “State Treasurer”) to the various purposes for which the issuance of bonds has been authorized pursuant to such special laws, to the payment of bond anticipation notes previously issued for such purposes, or to the reimbursement of the Commonwealth’s treasury for expenditures previously made pursuant to such laws. A portion of the proceeds of the bond anticipation notes to be retired by the Series A Bonds were applied to refund the City of Chelsea, Commonwealth of Massachusetts Lease Revenue Bonds (Massachusetts Information Technology Center Project – 1993 Issue) Select Auction Variable Rate Securities (SAVRS) Series A (the “Series A Chelsea Bonds”) and City of Chelsea, Commonwealth of Massachusetts Lease Revenue Bonds (Massachusetts Information Technology Center Project – 1993 Issue) Select Auction Variable Rate Securities (SAVRS) Series B (the “Series B Chelsea Bonds”). The Series A Chelsea Bonds were redeemed on January 20, 2009 and the Series B Chelsea Bonds will be redeemed on March 3, 2009. Any premium received by the Commonwealth upon original delivery of the Series A Bonds will be treated as net proceeds of the issue except to the extent that the State Treasurer may determine to apply all or a portion of such net premium to the costs of issuance thereof and other financing costs related thereto or to the payment of the principal of the Series A Bonds.

The purposes for which the Series A Bonds will be issued have been authorized by the Legislature under various bond authorizations. A portion of the net 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.

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, NY, will act as securities depository for the Bonds. The Bonds will 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 and series 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 and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct 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 is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. 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 Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has Standard & Poor’s highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC’s records. The ownership interest of each actual purchaser of each Bond (“Beneficial Owner”) is in turn to be recorded on the Direct 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 providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of 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 Direct 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. or such other DTC nominee 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 Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct 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. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners.

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. 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 Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

THE COMMONWEALTH WILL NOT HAVE ANY RESPONSIBILITY OR OBLIGATION TO THE DIRECT PARTICIPANTS, THE INDIRECT PARTICIPANTS OR THE BENEFICIAL OWNERS WITH RESPECT TO THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR BY ANY DIRECT OR INDIRECT PARTICIPANT, THE PAYMENT OF OR THE PROVIDING OF NOTICE TO THE DIRECT 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. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Commonwealth, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is 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 Participant and not of DTC or the Commonwealth, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of the principal of and interest and premium, if any, to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Commonwealth, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

The Commonwealth cannot give any assurances that Direct 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 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. Bond certificates are required to be printed and delivered.

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

THE INFORMATION IN THIS SECTION CONCERNING DTC AND DTC'S BOOK-ENTRY-ONLY 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 have been assigned ratings of “__,” “__” and “__” by Fitch Ratings (“Fitch”), Moody's Investors Service, Inc. (“Moody's”) and Standard & Poor's Ratings Services (“Standard & Poor's”), respectively.

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.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

On the date of delivery and payment, a portion of the proceeds of the Refunding Bonds will be used to purchase direct obligations of the United States of America to be held in trust by the trustee for the Refunded Obligations to provide for payment of principal of and interest on the Refunded Obligations through their respective redemption dates. The arithmetical accuracy of certain computations included in the schedules provided by or on behalf of the Commonwealth relating to (a) computation of anticipated receipts of principal and interest on the direct obligations of the United States of America to pay the regularly scheduled debt service on the Refunded Obligations until the respective redemption dates and to redeem the Refunded Obligations on those respective redemption dates and (b) computation of yields on the Refunding Bonds and the direct obligations of the United States of America will be verified by _____. Such computations are based solely upon assumptions and information supplied by or on behalf of the Commonwealth. _____ has restricted its procedures to verifying the arithmetical accuracy of certain computations and has not made any study or evaluation of the assumptions and information upon which the computations are based and, accordingly, has not expressed an opinion on the data used, the reasonableness of the assumptions or the achievability of future events.

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 _____% 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. J.P. Morgan Securities Inc., one of the underwriters of the Bonds, has entered into an agreement (the "Distribution Agreement") with UBS Financial Services Inc. for the retail distribution of certain municipal securities offerings at the original issue prices. Pursuant to the Distribution Agreement (if applicable for this transaction), J.P. Morgan Securities Inc. will share a portion of its underwriting compensation with respect to the Bonds with UBS Financial Services Inc.

TAX EXEMPTION

In the opinion of Bond Counsel, based upon an analysis of existing laws, regulations, rulings, and court decisions, and assuming, among other matters, compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code"). Bond Counsel is of the further opinion that interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel expresses no opinion regarding any other federal tax consequences arising with respect to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

The Code imposes various requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds. Failure to comply with these requirements may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Bonds. The Commonwealth has covenanted to comply with such requirements to ensure that interest on the Bonds will not be included in federal gross income. The opinion of Bond Counsel assumes compliance with these covenants.

Bond Counsel is also of the opinion that, 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 of the Bonds 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 is included in the measure of certain 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. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix C hereto.

To the extent the issue price of any maturity of the Bonds is less than the amount to be paid at maturity of such Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Bonds), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each owner thereof, is treated as interest on the Bonds which is excluded from gross income for federal income tax purposes and is exempt from Massachusetts personal income taxes. For this purpose, the issue price of a particular maturity of the Bonds is the first price at which a substantial amount of such maturity of the Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Bonds accrues daily over the term to maturity of such Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Bonds. Holders should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of purchasers who do not purchase such Bonds in

the original offering to the public at the first price at which a substantial amount of such Bonds is sold to the public.

Bonds purchased, whether at original issuance or otherwise, for an amount greater than the stated principal amount to be paid at maturity of such Bonds, or, in some cases, at the earlier redemption date of such Bonds ("Premium Bonds"), will be treated as having amortizable bond premium for federal income tax purposes and Massachusetts personal income tax purposes. No deduction is allowable for the amortizable bond premium in the case of obligations, such as the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, a holder's basis in a Premium Bond will be reduced by the amount of amortizable bond premium properly allocable to such holder. Holders of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the Bonds may adversely affect the value of, or the tax status of interest on, the Bonds. Further, no assurance can be given that pending or future legislation, including amendments to the Code, if enacted into law, or any proposed legislation, including amendments to the Code, or any future judicial, regulatory or administrative interpretation or development with respect to existing law, will not adversely affect the value of, or the tax status of interest on, the Bonds. Prospective purchasers of the Bonds are urged to consult their own tax advisors with respect to proposals to restructure the federal income tax.

Although Bond Counsel is of the opinion that interest on the Bonds is excluded from gross income for federal income tax purposes and is exempt from Massachusetts personal income taxes, the ownership or disposition of, or the accrual or receipt of interest on, the Bonds may otherwise affect a holder's federal or state tax liability. The nature and extent of these other tax consequences will depend upon the particular tax status of the holder or the holder's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences, and holders of the Bonds should consult with their own tax advisors with respect to such consequences.

OPINION OF COUNSEL

The unqualified approving opinion as to the legality of the Bonds will be rendered by Edwards Angell Palmer & Dodge LLP, 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 C. 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, Nixon Peabody 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 D 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, including, in particular, the current unprecedented adverse global financial market and economic conditions, 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 currently expected course of action and the currently 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 Colin A. MacNaught, Assistant Treasurer, Office of the Treasurer and Receiver-General, One Ashburton Place, 12th floor, Boston, Massachusetts 02108, telephone (617) 367-3900, x. 226, or Karol D. Ostberg, Director of Capital Finance, Executive Office for Administration and Finance, State House, Room 373, Boston, Massachusetts 02133, telephone (617) 727-2040. Questions regarding legal matters relating to this Official Statement and the Bonds should be directed to Walter J. St. Onge, III, Edwards Angell Palmer & Dodge LLP, 111 Huntington Avenue, Boston, Massachusetts 02199, telephone (617) 239-0389.

THE COMMONWEALTH OF MASSACHUSETTS

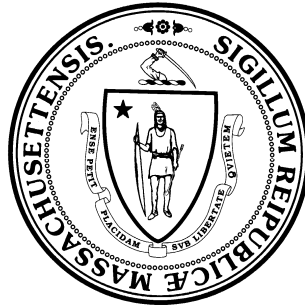
By _____
Timothy P. Cahill
Treasurer and Receiver-General

By _____
Leslie A. Kirwan
Secretary of Administration and Finance

February __, 2009

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**THE
COMMONWEALTH
OF
MASSACHUSETTS**



INFORMATION STATEMENT SUPPLEMENT

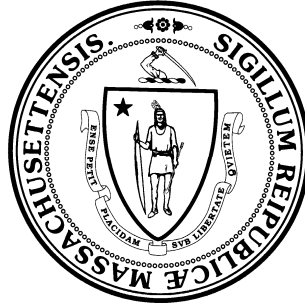
Dated February 5, 2009

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THE COMMONWEALTH OF MASSACHUSETTS



CONSTITUTIONAL OFFICERS

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

LEGISLATIVE OFFICERS

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

THE COMMONWEALTH OF MASSACHUSETTS
INFORMATION STATEMENT SUPPLEMENT

February 5, 2009

This supplement (“Supplement”) to the Information Statement of The Commonwealth of Massachusetts (the “Commonwealth”) dated August 22, 2008 (the “August Information Statement”) is dated February 5, 2009 and contains information which updates the information contained in the August Information Statement. The August Information Statement has been filed with each Nationally Recognized Municipal Securities Information Repository (NRMSIR) currently recognized by the Securities and Exchange Commission. This Supplement and the August 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 February 5, 2009. All capitalized terms not otherwise defined in this Supplement shall have the meanings ascribed to them in the August Information Statement.

The August Information Statement, as supplemented hereby, includes three exhibits. Exhibit A, attached to this Supplement, is the Statement of Economic Information as of December 31, 2008, 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, 2008 and the Commonwealth’s Comprehensive Annual Financial Report, reported in accordance with generally accepted accounting principles (GAAP), for the year ended June 30, 2008. The Commonwealth’s independent auditor has not been engaged to perform, and has not performed, since the respective dates of its reports included herein, any procedures on the financial statements addressed in such reports, nor has said independent auditor performed any procedures relating to the official statement of which this Supplement is a part. Specific reference is made to said Exhibits 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 2008

As of June 30, 2008, the Commonwealth ended fiscal 2008 with an undesignated budgetary fund balance of \$115 million, which includes the statutorily required 0.5% tax revenue carry-forward into fiscal 2008 of \$105 million.

For fiscal 2008, the Commonwealth’s audited financial statements report a year-end balance in the Stabilization Fund of \$2.119 billion. The year closed with additional reserve fund balances of \$171.5 million, \$25 million of which is commonly known as “consolidated net surplus” and is dedicated to the Massachusetts Life Sciences Investment Fund under the fiscal 2009 budget. The total ending fund balance in the budgeted operating funds was approximately \$2.406 billion.

On October 28, 2008, the Governor approved legislation to allow the Comptroller to address timing discrepancies in the receipt of federal reimbursements owed to the Commonwealth for fiscal 2008. In part, the timing discrepancy was a consequence of the then-ongoing negotiation of the Medicaid waiver, which delayed collection of federal reimbursements on expenditures made during fiscal 2008. See “COMMONWEALTH EXPENDITURES - Medicaid” below. Accordingly, the legislation authorizes the Comptroller to use those federal reimbursements in fiscal 2009 to make needed transfers to the Stabilization Fund and the State Lottery Fund, as the Legislature and Governor intended for fiscal 2008. The Commonwealth has now received most of the deferred federal reimbursements and will soon transfer these and additional amounts to the Stabilization Fund and the State Lottery Fund. The legislation also

provides the Comptroller with discretion to adjust the timing of these transfers to minimize the impact on the Commonwealth's cash flow.

On October 31, 2008, the Comptroller released audited financial statements for fiscal 2008 on the statutory basis of accounting (the Commonwealth's Statutory Basis Financial Report). On December 23, 2008, the Comptroller released audited financial statements for fiscal 2008 prepared in accordance with generally accepted accounting principles (the Commonwealth's Comprehensive Annual Financial Report). See the August Information Statement under the heading "THE GOVERNMENT - Executive Branch; *State Comptroller.*"

Fiscal 2009

On October 15, 2008, pursuant to Section 9C of Chapter 29 of the Massachusetts General Laws, the Secretary of Administration and Finance advised the Governor of a probable deficiency of revenue of approximately \$1.421 billion with respect to the appropriations approved to date for fiscal 2009 and certain non-discretionary spending obligations that had not been budgeted, including snow and ice removal costs, health and human services caseload exposures, increased debt service and public safety costs. See the August Information Statement under the heading "COMMONWEALTH BUDGET AND FINANCIAL MANAGEMENT CONTROLS - Overview of Operating Budget Process." The \$1.421 billion projected shortfall to cover expenses resulted from a projected \$1.1 billion reduction in state tax revenues (see "Tax Revenue Forecasting" below) and \$321 million in projected costs not accounted for in the fiscal 2009 budget.

On October 15, 2008, the Governor announced a plan to close the projected \$1.421 billion shortfall. The plan consisted of three major components: (i) \$1.053 billion in spending reductions and controls, (ii) a \$200 million transfer from the Stabilization Fund and (iii) \$168 million of additional revenues.

The most significant element of the Governor's plan was \$1.053 billion in spending reductions and controls. Approximately \$755 million in reductions were made pursuant to Section 9C to accounts within state agencies under the Governor's control and through other spending controls. The other spending controls were expected to result in savings of \$146 million from deficiencies not being funded, \$52 million from pension funding reconciliation (revising the previous funding schedule to take into account the valuation report described below under "COMMONWEALTH EXPENDITURES - Pension") and \$100 million in pension funding deferrals. The remaining deficiency was met by voluntary reductions in the budgets of the judiciary, the Legislature, other constitutional offices and district attorneys, which are not subject to the Governor's authority to reduce spending pursuant to Section 9C.

On October 15, 2008, in order to implement the voluntary reductions and address the remainder of the deficiency, the Governor filed emergency supplemental budget legislation to extend the state pension funding schedule from 2023 to 2025 (permitting a \$100 million reduction in the amount to be funded in fiscal 2009 - see the August Information Statement under the heading "COMMONWEALTH EXPENDITURES - Pension"), authorize the withdrawal of an additional \$200 million from the Stabilization Fund to meet fiscal 2009 obligations, formalize the voluntary spending reductions provided within non-executive accounts, establish tiers of state employee health insurance contributions based on ability to pay (expected to provide \$28.5 million for the remainder of fiscal 2009), authorize up to \$80 million to be spent for emergency snow and ice removal (in excess of previously appropriated amounts) and authorize the Governor to transfer amounts among appropriation line items within certain limits. On October 30, 2008, the Legislature enacted such legislation with some modifications; the Legislature's version authorized \$50 million for snow and ice removal and placed stricter limits on the Governor's line item transfer authority, and the Legislature did not include the provisions relating to state employee health insurance. The Legislature and the Governor also agreed on a two-month tax amnesty program to be implemented by the Department of Revenue and completed by June 30, 2009. The final legislation, approved by the Governor on January 7, 2009, allows the Department of Revenue to select which tax types and tax periods will be eligible for the tax amnesty provisions, under which the Department will waive accrued penalties for taxpayers with outstanding tax obligations. Such taxpayers will be required to pay their outstanding tax obligations and any accrued interest. The Department of Revenue estimates that a limited tax amnesty

program will result in \$10 million to \$20 million of revenue. The Department expects to announce the details of the tax amnesty program and its effective dates later in February.

In his October 15, 2008 announcement, along with the proposals contained in the legislation and the Section 9C reductions, the Governor identified \$168 million in additional revenues not previously budgeted for fiscal 2009, including \$100 million in anticipated Department of Revenue judgments and settlements, \$55 million in federal grants under the Temporary Assistance for Needy Families program and \$13 million in local revenues anticipated under previously proposed legislation that would authorize municipalities to levy property taxes on certain telecommunications equipment (which would offset a like amount of General Fund moneys otherwise required to supplement lottery-funded local aid - see the August Information Statement under the heading "COMMONWEALTH REVENUES - Federal and Other Non-Tax Revenues; *Lottery Revenues*").

On January 13, 2009, the Secretary of Administration and Finance advised the Governor, pursuant to Section 9C, of a further deficiency of revenue of approximately \$1.101 billion with respect to the appropriations approved to date for fiscal 2009. On the same day, the Secretary made a further downward revision to the fiscal 2009 tax revenue estimate. See "Tax Revenue Forecasting" below.

On January 22, 2009, the Governor approved legislation giving him the authority to reduce fiscal 2009 local aid distributions, in addition to his previously authorized powers to reduce state spending under Section 9C. (Aggregate reductions in local aid are limited under the law to one-third of the total fiscal 2009 spending reductions ordered by the Governor.) On January 28, 2009, in conjunction with the filing of his fiscal 2010 budget recommendations (see "Fiscal 2010 Budget Proposals" below), the Governor announced a plan to close the additional \$1.101 billion shortfall in fiscal 2009. The plan consists of an additional \$191 million in expenditure reductions (including \$128 million in reduced local aid distributions), \$68 million in additional revenues (\$25 million from expected tax settlements, \$25 million from increased sales taxes resulting from a proposed elimination of certain exemptions, as described below under "State Taxes," and \$18 million from anticipated revisions of Registry of Motor Vehicles fees), \$533 million in anticipated additional federal Medicaid funds (see "Federal and Other Non-Tax Revenues" below) and an additional draw of \$327 million from the Stabilization Fund. On the same day, the Governor filed legislation to implement his plan for fiscal 2009, including the provisions previously rejected by the Legislature to establish tiers of state employee health insurance contributions based on ability to pay (such provisions would be effective as of January 1, 2009 and are expected to provide \$28.5 million in budget savings in fiscal 2009).

On October 15, 2008, the Governor also stated that he intended to file additional legislation to carry out certain agency consolidations to make state government more efficient, to reform the state's pension system and to dismantle the Massachusetts Turnpike Authority and reassign its assets and operating responsibilities. The Secretary of Transportation has said that he expects a draft of the Governor's transportation reform legislation to be released in February, 2009. On February 5, 2009, the Senate Chairman of the Joint Committee on Transportation filed legislation to establish a new Massachusetts Surface Transportation Authority that would assume responsibility for operating, maintaining and financing the Commonwealth's roads, bridges and transit operations, including those currently under the jurisdiction of the Massachusetts Highway Department, the Division of Conservation and Recreation, the Massachusetts Turnpike Authority, the Massachusetts Port Authority, the Massachusetts Bay Transportation Authority and the regional transit authorities.

Preliminary tax revenue collections for the first seven months of fiscal 2009, ended January 31, 2009, totaled \$10.851 billion, a decrease of \$480 million, or 4.2%, compared to the same period in fiscal 2008. The following table shows the tax collections for the first seven months of fiscal 2009 and the change from tax collections in the same period in the prior year, both in dollars and as a percentage. The table also notes the amount of tax collections in fiscal 2009 that are dedicated to the Massachusetts Bay Transportation Authority and the Massachusetts School Building Authority.

Fiscal 2009 Tax Collections (in millions) (1)

| <u>Month</u> | <u>Tax Collections</u> | <u>Change from Prior Year</u> | <u>Percentage Change</u> | <u>MBTA Portion (3)</u> | <u>MSBA Portion</u> | <u>Tax Collections: Net of MBTA and MSBA</u> |
|------------------|------------------------|-------------------------------|--------------------------|-------------------------|---------------------|--|
| July | \$1,381.6 | \$85.6 | 6.6 | \$60.7 | \$54.6 | \$1,266.3 |
| August | 1,309.1 | 51.0 | 4.1 | 56.9 | 51.2 | 1,201.0 |
| September | 2,099.4 | (108.6) | (4.9) | 74.2 | 49.3 | 1,976.0 |
| October | 1,150.2 | (57.3) | (4.7) | 57.6 | 51.9 | 1,040.7 |
| November | 1,256.2 | (59.6) | (4.5) | 52.0 | 46.8 | 1,157.4 |
| December | 1,862.4 | 17.9 | 1.0 | 82.1 | 46.1 | 1,734.2 |
| January (2) | 1,791.9 | (408.5) | (18.6) | 62.5 | 56.2 | 1,673.2 |
| February | | | | | | |
| March | | | | | | |
| April | | | | | | |
| May | | | | | | |
| June | | | | | | |
| Total (2) | \$10,850.9 | \$(479.6) | (4.2) | \$446.0 | \$356.1 | \$10,048.9 |

SOURCE: Executive Office for Administration and Finance.

(1) Details may not add to Total due to rounding.

(2) Figures are preliminary.

(3) Includes adjustment of \$19.4 million on the account of the first quarter related to the inflation-adjusted floor applicable to tax receipts dedicated to the MBTA.

The year-to-date tax revenue decrease of \$480 million through January 31, 2009 is attributable in large part to a decrease of approximately \$327 million, or 20.3%, in income cash estimated payments, a decrease of approximately \$25 million, or 0.5%, in withholding collections, a decrease of approximately \$112 million, or 4.5%, in sales tax collections and a decrease of approximately \$7 million, or 0.8%, in corporate and business tax collections, which are partially offset by changes in other revenues (net of refunds). The year-to-date fiscal year 2009 collections (through January) were \$25 million above the benchmark estimate for the corresponding period, based on the Secretary of Administration and Finance's revised fiscal 2009 revenue estimate of \$19.450 billion announced on January 13, 2009 (see "Tax Revenue Forecasting" below).

Fiscal 2010 Budget Proposals

On January 28, 2009, the Governor filed with the Legislature his budget recommendations for fiscal 2010. The Governor's recommendations are based on the consensus tax revenue estimate for fiscal 2010 of \$19.530 billion (see "Tax Revenue Forecasting" below), plus \$325 million in anticipated additional sales taxes resulting from a proposed elimination of certain exemptions, as well as increases to the state's meals tax and hotel/motel room occupancy tax (see "State Taxes" below). The Governor's recommendations call for total spending in fiscal 2010 to exceed total anticipated spending in fiscal 2009 by just 0.5%.

Overall, the Governor proposes to use \$1.4 billion in Stabilization Funds over fiscal years 2009 and 2010. For fiscal 2009, \$601 million has already been authorized and an additional \$325 million is recommended to help close the remaining shortfall. See "Fiscal 2009" above. The fiscal 2010 budget will rely on an additional \$489 million, not including the suspension of the statutorily required deposit. At the end of fiscal 2010, the balance of the Stabilization Fund is expected to be approximately \$850 million to \$888 million, depending on investment earnings.

The federal aid amounts included in the fiscal 2009 and fiscal 2010 budget blueprints are based on current projections of temporarily enhanced federal Medicaid matching funds (FMAP - Federal Medical Assistance Percentage) that are expected to be available to the Commonwealth in those years. The version of the federal bill that was pending in the U. S. House of Representatives when the Governor released his budget recommendations provided approximately \$87 billion in FMAP funding. Based on the Commonwealth's understanding of that version of the bill, the Commonwealth could receive between \$1.5 billion and \$1.7 billion in additional FMAP over the 27-month period beginning in October, 2008 and ending in January 2010. This translates into nine months of funding during fiscal 2009 and a full 12 months during fiscal 2010. Consistent with these expected receipts, the Governor has proposed to use \$1.244 billion (of the projected \$1.6 billion) of FMAP funds over fiscal 2009 and fiscal 2010. The fiscal 2009 budget would rely on \$533 million (see "Fiscal 2009" above), and the fiscal 2010 budget would use \$711 million. The balance of FMAP funds, approximately \$335 million, would be received during fiscal 2011.

The decision to rely on federal aid to help close the projected shortfalls in fiscal 2009 and fiscal 2010 was carefully considered by the Governor. In reviewing the proposed federal package, and knowing the types of aid that had been given to states in prior economic downturns, it was decided that the FMAP portion of the federal aid would be the most prudent funding to rely on in developing solutions to the fiscal 2009 and fiscal 2010 shortfalls. The Governor and his advisers also recognized the risk involved in relying on certain types of federal aid based on draft legislation that has not been signed into law. That is why the use of federal aid has been limited to only the FMAP portion. The Governor's fiscal 2010 budget recommendations do not assume the use of any of the other types of aid being considered. In the event the amount of federal aid received is less than what is assumed in the budget solutions, the remaining balance in the Stabilization Fund could be used.

The amount of federal aid and Stabilization Fund moneys used in solving the fiscal 2009 and fiscal 2010 shortfalls was calibrated to ensure that the amounts used in fiscal 2010 were less than what was programmed for use in fiscal 2009. This places a greater emphasis on cuts, savings and revenues to balance the fiscal 2010 budget, solutions that have longer-term benefits. The Governor's fiscal 2010 budget recommendations would leave one-time resources available at the end of fiscal 2010 equal to those used in balancing the fiscal 2010 budget. The projected FMAP balance of \$355 million, when combined with the projected \$850 million to \$888 million Stabilization Fund balance at the end of fiscal 2010, would leave equivalent levels of reserves in fiscal 2011 to those that were used in fiscal 2010.

Consistent with the Governor's proposal for the second half of fiscal 2009, the Governor's fiscal 2010 budget recommendations would base state employee health care contributions on salary levels and affordability rather than date of hire, a change that is expected to result in \$60.4 million of budget savings in fiscal 2010. Medicaid cost controls and savings in fiscal 2010 are expected to amount to \$357 million (\$178 million in state dollars net of federal reimbursement). Taking into account off-budget reductions, the total Medicaid savings are expected to be \$374 million (\$187 million in net state dollars) from the level of spending that will be required to maintain the same level and provision of medical services funded following the Section 9C spending cuts announced on October 15, 2008. Local aid reductions would total \$220 million from fiscal 2009 funding levels, and reductions to Executive and Non-Executive branch agencies would total \$871 million from the level of spending that would be required to maintain the same level and provision of services by these agencies following the October 15, 2008 spending cuts under Section 9C. The Governor's fiscal 2010 budget recommendations would maintain Chapter 70 funding at fiscal 2009 levels. As the Governor's budget recommendations were being developed, funding Chapter 70 at the formula level would have cost an additional \$300 million for fiscal 2010.

The Governor's fiscal 2010 budget recommendations anticipate revisions of Registry of Motor Vehicles fees (expected to generate an additional \$74.5 million in fiscal 2010), an increase in nursing home assessments (expected to generate an additional \$75 million in fiscal 2010), additional federal funding provided by the TANF Contingency Fund in the amount of \$73 million and an additional \$20 million in unclaimed bottle deposits resulting from an expansion of the "bottle bill" to require deposits on more types of bottles. The Governor is proposing to convert the existing seven county sheriffs to state sheriffs to provide for more stable and predictable budgeting and to achieve cost savings by allowing the state Group Insurance Commission to provide their employees' health care.

The Governor's fiscal 2010 budget recommendations would require adoption of a funding schedule for the Commonwealth's unfunded OPEB liability. See the August Information Statement under the heading "COMMONWEALTH EXPENDITURES - Other Post-Retirement Benefit Obligations (OPEB)." Under the Governor's proposal, funding would be phased in, starting as early as fiscal 2011, using tobacco settlement proceeds and a portion of budget surpluses.

To alleviate financial stress on cities and towns, the Governor is proposing to authorize a 1% increase in the allowable local option hotel/motel rooms occupancy tax (expected to generate a maximum of \$24 million in fiscal 2010, should all cities and towns elect to impose the increase), a new local option 1% meals tax (expected to generate a maximum of \$125 million in fiscal 2010, should all cities and towns elect to impose the increase) and a 1% increase to the state meals tax and room occupancy tax which would be dedicated to local aid (expected to generate \$149 million in fiscal 2010). See "State Taxes" below. He is also proposing, as he did last year, to eliminate the property tax exemption for certain telecommunications equipment, which is expected to add an aggregate \$50 million in fiscal 2010 to municipal tax revenues.

The Governor's fiscal 2010 budget recommendations also propose a new mechanism for budgeting for revenues generated by taxes on capital gains. As part of the annual process for developing a consensus tax revenue estimate, a maximum amount of capital gains tax revenues would be identified for inclusion in the annual estimate for budgeting purposes, based on multi-year trends. The amount, if any, of capital gains taxes received during the ensuing fiscal year in excess of the maximum budgeted amount would be deposited in the Stabilization Fund, to the extent that total tax revenue collections exceed the annual tax revenue estimate.

Tax Revenue Forecasting

Based on an analysis of fiscal 2009 year-to-date revenue trends and taking into account revised economic forecasts and recommendations of the Department of Revenue and outside economists from the Governor's Council of Economic Advisors, on October 15, 2008, the Secretary of Administration and Finance revised the fiscal 2009 revenue estimate downward by \$1.1 billion, from \$21.402 billion to \$20.302 billion. On January 13, 2009, the Secretary made a further revision, reducing the estimate by an additional \$852 million, to \$19.450 billion.

On January 13, 2009, the Secretary of Administration and Finance and the chairs of the House and Senate Committees on Ways and Means jointly announced their consensus tax revenue estimate for fiscal 2010. See the August Information Statement under the heading "COMMONWEALTH REVENUES - Tax Revenue Forecasting." The fiscal 2010 consensus revenue estimate calls for tax receipts of \$19.530 billion, including \$767 million dedicated to the MBTA, \$641 million dedicated to the MSBA and \$1.376 billion dedicated to pension funding. The fiscal 2010 estimate represents actual revenue growth of 0.4%, but a decline of 0.1% baseline, compared to the revised fiscal 2009 estimate of \$19.450 billion.

The fiscal 2010 consensus tax revenue estimate assumes that the national and state economies will remain in recession at least through the middle of calendar year 2009 and then begin a slow recovery. In developing the consensus estimate, state officials relied on economic forecasts from Moody's Economy.com, Global Insight and the New England Economic Partnership (NEEP). The economic forecasts upon which the consensus revenue estimate is based are as follows:

- As measured by real gross domestic product (GDP), the economy declined in both the third and fourth quarters of calendar year 2008 and is projected to decline through at least the second quarter of calendar year 2009. GDP growth for the full fiscal year 2009 is projected to be between 0% and negative 1% compared to growth of 2% in fiscal 2007 and 2.4% in fiscal 2008. In fiscal 2010, GDP growth is projected to range from -0.1% to +1.6%.
- Massachusetts employment is expected to decline by 1.1% to 1.8% over the remainder of fiscal 2009, and by 0.5% to 1.1% for fiscal 2009 as a whole. For fiscal 2010, Massachusetts employment is expected to decline by 1.0% to 2.2%.

- Massachusetts personal income (excluding capital gains) is expected to grow by only 1.0% to 2.5% over the remainder of fiscal 2009 and 1.9% to 3.1% for fiscal 2009 as a whole. For fiscal 2010, Massachusetts personal income is projected to grow by 1.6% to 2.3%.
- Massachusetts wages and salaries are projected to grow by between 0.6% and 2.0% for the remainder of fiscal 2009 and 2.0% to 3.2% for the year as a whole. For fiscal 2010, the growth in Massachusetts wages and salaries is projected to range from -0.7% to +1.3%.
- Massachusetts retail sales are expected to decline by 6.3% to 6.8% over the remainder of fiscal 2009 and by 4.3% to 5.5% for the fiscal year as a whole. (A significant portion of the fiscal 2009 retail sales decline is the result of falling fuel prices, which do not affect sales tax revenue.) For fiscal 2010, Massachusetts retail sales are projected to grow by 1.4% to 1.5%.
- Corporate profits at the national level are expected to decline by 4.9% to 13.3% over the remainder of fiscal 2009, and by 6.0% to 18.9% for the fiscal year as whole (there are no forecasts for state corporate profits). For fiscal 2010, growth in corporate profits is projected to range from -3.5% to +16.3%.

In addition to the economic forecasts described above, the consensus revenue estimate takes into account forecasts for capital gains realizations and taxes. The consensus agreement capital gains forecast is based on the following considerations:

- Preliminary tax year 2007 data indicates that Massachusetts capital gains realizations increased by approximately 23% in tax year 2007, to \$35.9 billion. Fiscal 2008 taxes on those capital gains totaled approximately \$2.080 billion, an increase of approximately \$426 million, or 26%, from fiscal 2007 (taxes on tax year 2007 capital gains realizations were paid mostly in fiscal 2008).
- The stock market, as measured by the average of the S&P 500 over the entire year, declined by 17.6% in calendar 2008 (which largely determines fiscal 2009 capital gains taxes) and is expected to decline by an additional 13.6%-19.4% in calendar 2009 (which largely determines fiscal 2010 capital gains taxes). Economy.com, the only economic forecasting firm to project capital gains, estimates that capital gains realizations declined approximately 40.5% in tax year 2008 compared to 2007 and will decline by an additional 1.1% in tax year 2009. After considering more conservative scenarios developed by the Department of Revenue, the consensus agreement assumes that Massachusetts capital gains realizations will decline by 47.5% in calendar 2008 and an additional 20% in calendar 2009.

Because most of the recent asset market declines occurred in the second half of calendar 2008, many taxpayers did not adjust their estimated capital gains tax payments downward in the first half of 2008. Capital gains tax payments over the remainder of fiscal 2009 will be reduced below what would ordinarily be consistent with a 48% decline in capital gains realizations, as taxpayers now adjust their payments downward to align them with their full tax year 2008 capital gains tax liabilities. The fiscal 2009 estimate assumes that these adjustments will result in a reduction in fiscal 2009 capital gains taxes of 59% from fiscal 2008. Furthermore, because capital gains taxes will be reduced by more than 48% in fiscal 2009, the consensus estimate assumes that fiscal 2010 capital gains taxes will decline by only 1.5% from fiscal 2009, despite a much larger 20% decline in tax year 2009 capital gains realizations.

In addition to the economic assumptions described above, two other factors are expected to affect revenue growth between January and June, 2009, compared to fiscal 2008:

- Between January and June, 2008, the Commonwealth received approximately \$244 million in one-time corporate payments, which are not expected to recur in fiscal 2009;
- Tax revenue collections are projected to be increased by a net of approximately \$205 million due to tax corporate tax reform and other revenue initiatives.

State Taxes

Income Tax. On November 4, 2008, the initiative petition that would have reduced and then eliminated the state personal income tax was defeated by a better than 2-to-1 margin. See the August Information Statement under the heading “COMMONWEALTH REVENUES - State Taxes; *Income Tax.*”

Sales and Use Tax. On January 28, 2009, the Governor filed legislation to eliminate, effective April 1, 2009, the current sales tax exemption for candy, sweetened soft drinks and alcoholic beverages purchased for off-site consumption. The Department of Revenue estimates that enactment of the Governor’s proposed legislation would result in increased tax receipts in fiscal 2009 of \$25 million and in fiscal 2010 of \$150 million. Of the fiscal 2010 receipts, \$28.5 million would be dedicated to the Massachusetts School Building Authority, leaving \$121.5 million to defray state expenditures related to wellness programs. The Governor’s proposed legislation would also impose a new 1% statewide sales tax on the retail sales of meals (in addition to the current 5% tax). Moneys received on account of this increase (an estimated \$125 million in fiscal 2010) would be dedicated to local aid. See the August Information Statement under the heading “COMMONWEALTH REVENUES - State Taxes; *Sales and Use Tax.*”

Room Occupancy Tax. The Governor’s fiscal 2010 budget recommendations propose an increase from 5.7% to 6.7% in the hotel/motel room occupancy tax imposed by the Commonwealth. Moneys received on account of this increase (an estimated \$24 million in fiscal 2010) would be dedicated to local aid.

Cigarette Tax. On February 4, 2009, the President approved the federal Children’s Health Insurance Program Reauthorization Act of 2009, which increases the federal cigarette tax by 61¢ per pack, from 39¢ to \$1.00 per pack, effective April 1, 2009. The Department of Revenue expects that the increased federal cigarette tax will reduce cigarette sales in the Commonwealth and thus the amount of state cigarette tax revenue collected. Under current law, any decline in cigarette tax collections in fiscal 2009 and fiscal 2010 from currently assumed levels would reduce revenue transferred to the Commonwealth Care Trust Fund, but not affect revenue deposited in the General Fund. The Department of Revenue is in the process of estimating the state revenue impact of the federal cigarette tax increase.

Federal and other Non-Tax Revenues

Medicaid. The Governor’s fiscal 2010 budget recommendations and his plan announced on January 28, 2009 to eliminate the fiscal 2009 budget shortfall assume that the Commonwealth will receive additional federal Medicaid subsidies in the amount of \$533 million in fiscal 2009, \$711 million in fiscal 2010 and \$335 million in fiscal 2011 as a result of the federal economic stimulus legislation currently being debated in the United States Congress. These revenues are expected to be used to avoid further cuts to health care-related expenditures.

Lottery Revenues. The fiscal 2009 budget assumes total net transfers from the Lottery of \$1.005 billion to fund various commitments appropriated by the Legislature from the State Lottery Fund and the Arts Lottery Fund (\$12.7 million for services and operation of the Massachusetts Cultural Council, \$1 million for a compulsive gamblers treatment program, \$78.6 million to the General Fund for the activities of the General Fund, \$810.9 million for local aid to cities and towns and \$102.3 million for administrative expenses of the Lottery), with the balance, if any, to be transferred to the General Fund. The assumed \$1.005 billion figure was initially estimated to be approximately \$17.4 million higher than the Lottery Commission’s initial estimate of its operating revenues for fiscal 2009 of \$988 million. However, due to the negative economic climate, the Lottery Commission has since revised its estimate for operating revenues in fiscal 2009 to be \$964 million (this includes a \$1million spending reduction in operating expenses). After the \$1 million spending reduction in operating expenses and an additional \$2 million spending reduction in administrative expenses, the result is an expected shortfall of \$39.3 million against the assumed \$1.005 billion. Overall Lottery revenues for fiscal 2009 are currently trending closer to revenues reported in fiscal 2006 and fiscal 2007 of \$4.524 billion and \$4.460 billion, respectively, than the record revenues reported in fiscal 2008 of \$4.709 billion.

Tobacco Settlement. The recently enacted federal cigarette tax increase (see “State Taxes; *Cigarette Tax*” above) may have an adverse effect on the amount of tobacco settlement payments that the Commonwealth can expect to receive in future years. See the August Information Statement under the heading “COMMONWEALTH REVENUES - Federal and Other Non-Tax Revenues; *Tobacco Settlement.*” No attempt has yet been made to quantify the amount of any expected decrease.

Cash Flow

A cash flow forecast for fiscal 2009, dated December 3, 2008, was released by the State Treasurer and the Secretary of Administration and Finance. The fiscal 2009 cash flow forecast incorporated actual spending and revenue through October, 2008. See the August Information Statement under the heading “FISCAL 2008 AND FISCAL 2009 - Cash Flow.”

The December 3, 2008 cash flow reported an actual cash balance on October 31, 2008 of \$1.122 billion, approximately \$179 million lower than the July 1, 2008 cash balance of \$1.301 billion that opened the fiscal year.

The December 3, 2008 forecast was based on actual spending and revenue through October, 2008 and then-current estimates for the remainder of fiscal 2009. The forecast took into account the expenditure reductions and revised fiscal 2009 tax revenue estimate announced on October 15, 2008 but not the further revisions made on January 13, 2009. See “Fiscal 2009.” The forecast was also based on the five-year capital investment plan published in August, 2007 by the Executive Office for Administration and Finance. The forecast reflected then-current Lottery projections described above under “Federal and Other Non-Tax Revenues; *Lottery Revenues.*” The forecast assumed the receipt of \$288.5 million on April 15, 2009 pursuant to the tobacco master settlement agreement.

Based on the December 3, 2008 projections, the fiscal 2009 forecast showed an overall decline in the non-segregated cash balance from \$1.198 billion to \$1.128 billion. Several factors affected the overall decline in the cash balance, including general obligation bond proceeds received in fiscal 2008 which were projected to be spent in fiscal 2009, fiscal 2008 appropriations carried forward and authorized to be expended in fiscal 2009 and transfers resulting from the fiscal 2008 consolidated net surplus calculation.

The December 3, 2008 forecast took into account the cash flow borrowings that the Commonwealth had undertaken to that point, including the \$750 million of revenue anticipation notes issued on October 10, 2008 (to be repaid in equal installments on April 30, 2009 and May 29, 2009) and borrowings under the Commonwealth’s \$1 billion commercial paper program, currently outstanding in the amount of \$1 billion. The forecast anticipated that the full \$1 billion of commercial paper would be outstanding at least through the end of March, 2009.

The December 3, 2008 projections, like previous projections, anticipated the issuance by the Commonwealth of \$1.9 billion in bonds in fiscal year 2009 to fund capital projects. In addition, the report noted that past capital spending had not been funded from the proceeds of bonds issued in prior fiscal years and therefore additional borrowing of approximately \$192.9 million was expected to be necessary in fiscal 2009 to reimburse those expenditures. To date, the Commonwealth has issued \$500 million in bonds in September, 2008 whose proceeds were applied to capital spending. The cash flow forecast assumed the issuance of \$475 million of bonds in December, 2008, \$450 million in February, 2009 and \$450 million in May, 2009. The December bond issue is now being planned for February, 2009, and the State Treasurer issued bond anticipation notes on December 17, 2008 in the amount of \$350 million for capital purposes. The bond anticipation notes mature on March 5, 2009. The Commonwealth anticipates repaying \$200 million in outstanding commercial paper on February 6, 2009, with the remaining \$800 million expected to remain outstanding at least through the end of March, 2009.

The Commonwealth's next cash flow projection is expected to be released on or before March 1, 2009.

Overview of Fiscal 2008 Non-Segregated Operating Cash Flow (in millions) (1)
(as of September 2, 2008)

| | <u>Jul</u> | <u>Aug</u> | <u>Sept</u> | <u>Oct</u> | <u>Nov</u> | <u>Dec</u> | <u>Jan</u> | <u>Feb</u> | <u>Mar</u> | <u>Apr</u> | <u>May</u> | <u>June</u> |
|----------------------------------|------------------|------------------|----------------|----------------|----------------|----------------|------------------|----------------|----------------|------------------|------------------|------------------|
| Opening Balance | \$1,590.8 | \$1,291.8 | \$1,186.9 | \$724.7 | \$456.8 | \$393.4 | \$499.3 | \$1,238.9 | \$573.2 | \$314.9 | \$1,369.2 | \$1,286.7 |
| CP /RANs Issuance | - | - | - | 200.0 | 300.0 | 900.0 | - | - | 400.0 | - | - | - |
| Total Receipts | 2,687.8 | 3,055.6 | 3,491.6 | 2,558.7 | 3,130.8 | 3,449.9 | 3,343.6 | 3,112.5 | 4,209.7 | 4,812.26 | 3,774.1 | 4,549.9 |
| Total Expenditures | 2,987.1 | 3,173.4 | 3,953.4 | 3,026.1 | 3,400.8 | 4,483.6 | 3,100.8 | 3,376.6 | 4,939.7 | 3,757.7 | 3,856.4 | 4,641.1 |
| Central Artery Settlement | - | - | - | - | - | - | 401.2 | (401.2) | - | - | - | - |
| Stabilization Transfers | - | - | - | - | (92.9) | 240.0 | - | - | 72.0 | - | - | 3.0 |
| Closing Balance | <u>\$1,291.5</u> | <u>\$1,187.4</u> | <u>\$725.1</u> | <u>\$457.2</u> | <u>\$393.8</u> | <u>\$499.7</u> | <u>\$1,239.3</u> | <u>\$573.6</u> | <u>\$315.2</u> | <u>\$1,369.5</u> | <u>\$1,286.9</u> | <u>\$1,198.5</u> |

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

Overview of Fiscal 2009 Non-Segregated Operating Cash Flow (in millions) (1)
(as of December 3, 2008)

| | <u>Jul</u> | <u>Aug</u> | <u>Sept</u> | <u>Oct</u> | <u>Nov</u> | <u>Dec</u> | <u>Jan</u> | <u>Feb</u> | <u>Mar</u> | <u>Apr</u> | <u>May</u> | <u>June</u> |
|----------------------------------|----------------|----------------|----------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Opening Balance | \$1,198.2 | \$832.4 | \$790.4 | \$753.7 | \$1,090.4 | \$1,181.6 | \$1,083.1 | \$1,777.4 | \$1,755.8 | \$1,086.6 | \$1,692.2 | \$1,463.9 |
| CP /RANs Issuance (2) | - | 500.0 | 233.6 | 750.0 | 490.5 | 270.0 | - | - | - | - | - | - |
| Total Receipts | 2,781.7 | 3,346.2 | 4,026.0 | 4,065.7 | 3,707.0 | 4,256.2 | 3,918.6 | 3,328.2 | 4,074.5 | 4,727.0 | 3,555.2 | 4,691.5 |
| Total Expenditures | 3,147.3 | 3,387.9 | 4,372.1 | 3,629.0 | 3,615.8 | 4,676.5 | 3,224.1 | 3,349.7 | 4,743.7 | 4,121.3 | 3,851.6 | 4,927.4 |
| Central Artery Settlement | - | - | - | - | - | - | - | - | - | - | - | - |
| Stabilization Transfers | - | - | 310.0 | (100.0) | - | 321.9 | - | - | - | - | 68.1 | (100.0) |
| Closing Balance | <u>\$832.6</u> | <u>\$790.7</u> | <u>\$754.4</u> | <u>\$1,090.5</u> | <u>\$1,181.6</u> | <u>\$1,083.1</u> | <u>\$1,777.5</u> | <u>\$1,755.9</u> | <u>\$1,086.6</u> | <u>\$1,692.3</u> | <u>\$1,464.0</u> | <u>\$1,127.9</u> |

SOURCE: Office of the Treasurer and Receiver-General.
(1) Totals may not add due to rounding.
(2) To date, the Commonwealth has issued \$750 million of RANs, and the maximum amount of commercial paper outstanding will not exceed \$1 billion.

COMMONWEALTH REVENUES

Statutory Basis Distribution of Budgetary Revenues

The following table sets forth the Commonwealth's revenues in its budgeted operating funds for fiscal 2004 through fiscal 2008 and projected revenues for fiscal 2009.

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

| | Fiscal 2004 | Fiscal 2005 | Fiscal 2006 | Fiscal 2007 | Fiscal 2008 | Projected Fiscal 2009(8) |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|--------------------------|
| Tax Revenues: | | | | | | |
| Alcoholic Beverages | \$ 67.9 | \$ 68.6 | \$ 68.9 | \$ 71.0 | \$ 71.2 | \$ 71.1 |
| Banks | 238.7 | 198.9 | 349.9 | 340.9 | 547.8 | 345.4 |
| Cigarettes | 425.4 | 423.6 | 435.3 | 438.1 | 436.9 | 461.6 |
| Corporations | 997.6 | 1,062.7 | 1,390.7 | 1,587.6 | 1,512.2 | 1,625.1 |
| Deeds | 187.0 | 220.3 | 210.1 | 194.1 | 153.9 | 106.8 |
| Income | 8,830.3 | 9,690.3 | 10,483.4 | 11,399.6 | 12,483.8 | 11,398.0 |
| Inheritance and Estate | 194.7 | 255.1 | 196.3 | 249.6 | 254.0 | 278.7 |
| Insurance(2) | 420.2 | 423.4 | 448.5 | 418.6 | 417.7 | 411.7 |
| Motor Fuel | 684.2 | 685.5 | 671.8 | 676.1 | 672.2 | 651.3 |
| Public Utilities | 64.7 | 71.1 | 118.5 | 178.3 | 120.2 | 50.0 |
| Room Occupancy | 88.9 | 97.8 | 105.8 | 111.1 | 119.2 | 118.4 |
| Sales: | | | | | | |
| Regular | 2,591.6 | 2,746.6 | 2,864.7 | 2,927.7 | 2,952.2 | 2,844.4 |
| Meals | 531.7 | 555.6 | 584.1 | 608.7 | 632.9 | 644.9 |
| Motor Vehicles | <u>625.8</u> | <u>584.2</u> | <u>555.5</u> | <u>531.1</u> | <u>501.6</u> | <u>439.4</u> |
| Sub-Total-Sales | 3,749.2 | 3,886.4 | 4,004.3 | 4,067.5 | 4,086.7 | 3,928.7 |
| Miscellaneous(3) | <u>4.2</u> | <u>3.9</u> | <u>4.0</u> | <u>3.8</u> | <u>3.1</u> | <u>3.3</u> |
| Total Tax Revenues | <u>15,953.3</u> | <u>17,087.9</u> | <u>18,487.4</u> | <u>19,736.3</u> | <u>20,879.2</u> | <u>19,450.0</u> |
| MBTA Transfer | (684.3) | (704.8) | (712.6) | (734.0) | (756.0) | (767.1) |
| MSBA Transfer (4) | <u>-</u> | <u>(395.7)</u> | <u>(488.7)</u> | <u>(557.4)</u> | <u>(634.7)</u> | <u>(702.3)</u> |
| Total Budgeted Operating Tax Revenues | <u>15,269.0</u> | <u>15,987.4</u> | <u>17,286.2</u> | <u>18,444.9</u> | <u>19,488.5</u> | <u>17,980.6</u> |
| Non-Tax Revenues: | | | | | | |
| Federal Reimbursements (5) | 5,098.5 | 4,697.0 | 5,210.1 | 6,167.6 | 6,429.5 | 7,748.4 |
| Departmental and Other Revenues(6) | 1,847.7 | 1,948.9 | 2,094.3 | 2,218.4 | 2,355.9 | 2,457.9 |
| Inter-fund Transfers from Non - Budgeted Funds and Other Sources (7) | <u>1,773.1</u> | <u>1,740.1</u> | <u>1,714.9</u> | <u>1,785.0</u> | <u>2,039.3</u> | <u>2,992.1</u> |
| Budgeted Non-Tax Revenues and Other Sources | <u>8,719.3</u> | <u>8,386.0</u> | <u>9,019.3</u> | <u>10,171.0</u> | <u>10,824.7</u> | <u>13,198.4</u> |
| Budgeted Revenues and Revenues from Other Sources | <u>\$23,988.3</u> | <u>\$24,373.4</u> | <u>\$26,305.5</u> | <u>\$28,615.9</u> | <u>\$30,313.2</u> | <u>\$31,179.0</u> |

SOURCE: Fiscal 2004-2008, Office of the Comptroller; fiscal 2009, 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) Includes unemployment insurance surcharges.
- (3) Includes miscellaneous receipts from departments comprising boxing receipts, beano receipts remittable to the Commonwealth and receipts from raffle and bazaar fees.
- (4) 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 2004 was \$551.4 million.
- (5) Federal reimbursements include increases in Medicaid matching funds (Federal Medical Assistance Percentage).
- (6) Excludes intergovernmental revenues.
- (7) Inter-fund transfers from non-budgeted funds and other sources include profits from the State Lottery, tobacco settlement funds and abandoned property proceeds, as well as other transfers.
- (8) This table reflects the fiscal 2009 revised tax revenue estimate of \$19.450 billion and does not include approximately \$50 million in additional revenues, related to the elimination of certain sales tax exemptions and non-amnesty settlements, that were part of the Governor's plan, filed in January, to close the additional fiscal 2009 shortfall (see "Fiscal 2009").

COMMONWEALTH EXPENDITURES

The following table identifies certain major spending categories of the Commonwealth and sets forth the budgeted expenditures for each fiscal year within each category. In addition, budgeted expenditures and other uses are adjusted to reflect the school building assistance program payments in fiscal 2004 as if they had been non-budgeted in that year as they are beginning in fiscal 2005 with the creation of the Massachusetts School Building Authority.

Commonwealth Expenditures—Budgeted Operating Funds (in millions)(1)

| <u>Expenditure Category</u> | <u>Fiscal 2004</u> | <u>Fiscal 2005</u> | <u>Fiscal 2006</u> | <u>Fiscal 2007</u> | <u>Fiscal 2008</u> | <u>Projected Fiscal 2009</u> |
|--|--------------------|--------------------|--------------------|--------------------|--------------------|----------------------------------|
| Direct Local Aid(2) | \$4,149.2 | \$4,224.1 | \$4,430.0 | \$4,805.2 | \$5,040.5 | \$5,213.1 |
| Medicaid(3) | 5,742.4 | 5,977.2 | 6,852.5 | 7,550.4 | 8,246.3 | 8,416.5 |
| Other Health and Human Services | 4,174.2 | 4,226.0 | 4,433.6 | 4,625.3 | 4,796.5 | 4,979.9 |
| Group Insurance | 787.6 | 846.4 | 963.7 | 1,022.3 | 852.5(10) | 896.0 |
| Dept. of Elementary and Secondary Education | 394.0 | 476.7 | 408.6 | 459.0 | 485.8 | 588.4 |
| Higher Education | 831.3 | 915.0 | 987.8 | 1,115.7 | 1,084.4 | 1,027.7 |
| Dept. of Early Education and Care | 338.7 | 348.8 | 387.1 | 507.1 | 549.9 | 555.8 |
| Public Safety(4) | 1,203.2 | 1,206.5 | 1,288.0 | 1,399.2 | 1,544.4 | 1,463.8 |
| Energy and Environmental Affairs | 169.2 | 181.1 | 202.0 | 238.5 | 227.1 | 221.5 |
| Debt Service | 1,569.2 | 1,738.8 | 1,826.7 | 2,234.4 | 1,990.1 | 2,105.3 |
| Budgeted Pension | | | | | | |
| Transfers | 701.9(5) | 1,216.9 | 1,274.7 | 1,335.2 | 1,398.6 | 1,314.4 |
| Other Program Expenditures | <u>2,097.1</u> | <u>1,927.2</u> | <u>2,138.7</u> | <u>2,364.9</u> | <u>2,414.1</u> | <u>2,289.6</u> |
| Sub Total - Programs and Services before transfers to Non-budgeted funds | <u>\$22,158.0</u> | <u>\$23,284.7</u> | <u>\$25,193.4</u> | <u>\$27,657.2</u> | <u>\$28,630.2</u> | <u>29,072.0</u> |
| Inter-fund Transfers to Non-budgeted Funds | | | | | | |
| Commonwealth Care Trust Fund(6) | - | - | - | 722.1 | 1,045.9 | 1,022.3 |
| State Retiree Benefit Trust Fund | - | - | - | - | 354.7 | 372.0 |
| Medical Assistance Trust Fund(7) | - | - | 70.0 | 364.0 | 376.7 | 509.0 |
| Other | <u>690.3</u> | <u>494.4</u> | <u>321.2</u> | <u>179.6</u> | <u>400.9</u> | <u>1,187.9</u> |
| <i>Sub Total</i> | <u>\$690.3</u> | <u>\$494.4</u> | <u>\$391.2</u> | <u>\$1,265.7</u> | <u>\$2,178.2</u> | <u>\$3,091.2</u> |
| Budgeted Expenditures and Other Uses | <u>\$22,848.3</u> | <u>\$23,779.1</u> | <u>\$25,584.6</u> | <u>\$28,922.9</u> | <u>\$30,808.4</u> | <u>\$32,163.2</u> |
| Adjustment for items moved off budget(8) | <u>(551.4)(9)</u> | - | - | - | - | - |
| Adjusted Budgeted Expenditures and Other Uses | <u>\$22,296.9</u> | <u>\$23,779.1</u> | <u>\$25,584.6</u> | <u>\$28,922.9</u> | <u>\$30,808.4</u> | <u>\$32,163.2</u> |

SOURCES: Fiscal 2004-2008 Office of the State Comptroller; Fiscal 2009 and off-budget adjustments, 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) Restated fiscal 2004 to fiscal 2007 Direct Local Aid differ from Direct Local Aid expenditures reported in the fiscal 2004 to 2007 SBFRs.
- (3) Excludes off-budget Medicaid spending in fiscal 2004, 2005, 2006 and 2007 estimated at \$288 million, \$292 million, \$292 million and \$290 million, respectively. Fiscal 2004 also excludes budgeted expenditures for the administration of the Medicaid program. Fiscal 2005 through 2007 include program administration.
- (4) Public Safety comprises expenditures for the Executive Office of Public Safety and Security, plus the Commonwealth's expenditures for sheriffs. Prior fiscal years have been restated to identify public safety spending.
- (5) The fiscal 2004 general appropriations act funded the Commonwealth's scheduled pension obligation using \$687.3 million in cash and a transfer of assets to the pension fund valued at \$145 million. The asset transfer has not occurred and is not expected to occur. The amount in the table also includes non-contributory pensions paid from the General Fund.
- (6) Commonwealth Care Trust Fund transfers are based on projected program spending offset in part by revenues dedicated to the Trust Fund, including certain cigarette tax revenue dedicated to the Trust Fund beginning in fiscal 2009.
- (7) Medical Assistance Trust Fund transfers are shown according to date of payment, rather than date of service or authorization year.
- (8) Includes expenditures for school building assistance in fiscal 2004 preceding off-budget restructuring of these expenditures. The amounts are subtracted from that year to facilitate trend analysis.
- (9) Includes \$150 million transferred from surplus for initial funding of grants by the MSBA.
- (10) Prior to fiscal 2008, spending for both active and retired state employees is included within Group Insurance. In fiscal 2008, spending for retired employees occurs within the State Retiree Benefit Trust Fund to reflect new accounting requirements specified in Government Accounting Standards Board (GASB) statement 45.

Medicaid

On September 30, 2008, the Commonwealth announced that it had reached an agreement in principle with the federal Centers for Medicare and Medicaid Services (CMS) to continue through June 30, 2011 its section 1115 demonstration waiver, under which the Commonwealth operates the majority of its Medicaid program (including the 2006 health reform expansions), as well as other key elements of the Commonwealth's health care reform initiative. See the August Information Statement under the heading "COMMONWEALTH EXPENDITURES - Medicaid." The prior approval was set to expire on June 30, 2008, and was extended several times in order to allow the Commonwealth and CMS to complete discussions regarding terms for the next three years. A final written agreement was signed on December 22, 2008.

The agreement authorizes federal reimbursement for approximately \$21.2 billion in state health care spending from fiscal 2009 through fiscal 2011, \$4.3 billion more in spending than was authorized for fiscal 2006 through fiscal 2008. It enables the Commonwealth to claim federal reimbursement for all programs at current eligibility and benefit levels (including for Commonwealth Care's subsidized coverage of adults up to 300% of the federal poverty level).

Within the overall \$21.2 billion spending authority, the agreement authorizes the Commonwealth to claim federal reimbursement over the three-year renewal period for approximately \$5 billion of spending within the Safety Net Care Pool, a capped pool of funding used to support several key elements of the Commonwealth's health reform effort, including Commonwealth Care and the Health Safety Net Trust Fund. This is a \$1 billion increase in the Commonwealth's authority to claim federal reimbursement for programs in the Safety Net Care Pool, compared to the fiscal 2006 through fiscal 2008 waiver period. The agreement also transforms the Safety Net Care Pool by shifting from a series of annual caps to a three-year aggregate cap. Together, this increased authority to secure federal reimbursement and greater flexibility will allow the Commonwealth to meet all of its federal funding projections for fiscal 2009 and to plan ahead to meet all of its commitments for fiscal 2010 and fiscal 2011.

Health Care Reform Legislation

On October 1, 2008, the Division of Health Care Finance and Policy adopted final regulations revising the "fair share" test, which requires employers with 11 or more full-time equivalent employees (FTEs) to make a "fair and reasonable" premium contribution to their employees' health insurance or pay a fee to the Commonwealth. See the August Information Statement under the heading "COMMONWEALTH EXPENDITURES - Health Care Reform Legislation."

Previously, the regulations provided that an employer met the "fair and reasonable" contribution standard if either (i) 25% or more of its full-time employees enrolled in the employer's group health plan,

or (ii) it offered to contribute at least 33% towards the premium cost for a group health plan for full-time employees who worked at least 90 days. The revised regulations, which will take effect January 1, 2009, maintain this test for firms with 50 or fewer FTEs but require larger firms to meet both the employee enrollment and the employer contribution standards. Moreover, under the revised regulations, firms would also be considered to meet the “fair and reasonable contribution” standard if 75% or more of their full-time employees enroll in their group health plans.

These new regulations are projected to generate \$30 million in revenue for a full year of implementation, to support government-funded health insurance programs. (Because of the delayed effective date and a quarterly filing and payment schedule, the first year’s revenues will be collected partly in fiscal 2009 and partly in fiscal 2010.) The Commonwealth estimates that approximately 1,100 firms will be liable for the fair share contribution under the new regulations.

Office of Disability and Community Services

Under the settlement agreement approved June 16, 2008 in *Rolland v. Patrick et al.*, the Commonwealth expects to devote an additional \$17-20 million each year to pay for the placement of the affected individuals and the provision of active treatment. See the August Information Statement under the headings “COMMONWEALTH EXPENDITURES - Office of Disabilities and Community Services” and “LEGAL MATTERS.”

Pension

On September 10, 2008, PERAC released its actuarial valuation of the total pension obligation as of January 1, 2008. See the August Information Statement under the heading “COMMONWEALTH EXPENDITURES - Pension; *Valuation of Pension Obligation.*” The unfunded actuarial accrued liability as of that date for the total obligation was approximately \$12.105 billion, including approximately \$2.420 billion for the State Employees’ Retirement System, \$8.072 billion for the Massachusetts Teachers’ Retirement System, \$1.237 billion for Boston Teachers and \$376 million for cost-of-living increases reimbursable to local systems. The valuation study estimated the total actuarial accrued liability as of January 1, 2008 to be approximately \$56.637 billion (comprised of \$22.821 billion for state employees, \$30.955 billion for state teachers, \$2.485 billion for Boston Teachers and \$376 million for cost-of-living increases reimbursable to local systems). Total assets were valued at approximately \$44.532 billion based on a five-year average valuation method, which equaled 90.4% of the January 1, 2008 total asset market value. The valuation method was the same as the method used in the 2007 valuation.

The following table shows the valuation of accrued liabilities and assets from 2004 through 2008:

Pension Fund Valuation and Unfunded Accrued Liabilities (in millions)

| Valuation Date | Total Actuarial Accrued Liability | Actuarial Value of Assets(1) | Unfunded Accrued Liabilities | | Valuation Date |
|-----------------|--------------------------------------|---------------------------------|---------------------------------------|--|-----------------|
| | | | Unfunded Actuarial Liability(2) | Market Value of Unfunded Liability | |
| January 1, 2004 | \$46,059 | \$34,045 | \$12,014 | \$14,350 | January 1, 2004 |
| January 1, 2005 | 48,358 | 34,939 | 13,419 | 12,861 | January 1, 2005 |
| January 1, 2006 | 50,865 | 36,377 | 14,488 | 11,844 | January 1, 2006 |
| January 1, 2007 | 53,761 | 40,412 | 13,349 | 8,859 | January 1, 2007 |
| January 1, 2008 | 56,637 | 44,532 | 12,105 | 7,402 | January 1, 2008 |

SOURCE: Public Employee Retirement Administration Commission.

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

(2) Based on actuarial valuation.

The existing funding schedule is based on the January 1, 2003 actuarial liability, brought forward on an estimated basis to January 1, 2004, and on asset values on January 1, 2004. The most recent funding schedule recommended by PERAC is based on the January 1, 2007 actuarial liability, brought forward on an estimated basis to January 1, 2008, and asset values on December 31, 2007. The funding schedule that

was recommended by PERAC has not been updated to reflect the actuarial January 1, 2008 results, though PERAC has submitted a schedule, for review, to the Executive Office for Administration and Finance that reflects the final January 1, 2008 actuarial results. On October 30, 2008, the Legislature enacted legislation that the Governor had filed on October 15, 2008 to extend the funding schedule from 2023 to 2025. On January 13, 2009 the Secretary of Administration and Finance and legislative leaders agreed upon a pension funding level of \$1.376 billion for fiscal 2010. This amount is based upon the final January 1, 2008 actuarial results and reflects the recently extended funding schedule deadline of 2025. See "RECENT DEVELOPMENTS - Fiscal 2009."

SELECTED FINANCIAL DATA

Statutory Basis

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 2004 | Fiscal 2005 | Fiscal 2006 | Fiscal 2007 | Fiscal 2008 | Projected Fiscal 2009 |
|--|------------------|------------------|------------------|------------------|------------------|--------------------------|
| <u>Beginning Fund Balances</u> | | | | | | |
| Reserved or Designated | \$ 76.8 | \$ 664.6 | \$ 355.6 | \$ 947.2 | \$ 351.3 | \$ 171.5 |
| Bay State Competitiveness Investment Fund | - | - | - | - | 100.0 | - |
| Transitional Escrow Fund | - | - | 304.8 | - | - | - |
| Stabilization Fund | 641.3 | 1,137.3 | 1,728.4 | 2,154.7 | 2,335.0 | 2,119.2 |
| Undesignated | <u>34.7</u> | <u>90.9</u> | <u>98.4</u> | <u>106.2</u> | <u>114.7</u> | <u>115.1</u> |
| Total | <u>752.8</u> | <u>1,892.8</u> | <u>2,487.2</u> | <u>3,208.1</u> | <u>2,901.0</u> | <u>2,405.8</u> |
| <u>Revenues and Other Sources</u> | | | | | | |
| Tax Revenues | 15,269.0 | 15,987.4 | 17,286.2 | 18,444.9 | 19,488.5 | 17,980.6(4) |
| Federal Reimbursements | 5,098.5 | 4,697.0 | 5,210.1 | 6,167.6 | 6,429.5 | 7,748.4 |
| Departmental and Other Revenues | 1,847.7 | 1,948.9 | 2,094.3 | 2,218.4 | 2,355.9 | 2,457.9 |
| Inter-fund Transfers from Non-budgeted Funds and Other Sources (2) | <u>1,773.1</u> | <u>1,740.2</u> | <u>1,714.9</u> | <u>1,785.0</u> | <u>2,039.3</u> | <u>2,992.1</u> |
| Budgeted Revenues and Other Sources | 23,988.3 | 24,373.4 | 26,305.5 | 28,615.9 | 30,313.2 | 31,179.0 |
| | | | | | | <u>1,184.7</u> |
| Inter-fund Transfers | <u>2,058.7</u> | <u>2,231.3</u> | <u>1,358.1</u> | <u>552.9</u> | <u>2,226.3</u> | |
| Total Budgeted Revenues and Other Sources | <u>26,047.0</u> | <u>26,604.7</u> | <u>27,663.6</u> | <u>29,168.8</u> | <u>32,539.5</u> | <u>32,363.7</u> |
| <u>Expenditures and Uses</u> | | | | | | |
| Programs and Services | 22,158.0 | 23,284.7 | 25,193.4 | 27,657.2 | 28,630.2 | 29,072.0 |
| Inter-fund Transfers to Non-budgeted Funds and Other Uses | <u>690.3</u> | <u>494.4</u> | <u>391.2</u> | <u>1,265.7</u> | <u>2,178.2</u> | <u>3,091.2</u> |
| Budgeted Expenditures and Other Uses | 22,848.3 | 23,779.1 | 25,584.6 | 28,922.9 | 30,808.4 | 32,163.2 |
| Inter-fund Transfers | <u>2,058.7</u> | <u>2,231.2</u> | <u>1,358.1</u> | <u>553.0</u> | <u>2,226.3</u> | <u>1,184.7</u> |
| Total Budgeted Expenditures and Other Uses | <u>24,907.0</u> | <u>26,010.3</u> | <u>26,942.7</u> | <u>29,475.9</u> | <u>33,034.7</u> | <u>33,347.9</u> |
| Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses | <u>1,140.0</u> | <u>594.4</u> | <u>720.9</u> | <u>(307.1)</u> | <u>(495.2)</u> | <u>(984.2)</u> |
| <u>Ending Fund Balances</u> | | | | | | |
| Reserved or Designated (3) | 664.6 | 355.6 | 947.2 | 351.3 | 171.5 | 15.6 |
| Bay State Competitiveness Investment Fund | - | - | - | 100.0 | - | - |
| Transitional Escrow Fund | - | 304.8 | - | - | - | - |
| Stabilization Fund | 1,137.3 | 1,728.4 | 2,154.7 | 2,335.0 | 2,119.2 | 1,346.4 |
| Undesignated | <u>90.9</u> | <u>98.4</u> | <u>106.2</u> | <u>114.7</u> | <u>115.1</u> | <u>109.5</u> |
| Total | <u>\$1,892.8</u> | <u>\$2,487.2</u> | <u>\$3,208.1</u> | <u>\$2,901.0</u> | <u>\$2,405.8</u> | <u>\$1,471.5</u> |

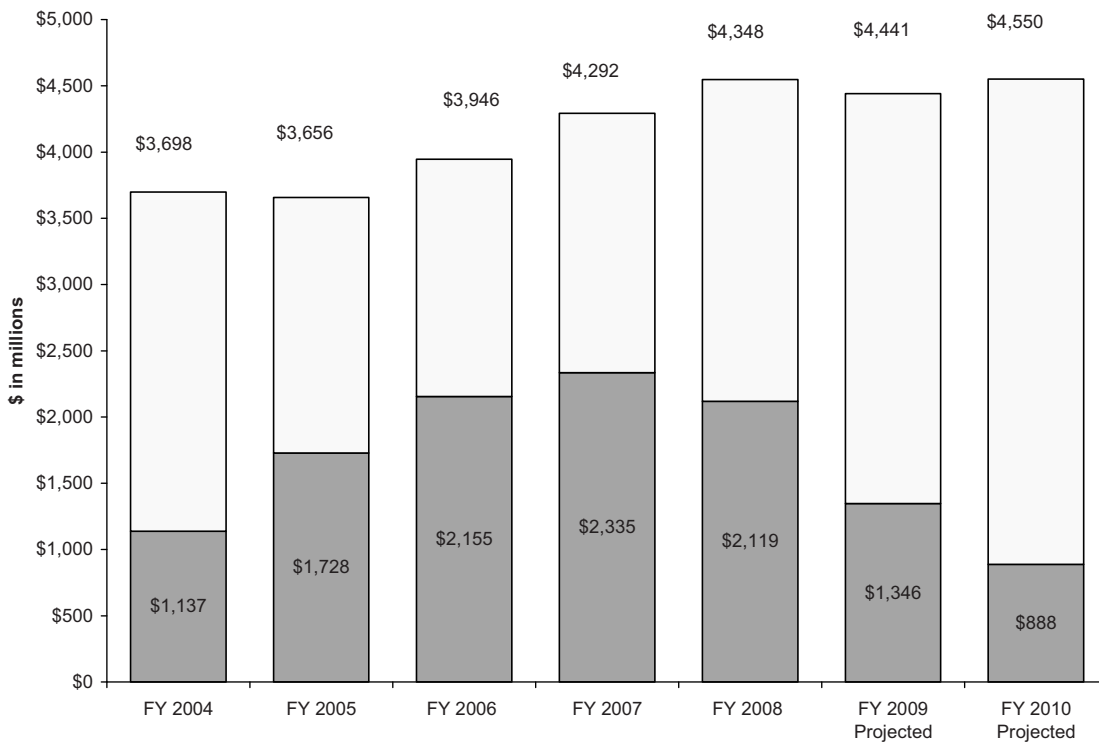
SOURCES: Fiscal 2004-2008, Office of the Comptroller; fiscal 2009, Executive Office for Administration and Finance.

- (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 as well as other inter-fund transfers.
- (3) Consists largely of appropriations from previous years, authorized to be expended in current years.
- (4) This table reflects the fiscal 2009 revised tax revenue estimate of \$19.450 billion, net of transfers to the MSBA and MBTA. This table does not include approximately \$50 million in additional revenues related to the elimination of certain sales tax exemptions and non-amnesty settlements that are part of the Governor's plan, filed in January, to close the additional fiscal 2009 shortfall (see "Fiscal 2009").

Stabilization Fund

The fiscal 2009 budget suspends the statutorily required deposit and authorizes the transfer of Stabilization Fund investment earnings in fiscal 2009 to the General Fund. The Governor’s budget recommendations for fiscal 2010 propose to do the same in fiscal 2010. See the August Information Statement under the heading “SELECTED FINANCIAL DATA - Stabilization Fund.” The Governor’s budget proposals for fiscal 2010 and his plan for closing the budget shortfall in fiscal 2009 contemplate withdrawing an aggregate total of \$1.4 billion from the Stabilization Fund during those two fiscal years, with a projected ending balance of \$888 million at the end of fiscal 2010. See “RECENT DEVELOPMENTS - Fiscal 2009 and Fiscal 2010 Budget Proposals.”

Stabilization Fund Balance Compared to Allowable Stabilization Fund Balance
(in millions)



SOURCES: Fiscal 2004-2008, Office of the Comptroller; fiscal 2009 and fiscal 2010, Executive Office for Administration and Finance.

The following table shows the sources and uses of the Stabilization Fund during fiscal 2003 through 2007:

Stabilization Fund Sources and Uses (in thousands)

| | <u>Fiscal 2004</u> | <u>Fiscal 2005</u> | <u>Fiscal 2006</u> | <u>Fiscal 2007</u> | <u>Fiscal 2008</u> |
|--|--------------------|--------------------|--------------------|--------------------|--------------------|
| Beginning fund balances | \$ 641,325 | \$1,137,320 | \$1,728,355 | \$2,154,664 | \$2,335,021 |
| <u>Revenues and Other Sources</u> | | | | | |
| Consolidated net surplus | 663,457 | 776,959 | 353,990 | 90,883 | - |
| Lottery transfer taxes | - | 3,996 | 4,204 | 2,680 | 2,243 |
| CA/T project cost recoveries | 695 | 90 | - | - | - |
| Investment income | 5,259 | 17,270 | 68,115 | 86,794 | 96,930 |
| Transfers due to fund consolidation | - | - | - | - | - |
| Excess permissible tax revenue | 357,465 | 135,991 | 20,000 | - | - |
| Transfer from Transitional Escrow Fund | - | - | - | - | - |
| Total Revenues and Other Sources | <u>1,026,876</u> | <u>934,306</u> | <u>446,309</u> | <u>180,357</u> | <u>99,173</u> |
| Total Expenditures and Other Uses | <u>530,881</u> | <u>343,271</u> | <u>20,000</u> | <u>-</u> | <u>315,000</u> |
| Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses | <u>495,995</u> | <u>591,035</u> | <u>426,309</u> | <u>180,357</u> | <u>(215,827)</u> |
| Ending fund balances | <u>\$1,137,320</u> | <u>\$1,728,355</u> | <u>\$2,154,664</u> | <u>\$2,335,021</u> | <u>\$2,119,194</u> |
| Allowable Stabilization Fund Balance | <u>\$3,697,771</u> | <u>\$3,656,015</u> | <u>\$3,945,820</u> | <u>\$4,292,382</u> | <u>\$4,546,976</u> |

SOURCE: Office of the Comptroller.

LONG-TERM LIABILITIES

General Obligation Debt

On September 11, 2008, the Commonwealth issued fixed-rate general obligation bonds in the aggregate principal amount of \$652,790,000 to refund certain auction-rate bonds (outstanding in the aggregate principal amount of \$163,650,000) and to finance capital expenditures expected to occur in fiscal 2009. On November 25, 2008, the Commonwealth issued fixed-rate general obligation bonds in the aggregate principal amount of \$544,290,000 to refund certain variable-rate demand bonds of the Commonwealth (outstanding in the aggregate principal amount of \$246,655,000) and certain variable-rate demand bonds issued by the Route 3 North Transportation Improvements Association (outstanding in the aggregate principal amount of \$294 million). On December 17, 2008, the Commonwealth issued general obligation bond anticipation notes in the amount of \$350 million. The notes mature on March 5, 2009 and are expected to be paid from the proceeds of general obligation bonds to be sold by the Commonwealth in February, 2009.

Interest Rate Swaps

On September 15, 2008, Lehman Brothers Holdings Inc. (“LBHI”), the corporate parent of Lehman Brothers Derivatives Products Inc. (“LBDP”) and Lehman Brothers Special Financing Inc. (“LBSF”), filed for bankruptcy. At the time of the filing, the Commonwealth had outstanding interest rate swaps with LBDP and LBSF. See the August Information Statement under the heading “LONG-TERM LIABILITIES - Interest Rate Swaps.” The Commonwealth’s outstanding interest rate swap with LBDP was subject to automatic termination upon such bankruptcy filing, with payment of a termination amount by the Commonwealth due within five days of notice of such termination. However, no notice of termination was

given and, on September 16, 2008, the swap was assigned by the parties to LBSF and is no longer subject to automatic termination. LBHI was the guarantor of the swaps originally entered into with LBSF, and as a result of LBHI's bankruptcy filing, those swaps became subject to termination at the option of the Commonwealth. On October 3, 2008, LBSF filed for bankruptcy. On October 8, 2008, the Commonwealth terminated all of its original LBSF swaps and assigned them to different counterparties without incurring any net termination costs. On November 17, 2008, the Commonwealth terminated its remaining swap and assigned it to a different counterparty without incurring termination costs.

Budgetary Contract Assistance Liabilities

City of Chelsea Commonwealth Lease Revenue Bonds. By virtue of the bankruptcy filing by LBHI described above under "Interest Rate Swaps," the interest rate swaps with LBSF related to the City of Chelsea Lease Revenue Bonds became subject to termination at the option of the Commonwealth. See the August Information Statement under the heading "LONG-TERM LIABILITIES - Budgetary Contract Assistance Liabilities; *City of Chelsea Commonwealth Lease Revenue Bonds.*" On December 17, 2008, the Commonwealth refunded the bonds with general obligation debt of the Commonwealth and terminated the related swap, using previously appropriated funds and other available funds related to the lease revenue bonds to pay termination costs.

Route 3 North Transportation Improvements Association Commonwealth Lease Revenue Bonds. On November 25, 2008, the Commonwealth issued general obligation bonds to refund the \$294 million of variable-rate bonds that had been issued by the Route 3 North Transportation Improvements Association in 2002 and to replace them with fixed-rate Commonwealth bonds. See the August Information Statement under the heading "LONG-TERM LIABILITIES - Budgetary Contract Assistance Liabilities; *Route 3 North Transportation Improvements Association Commonwealth Lease Revenue Bonds.*" The associated swap agreement was assumed by the Commonwealth (without Ambac insurance) and assigned to outstanding Commonwealth variable-rate bonds that were previously unhedged. The related debt service deposit agreements were terminated. After this refunding, the Route 3 North Transportation Improvements Association has two series of bonds outstanding in the aggregate principal amount of \$34,655,000.

Contingent Liabilities

Massachusetts Turnpike Authority. By virtue of the bankruptcy filing by LBHI described above under "Interest Rate Swaps," the Lehman swaptions described in the August Information Statement under the heading "LONG-TERM LIABILITIES - Contingent Liabilities; *Massachusetts Turnpike Authority*" became subject to termination at the option of the Turnpike Authority, and on December 22, 2008, the Turnpike Authority terminated all of its Lehman swaptions and its Lehman basis swap at a net aggregate cost to the Turnpike Authority of approximately \$3.2 million. The Turnpike Authority has received notice from the counterparty to the terminated Lehman swaptions disputing the Turnpike Authority's calculation of the termination amounts but without stating an alternative amount. On October 2, 2008, Moody's Investor's Service, Inc. announced a downgrade of its ratings of the Turnpike Authority's senior and subordinated Metropolitan Highway System Bonds to Baa2 from A3 and Baa3 from Baa1, respectively. As a result of this downgrade, the Turnpike Authority has been required to post collateral with respect to a basis swap it entered into in 1999 with JPMorgan Chase Bank in a notional amount of \$100 million. Due to recent market volatility, the amount of posted collateral has been as high as approximately \$19.1 million. As of January 30, 2009, the aggregate termination costs of the Turnpike Authority's swaps are estimated (based on mid-market valuations) to be approximately \$370 million (\$354.3 million for the UBS swaps and \$15.7 million for the JPMorgan Chase Bank basis swap). On January 23, 2009, the Governor filed legislation to permit the Commonwealth to guarantee Turnpike Authority payment obligations to counterparties under its swap agreements, the previous guaranty authorization having expired on January 15, 2009. Under the Governor's proposed bill, such authorization would extend to June 30, 2009.

COMMONWEALTH CAPITAL INVESTMENT PLAN

Capital Investment Plan

On December 17, 2008, the Governor released a five-year capital investment plan for fiscal 2009 through fiscal 2013, totaling nearly \$14 billion. The completion and publication of the plan, which is an update to the plan issued in August, 2007, was delayed in order to take into account the impacts of the economic downturn and the turmoil in the financial markets.

With the release of the five-year capital investment plan, the Governor announced that the annual administrative limit on the amount of bond-funded capital expenditures in the Commonwealth's regular capital program, known as the "bond cap," will be \$1.575 billion for fiscal 2009. In addition, because legislative authorization for planned capital spending was obtained later than originally anticipated, capital spending was lower than originally planned in fiscal 2008 and \$152.3 million of the unused bond cap from that year will be carried forward to support spending in fiscal 2009. The bond cap for fiscal 2010 is projected to be \$1.6 billion, and is projected to increase by \$100 million each subsequent fiscal year through fiscal 2013 (together with \$126.1 million and \$62.6 million of unused fiscal 2008 bond cap carried forward to fiscal 2010 and fiscal 2011, respectively).

The bond cap determination is based on the debt affordability policy described in the updated debt affordability analysis. Under this 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. In addition, while the recently created accelerated structurally-deficient bridge program will be funded outside of the bond cap, the related debt service costs of the program have been fully accounted for under the debt affordability policy in setting the bond cap at the designated levels. See August Information Statement under the heading "COMMONWEALTH CAPITAL INVESTMENT PLAN – Capital Investment Plan."

In addition to keeping debt service within 8% of budgeted revenues, the debt management policy limits future annual growth in the bond cap for the regular capital program to not more than \$125 million. This additional constraint is designed to ensure that projected growth in the bond cap will be held to stable and sustainable levels. As noted above, the bond cap is expected to grow by \$25 million from fiscal 2009 to fiscal 2010 and by \$100 million in each succeeding fiscal year through fiscal 2013 as a result of the primary constraint imposed by the 8% limit.

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

In the past, the Commonwealth aggregated its capital expenditures into seven major categories based primarily on 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 2004 through fiscal 2008 according to these categories.

Commonwealth Historical Capital Spending

| | (in millions) | | | | |
|----------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| | <u>Fiscal 2004</u> | <u>Fiscal 2005</u> | <u>Fiscal 2006</u> | <u>Fiscal 2007</u> | <u>Fiscal 2008</u> |
| Information technology | \$ 75 | \$ 61 | \$ 88 | \$ 53 | \$ 65 |
| Infrastructure | 251 | 262 | 283 | 271 | 186 |
| Environment | 113 | 122 | 142 | 153 | 188 |
| Housing | 121 | 122 | 129 | 140 | 172 |
| Public safety | 20 | 18 | 19 | 18 | 19 |
| Transportation | 1,458 | 1,300 | 1,189 | 1,120 | 1,109 |
| Convention centers | 113 | 54 | 12 | 2 | - |
| Other | 64 | 39 | 30 | 29 | 43 |
| School building assistance | - | 565 | 435 | - | - |
| Total Uses | <u>\$2,215</u> | <u>\$2,543</u> | <u>\$2,327</u> | <u>\$1,786</u> | <u>\$1,782</u> |

The capital investment plan for fiscal 2009 through fiscal 2013 is designed to allocate resources strategically to invest in the Commonwealth's public facilities and programs and represents the Governor's vision for public infrastructure. The following tables show the allocation of bond cap spending by major investment category and the allocation of total capital spending from all sources of funding by major investment category for fiscal 2009 through fiscal 2013.

Capital Investment Plan - Total Bond Cap

(in millions - may not add due to rounding)

| Investment Category: | <u>Fiscal</u> <u>2009</u> | <u>Fiscal</u> <u>2010</u> | <u>Fiscal</u> <u>2011</u> | <u>Fiscal</u> <u>2012</u> | <u>Fiscal</u> <u>2013</u> | <u>5-Year Total</u> | <u>% of</u> <u>5-Year Total</u> |
|-----------------------------|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|---------------------|------------------------------------|
| Community Investment | \$ 254.0 | \$ 244.0 | \$ 248.4 | \$ 248.4 | \$ 242.7 | \$ 1,237.5 | 13.9% |
| Corrections | 27.0 | 22.2 | 30.7 | 39.6 | 51.6 | 171.1 | 1.9 |
| Courts | 129.1 | 131.6 | 50.8 | 39.6 | 65.1 | 416.2 | 4.7 |
| Economic Development | 77.8 | 83.5 | 80.5 | 87.0 | 92.0 | 420.8 | 4.7 |
| Energy/Environment | 122.8 | 113.4 | 118.4 | 114.9 | 108.9 | 578.4 | 6.5 |
| Health/Human Services | 68.5 | 81.9 | 89.5 | 84.7 | 71.5 | 396.1 | 4.4 |
| Higher Education | 72.5 | 116.2 | 168.5 | 173.0 | 190.1 | 720.3 | 8.1 |
| Housing | 168.5 | 166.0 | 161.0 | 161.0 | 161.0 | 817.5 | 9.2 |
| Information Technology | 87.0 | 82.7 | 82.7 | 81.7 | 82.2 | 416.3 | 4.7 |
| Public Safety | 27.4 | 27.6 | 30.0 | 28.7 | 26.1 | 139.8 | 1.6 |
| State Buildings | 84.1 | 75.7 | 80.6 | 84.1 | 87.1 | 411.6 | 4.6 |
| Transportation | <u>608.5</u> | <u>581.2</u> | <u>621.3</u> | <u>657.3</u> | <u>721.7</u> | <u>3,190.0</u> | <u>35.8</u> |
| Total | <u>\$ 1,727.2</u> | <u>\$1,726.0</u> | <u>\$ 1,762.4</u> | <u>\$ 1,800.0</u> | <u>\$ 1,900.0</u> | <u>\$ 8,915.6</u> | <u>100.0%</u> |

Capital Investment Plan - All Sources of Funding

(in millions - may not add due to rounding)

| Investment Category: | <u>Fiscal 2009</u> | <u>Fiscal 2010</u> | <u>Fiscal 2011</u> | <u>Fiscal 2012</u> | <u>Fiscal 2013</u> | <u>5-Year Total</u> | <u>% of 5-Year Total</u> |
|-----------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|---------------------|--------------------------|
| Community Investment | \$ 254.0 | \$ 244.0 | \$ 248.4 | \$ 248.4 | \$ 242.7 | \$ 1,237.5 | 8.6% |
| Corrections | 27.3 | 25.2 | 33.7 | 39.6 | 51.6 | 177.4 | 1.2 |
| Courts | 129.1 | 131.6 | 61.4 | 48.2 | 74.0 | 444.3 | 3.1 |
| Economic Development | 84.8 | 128.5 | 165.5 | 167.0 | 167.0 | 712.8 | 5.0 |
| Energy/Environment | 125.0 | 116.4 | 118.6 | 115.0 | 108.9 | 583.9 | 4.1 |
| Health/Human Services | 68.5 | 81.9 | 89.5 | 84.7 | 71.5 | 396.1 | 2.8 |
| Higher Education | 81.6 | 121.0 | 174.5 | 179.0 | 192.7 | 748.8 | 5.2 |
| Housing | 193.0 | 166.0 | 161.0 | 161.0 | 161.0 | 842.0 | 5.9 |
| Information Technology | 111.9 | 82.7 | 82.7 | 81.7 | 82.2 | 441.2 | 3.1 |
| Public Safety | 42.6 | 45.6 | 39.5 | 28.6 | 26.1 | 182.4 | 1.3 |
| State Buildings | 84.1 | 75.7 | 80.6 | 84.1 | 87.1 | 411.6 | 2.9 |
| Transportation | <u>1,259.1</u> | <u>1,313.4</u> | <u>1,589.3</u> | <u>1,865.2</u> | <u>2,106.9</u> | <u>8,133.9</u> | <u>56.8</u> |
| Total | <u>\$2,461.0</u> | <u>\$2,532.0</u> | <u>\$ 2,844.7</u> | <u>\$ 3,102.5</u> | <u>\$ 3,371.7</u> | <u>\$14,311.9</u> | <u>100.0%</u> |

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

- Bond cap – Commonwealth borrowing to support the regular capital program;
- Federal – federal reimbursements for capital expenditures, primarily for transportation projects;
- Third-party – contributions made by third parties to capital projects being carried out by the Commonwealth and Commonwealth contributions to the Central Artery/Tunnel project from annual operating revenues;
- Project-Financed Bonds – self-supporting bonds payable by the Commonwealth from a new project-related stream of revenue; and
- Accelerated Bridge – Commonwealth gas tax bonds or federal grant anticipation notes issued to fund the accelerated structurally-deficient bridge program.

Capital Investment Plan: Sources of Funds

(in millions - may not add due to rounding)

| <u>Fiscal Year</u> | <u>Bond Cap</u> | <u>Federal Reimbursements</u> | <u>Third Party</u> | <u>Project Financed</u> | <u>Accelerated Bridge Program</u> | <u>Total</u> |
|--------------------|-------------------|-------------------------------|--------------------|-------------------------|-----------------------------------|-------------------|
| 2009 | \$ 1,727.3 | \$ 426.2 | \$ 120.6 | \$ 22.2 | \$ 164.9 | \$ 2,461.2 |
| 2010 | 1,726.1 | 409.0 | 36.2 | 63.0 | 297.8 | 2,532.1 |
| 2011 | 1,762.6 | 416.5 | 73.0 | 198.3 | 394.5 | 2,844.9 |
| 2012 | 1,800.0 | 480.6 | 87.5 | 188.7 | 545.8 | 3,102.6 |
| 2013 | <u>1,900.0</u> | <u>538.6</u> | <u>90.0</u> | <u>226.2</u> | <u>617.0</u> | <u>3,371.8</u> |
| | <u>\$ 8,916.0</u> | <u>\$2,270.9</u> | <u>\$ 407.3</u> | <u>\$ 698.4</u> | <u>\$2,020.0</u> | <u>\$14,312.6</u> |

LEGAL MATTERS

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

Ricci v. Patrick, United States District Court, First Circuit Court of Appeals. On October 1, 2008, the United States Court of Appeals for the First Circuit reversed District Court orders requiring the Commonwealth to keep open an expensive and outmoded institution for the care of mentally retarded citizens. In response to a motion for panel rehearing filed by opposing parties, the Court of Appeals, on November 18, 2008, directed entry of judgment dismissing with prejudice all claims made which resulted

in the issuance of the contested District Court orders. On February 2, 2009, the parties whose claims were dismissed filed a petition for writ of certiorari in the United States Supreme Court. The Commonwealth will urge the Supreme Court to deny the petition.

Hutchinson v. Patrick et al., United States District Court, Western Division. After a fairness hearing on July 25, 2008, where there were no objections from class members, the court entered an order on September 19, 2008, approving the final comprehensive settlement agreement and retaining jurisdiction over the case pending compliance with the terms of the settlement agreement.

Rolland v. Patrick, United States District Court, Western Division. A group of class members is challenging the court-approved settlement agreement on appeal to the United States Court of Appeals for the First Circuit. This case carries the potential for a prospective increase in annual program costs of more than \$20 million.

Rosie D. et al v. The Governor, United States District Court, Western Division. On January 14, 2009, the Court allowed plaintiffs' motion for \$7 million in legal fees.

Disability Law Center, Inc. v. Massachusetts Department of Correction et al, United States District Court. Disability Law Center, Inc. ("DLC") has received the medical and mental health records of numerous inmates. The parties have been engaged in settlement discussions, and the next status report to the Court is due on February 17, 2009. While DLC requests only injunctive relief, estimated increased program costs could amount to over \$25 million in the event of an adverse outcome.

In re: Disallowance by the U. S. Department of Health and Human Services Centers of Medicare and Medicaid Services(Targeted Case Management). On December 31, 2008, the Departmental Appeals Board affirmed the disallowance. The Commonwealth is considering a judicial challenge to the disallowance.

Philip DeMoranville and others v. Commonwealth of Massachusetts, Suffolk Superior Court. The court dismissed the case in January, 2009 for failure to exhaust administrative remedies. The plaintiff has filed a notice of appeal.

Fleet Funding, Inc. & Fleet Funding II, Inc. v. Commissioner of Revenue, Appeals Court. The Commissioner of Revenue and Bank of America have settled a longstanding dispute over efforts by the former Fleet National Bank (which Bank of America thereafter acquired) to avoid state taxation by the use of real estate investment trust (REIT) subsidiaries. The settlement includes the outright dismissal of the Bank's appeal of an adverse Appellate Tax Board ruling for the 1999 tax year, an appeal that if successful would have resulted in a refund to the Bank of \$53 million (inclusive of penalties and interest). The settlement also includes a payment by the Bank of \$121 million to resolve still-pending Board proceedings for other tax years that involve the same REIT-related issues. The net gain for the Commonwealth from the settlement is, accordingly, \$174 million.

Commonwealth of Massachusetts v. Philip Morris Inc., RJ Reynolds Tobacco Company, Lorillard Tobacco Company, et. al. (2006 NPM Adjustment) The SFD proceeding for a 2006 NPM adjustment commenced in May 2008 and is presently underway.

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*, United States Bankruptcy Court, Middle District of North Carolina. In January, 2008, Cutting Edge voluntarily dismissed its action and on February 5, 2008, the case was officially closed.

Conservation Law Foundation, Inc. v. Romney, United States District Court. This case was dismissed by agreement on August 19, 2008.

The Arborway Committee v. Executive Office of Transportation et al., Suffolk Superior Court. The Commonwealth has moved for summary judgment on statute of limitations grounds; a hearing on the

Commonwealth's motion has not been scheduled. Discovery is proceeding simultaneously with the motion for summary judgment.

Goldberg (Logan Outdoor Advertising Trust) v. Commonwealth, Suffolk Superior Court. In this case, the plaintiff alleges eminent-domain-type damages in connection with four billboards at the East Boston entrance to Logan Airport, which are in a park newly created by the Central Artery/Tunnel project as a mitigation measure. One of the four billboards was removed pursuant to a license agreement in 1999, and the trial as to the damages caused by that removal took place in December 2008. The jury found that the Massachusetts Highway Department made a 9+-year temporary taking of this billboard. For that temporary taking the plaintiff is entitled to \$1.8 million dollars plus interest. The Commonwealth has filed post-trial motions in an effort to reduce its liability. The Commonwealth expects to take the totality of the plaintiff's property rights in this area in the near future, thereby leading to an anticipated second trial, likely to occur in 2009. The plaintiff values the loss of these property rights at an undisclosed amount believed to be in the vicinity of \$20 million.

TJX Companies v. Commissioner of Revenue ("TJX I"), Appeals Court. The parties argued this case to the Massachusetts Appeals Court on November 3, 2008.

Capital One Bank and Capital One F.S.B. v. Commissioner of Revenue, Supreme Judicial Court. On January 8, 2009, the Supreme Judicial Court upheld a financial institutions excise tax on a company issuing credit cards to Massachusetts residents that amounted to approximately \$2 million for the years at issue in the case. The taxpayer had argued that the Commerce Clause of the U. S. Constitution requires that a corporation have a physical presence in a state before that state may impose an excise measured by the corporation's net income. The Court held that a physical presence is not required and that the company's contacts with Massachusetts customers created a substantial nexus with Massachusetts. The taxpayer has 90 days from entry of judgment in which to file a petition for a writ of certiorari in the United States Supreme Court.

Central Artery/Ted Williams Tunnel Cost Recovery Program Litigation (Suffolk Superior Court). The Commonwealth has reached a global settlement on 14 construction contracts with Modern Continental (now in bankruptcy proceedings). The global settlement allocates \$21 million to the Commonwealth's claim for damages in *Commonwealth et al. v. Bechtel Corp. et al.* The Bankruptcy Court has approved the settlement agreement and the appeal period has run, so the agreement is now effective.

Boston Harbor Clean-Up. The Massachusetts Water Resources Authority ("MWRA"), successor to the Metropolitan District Commission, has assumed primary responsibility for developing and implementing a federal-court-approved plan and timetable for the construction of the treatment facilities necessary to achieve compliance with federal Clean Water Act requirements. The total cost of the construction required under the District Court's order, not including Combined Sewer Overflow ("CSO") costs, was approximately \$ 3.8 billion. The MWRA anticipates spending approximately \$964 million for CSO projects going forward.

Perini Corp., Kiewit Constr. Corp., Jay Cashman, Inc., d/b/a Perini - Kiewit - Cashman Joint Venture v. Commonwealth. In several related cases and potential litigation, plaintiffs make claims for alleged increased costs arising from differing site conditions and other causes of delay on the Central Artery/Tunnel Project. Plaintiffs have asserted claims in excess of \$130 million. These claims are at various stages of resolution in proceedings before the Superior Court or a Central Artery Tunnel Project Dispute Review Board ("DRB") panel. The DRB has recently issued decisions on some of the claims, awarding plaintiffs \$55 million on claims of \$73.8 million. Those decisions may be the subject of further proceedings. Plaintiffs also still have in excess of \$60 million in claims pending.

The following matters are not described in the August Information Statement:

Geoffrey, Inc. v. Commissioner of Revenue, Supreme Judicial Court. On January 8, 2009, the Supreme Judicial Court upheld a foreign corporation excise tax (amounting to approximately \$1.2 million for the years at issue) on an out-of-state company that received royalties for the use of its trademarks by its

subsidiaries operating in Massachusetts. The taxpayer had argued that the Commerce Clause of the United States Constitution requires that a corporation have a physical presence in a state before that state may impose an excise measured by the corporation's net income. The Court rejected the argument and held that Geoffrey (the name of the giraffe in the Toys-R-Us logo) was taxable because it licensed its intangible property for use in Massachusetts and derived income from the use of its property in Massachusetts. These contacts, said the Court, created a substantial nexus with the Commonwealth that satisfies the Commerce Clause. The taxpayer has 90 days from entry of judgment in which to file a petition for a writ of certiorari in the United States Supreme Court.

Vibo Corporation, Inc. d/b/a General Tobacco v. Jack Conway, et al., United States District Court, Western District of Kentucky. This case involves a challenge by General Tobacco, a tobacco manufacturer and importer, to the Tobacco Master Settlement Agreement (MSA). General Tobacco joined the MSA in 2004. General Tobacco was not an original party to the MSA and, as such, is labeled a Subsequent Participating Manufacturer (SPM). General Tobacco has sued 52 state attorneys general, including the Attorney General of the Commonwealth, as well as the original Participating Manufacturers and a certain subset of SPMs. General Tobacco has alleged violations of antitrust and constitutional law, and also fraud in the inducement of its joining the MSA. General Tobacco seeks permanent injunctive relief from certain MSA payment provisions and, if granted, such a decision could negatively affect millions of dollars in future payments from SPMs to the Commonwealth anticipated under the MSA. On December 10, 2008, the District Court dismissed all claims on jurisdictional grounds.

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

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

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

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

THE COMMONWEALTH OF MASSACHUSETTS

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

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

February 5, 2009

ECONOMIC INFORMATION - Quarter 2, FY 2009

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 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 January 21, 2009. Information in the text, tables, charts, and graphs was current as of December 31, 2008.** 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, 2008 | 2.3% | 8.0% |

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

| | | |
|---|----------|----------|
| Per Capita Personal Income, 2007 | \$49,142 | \$38,564 |
| Average Annual Pay, All Industries, 2007 | \$55,244 | \$44,458 |
| Percent Change in CPI-U*, 2006-2007 | 1.9% | 2.8% |
| Percent Change in CPI-U*, November 2007- November 2008 | 0.7% | 1.1% |
| Poverty Rate, 2005-2007 Average | 11.1% | 12.5% |
| Average Weekly Earnings, Manufacturing Production Workers: 2007 | \$783.88 | \$711.36 |
| Percent Change from previous year | 5.5% | 2.9% |

Employment (p. A-15)

| | | |
|--|-------|-------|
| Percent Change in Nonfarm Payroll Employment, November 2007-November 2008(p) | -0.3% | -0.3% |
| Unemployment Rate, 2007 | 4.5% | 4.6% |
| Unemployment Rate, November, 2008 (seasonally adjusted) | 5.9% | 6.8% |

Economic Base and Performance (p. A-20)

| | | |
|---|--------|--------|
| Percent Change in Gross Domestic Product, 2006-2007 | 2.5% | 2.0% |
| Percent Change in International Exports, 2006-2007 | 5.1% | 12.1% |
| Percent Change in Housing Permits Authorized, 2006-2007 | -21.6% | -24.0% |

Human Resources (p. A-39)

| | | |
|--|----------|---------|
| Expenditure Per Pupil, 2006 | \$11,981 | \$9,138 |
| Percent of Adults with a Bachelor's Degree or higher, 2007 | 37.9% | 27.5% |

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

Massachusetts is a densely populated state with a well-educated population, comparatively high income levels, 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 consistently lower poverty rate and, with the exception of the recession of the early 1990s and a seventeen month stretch in 2006 and 2007, considerably lower unemployment rates in Massachusetts than in the United States since 1980. While the economic situation in the country has deteriorated, the state has seen a slower rise in unemployment than the nation as a whole.

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

POPULATION CHARACTERISTICS

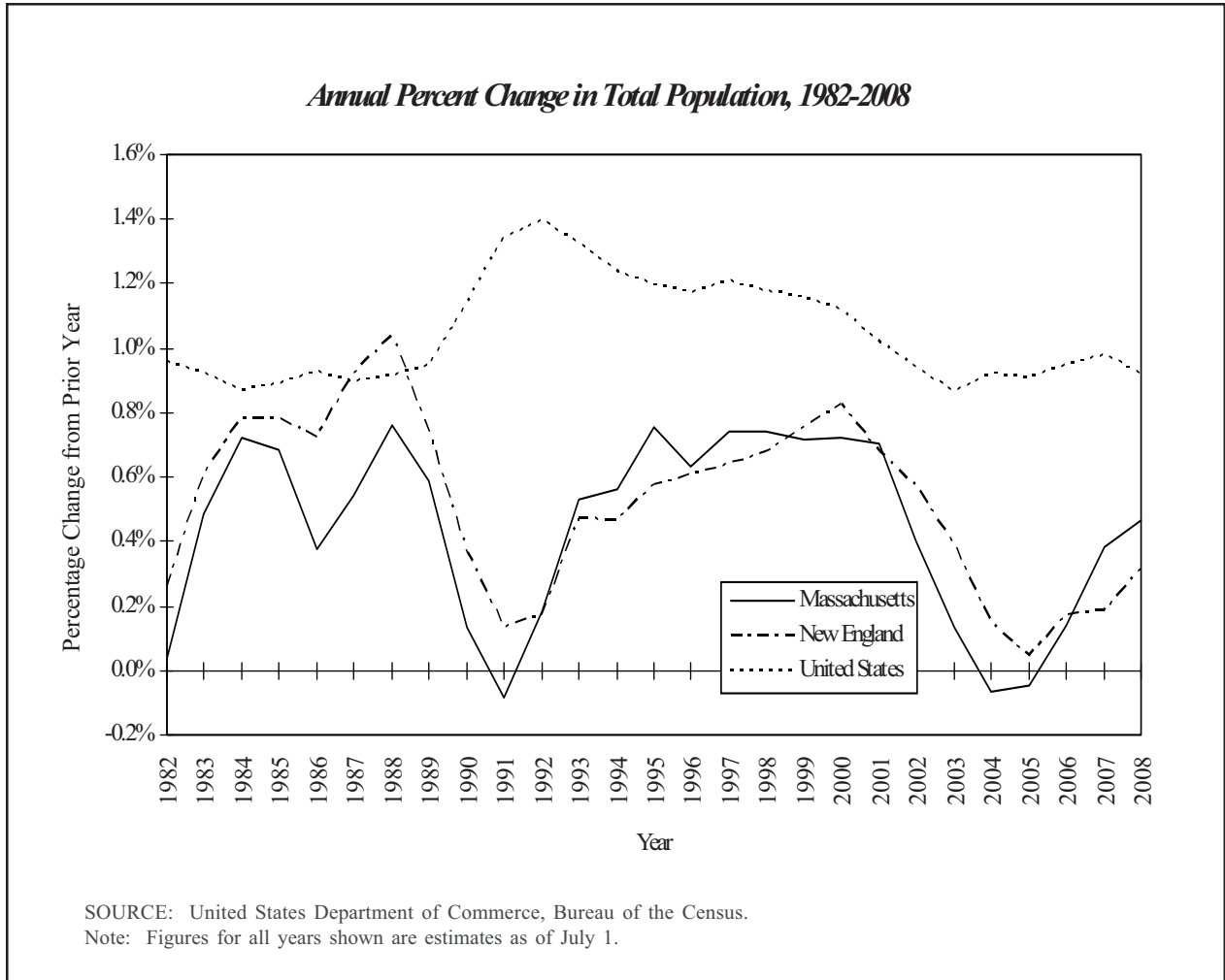
Massachusetts is a relatively slow growing but densely populated state with a comparatively large percentage of its residents living in metropolitan areas. The population density of Massachusetts was estimated as of July 1, 2008 to be 825 persons per square mile, as compared to 85.2 for the United States 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 definition, the entire state is considered metropolitan except for the two island counties (99.6 percent of state residents lived outside of these counties in 2007) 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 2007 population estimated at 599,351, or 9.3 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 2007 estimated at 4,482,857 or 31.4 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 2007 estimated at 1,858,216.

The second largest MSA in the state is the Worcester, MA MSA, with a 2007 population estimated at 781,352. The city of Worcester, situated approximately 40 miles west of Boston with a 2007 population estimated at 173,966, is the second largest city in New England as well as the second largest in the state. As a major medical and education 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, MA MSA, with a 2007 population estimated at 682,657. Springfield, the third largest city in the Commonwealth with a 2007 population estimated at 149,938, 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, 2008, the Massachusetts population has grown by 2.3% since Census 2000, and only eight states have grown more slowly.



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

Population, 1972-2008

(in thousands)

| Year | Massachusetts | | New England | | United States | |
|------|---------------|----------------|-------------|----------------|---------------|----------------|
| | Total | Percent Change | Total | Percent Change | Total | Percent Change |
| 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% | 13,952 | 0.8% | 282,172 | 1.1% |
| 2001 | 6,407 | 0.7% | 14,047 | 0.7% | 285,040 | 1.0% |
| 2002 | 6,433 | 0.4% | 14,127 | 0.6% | 287,727 | 0.9% |
| 2003 | 6,441 | 0.1% | 14,181 | 0.4% | 290,211 | 0.9% |
| 2004 | 6,437 | -0.1% | 14,202 | 0.1% | 292,892 | 0.9% |
| 2005 | 6,434 | 0.0% | 14,208 | 0.0% | 295,561 | 0.9% |
| 2006 | 6,443 | 0.1% | 14,233 | 0.2% | 298,363 | 0.9% |
| 2007 | 6,468 | 0.4% | 14,259 | 0.2% | 301,290 | 1.0% |
| 2008 | 6,498 | 0.5% | 14,304 | 0.3% | 304,060 | 0.9% |

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.

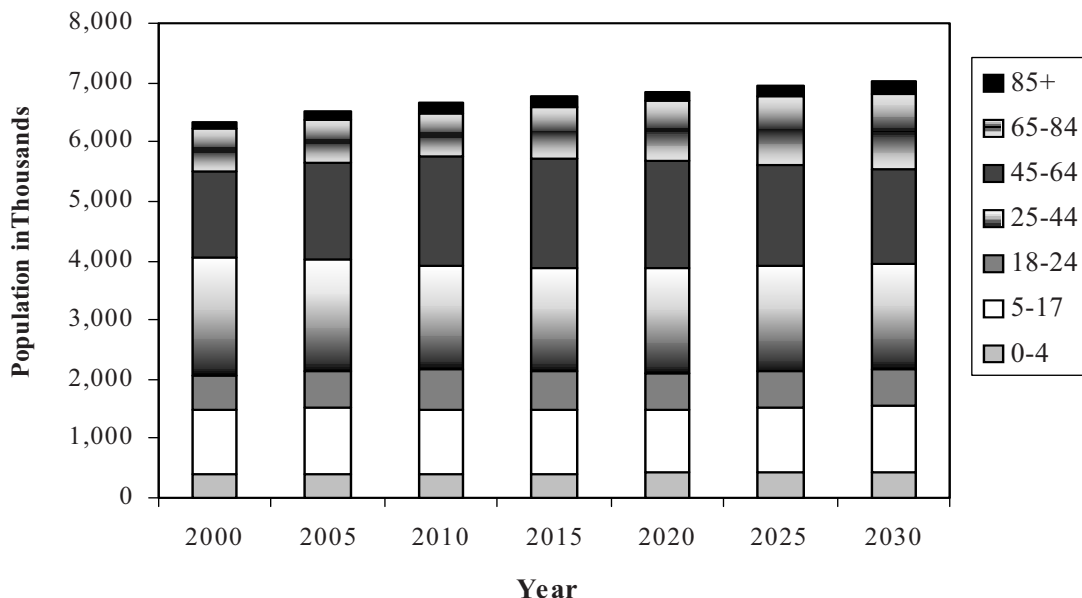
Projected Massachusetts Population by Age Group, 2000-2030

(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.

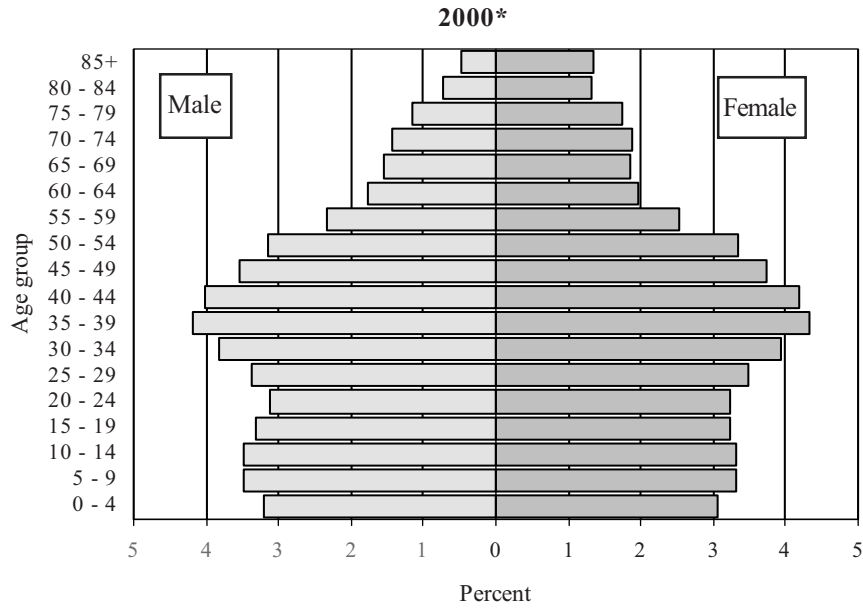
Projected Massachusetts Population by Age Group 2000-2030



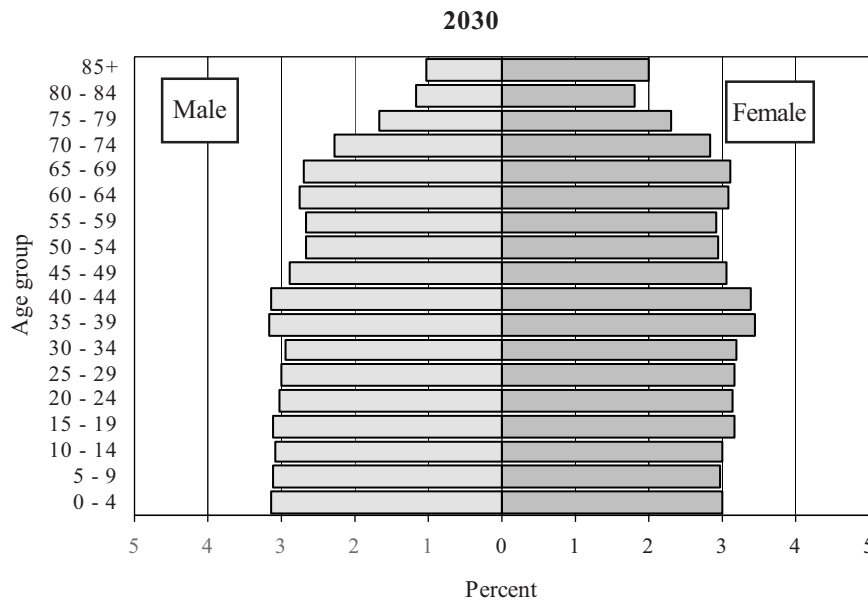
Actual Census 2000 counts as of April 1; all other figures are projections as of July 1 of the indicated year. Interim Population Projections through 2030 released April 21, 2005 by the Population Division, Bureau of the Census, United States Department of Commerce. More recent estimates of the 2005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

Population Pyramids of Massachusetts

(percent of total population)



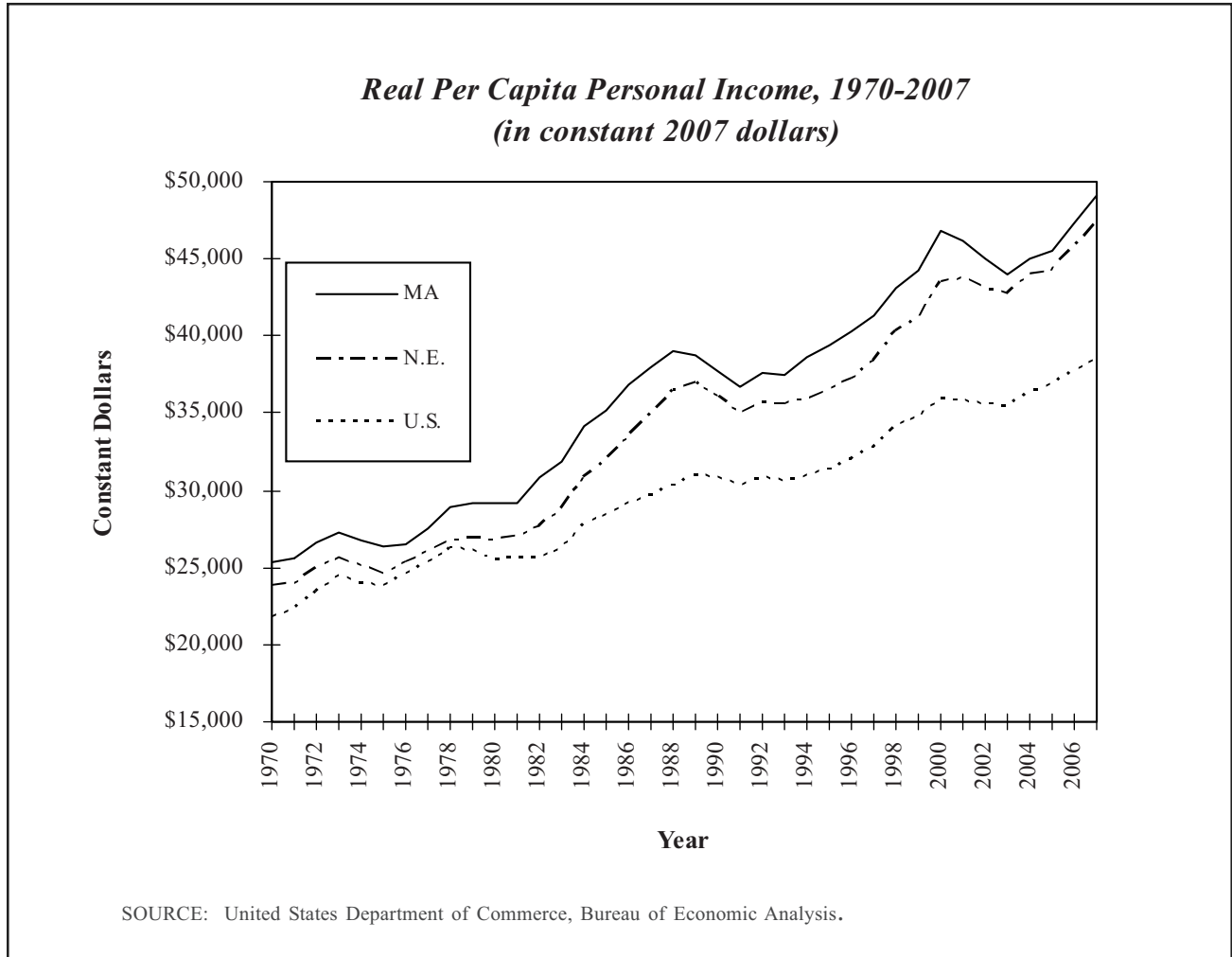
*Note: Actual Census 2000 counts as of April 1.



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. 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 2001 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 2005, 2006, and 2007, income in the state grew faster than in the nation. For the last fifteen 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 1970-2007.

Per Capita Personal Income, 1970-2007

| Year | Nominal Income (in current dollars) | | | Real Income (in 2007 dollars) | | | Percent Change in Real Income | | |
|------|--|--------|--------|----------------------------------|--------|--------|----------------------------------|-------|-------|
| | MA | N.E. | U.S. | MA | N.E. | U.S. | MA | N.E. | U.S. |
| 1970 | 4,483 | 4,445 | 4,085 | 25,360 | 23,753 | 21,830 | 5.4% | 6.7% | 6.9% |
| 1971 | 4,752 | 4,680 | 4,342 | 25,608 | 23,960 | 22,229 | 1.0% | 0.9% | 1.8% |
| 1972 | 5,109 | 5,029 | 4,717 | 26,587 | 24,946 | 23,398 | 3.8% | 4.1% | 5.3% |
| 1973 | 5,547 | 5,481 | 5,231 | 27,245 | 25,596 | 24,428 | 2.5% | 2.6% | 4.4% |
| 1974 | 6,016 | 5,958 | 5,707 | 26,721 | 25,058 | 24,002 | -1.9% | -2.1% | -1.7% |
| 1975 | 6,459 | 6,381 | 6,172 | 26,323 | 24,592 | 23,787 | -1.5% | -1.9% | -0.9% |
| 1976 | 6,998 | 6,959 | 6,754 | 26,523 | 25,358 | 24,611 | 0.8% | 3.1% | 3.5% |
| 1977 | 7,620 | 7,593 | 7,405 | 27,462 | 25,979 | 25,336 | 3.5% | 2.4% | 2.9% |
| 1978 | 8,430 | 8,413 | 8,245 | 28,871 | 26,754 | 26,220 | 5.1% | 3.0% | 3.5% |
| 1979 | 9,385 | 9,392 | 9,146 | 29,156 | 26,823 | 26,121 | 1.0% | 0.3% | -0.4% |
| 1980 | 10,602 | 10,629 | 10,114 | 29,189 | 26,746 | 25,450 | 0.1% | -0.3% | -2.6% |
| 1981 | 11,798 | 11,846 | 11,246 | 29,226 | 27,021 | 25,652 | 0.1% | 1.0% | 0.8% |
| 1982 | 12,941 | 12,871 | 11,935 | 30,816 | 27,655 | 25,644 | 5.4% | 2.3% | 0.0% |
| 1983 | 14,009 | 13,829 | 12,618 | 31,922 | 28,788 | 26,267 | 3.6% | 4.1% | 2.4% |
| 1984 | 15,723 | 15,422 | 13,891 | 34,150 | 30,776 | 27,721 | 7.0% | 6.9% | 5.5% |
| 1985 | 16,910 | 16,546 | 14,758 | 35,151 | 31,884 | 28,438 | 2.9% | 3.6% | 2.6% |
| 1986 | 18,148 | 17,722 | 15,442 | 36,783 | 33,527 | 29,213 | 4.6% | 5.2% | 2.7% |
| 1987 | 19,575 | 19,119 | 16,240 | 38,015 | 34,896 | 29,641 | 3.3% | 4.1% | 1.5% |
| 1988 | 21,341 | 20,811 | 17,331 | 39,075 | 36,475 | 30,376 | 2.8% | 4.5% | 2.5% |
| 1989 | 22,342 | 22,083 | 18,520 | 38,696 | 36,925 | 30,968 | -1.0% | 1.2% | 1.9% |
| 1990 | 23,043 | 22,712 | 19,477 | 37,726 | 36,030 | 30,898 | -2.5% | -2.4% | -0.2% |
| 1991 | 23,432 | 22,969 | 19,892 | 36,749 | 34,967 | 30,282 | -2.6% | -3.0% | -2.0% |
| 1992 | 24,538 | 24,172 | 20,854 | 37,552 | 35,723 | 30,819 | 2.2% | 2.2% | 1.8% |
| 1993 | 25,176 | 24,752 | 21,346 | 37,444 | 35,516 | 30,629 | -0.3% | -0.6% | -0.6% |
| 1994 | 26,303 | 25,687 | 22,172 | 38,615 | 35,938 | 31,020 | 3.1% | 1.2% | 1.3% |
| 1995 | 27,457 | 26,832 | 23,076 | 39,369 | 36,505 | 31,395 | 2.0% | 1.6% | 1.2% |
| 1996 | 28,933 | 28,194 | 24,175 | 40,292 | 37,258 | 31,947 | 2.3% | 2.1% | 1.8% |
| 1997 | 30,498 | 29,687 | 25,334 | 41,307 | 38,351 | 32,728 | 2.5% | 2.9% | 2.4% |
| 1998 | 32,524 | 31,677 | 26,883 | 43,077 | 40,294 | 34,196 | 4.3% | 5.1% | 4.5% |
| 1999 | 34,227 | 33,126 | 27,939 | 44,225 | 41,227 | 34,771 | 2.7% | 2.3% | 1.7% |
| 2000 | 37,750 | 36,117 | 29,845 | 46,758 | 43,488 | 35,936 | 5.7% | 5.5% | 3.3% |
| 2001 | 38,875 | 37,323 | 30,574 | 46,165 | 43,696 | 35,795 | -1.3% | 0.5% | -0.4% |
| 2002 | 38,862 | 37,364 | 30,821 | 44,975 | 43,064 | 35,522 | -2.6% | -1.4% | -0.8% |
| 2003 | 39,449 | 37,950 | 31,504 | 43,997 | 42,764 | 35,501 | -2.2% | -0.7% | -0.1% |
| 2004 | 41,444 | 40,058 | 33,123 | 44,987 | 43,969 | 36,357 | 2.2% | 2.8% | 2.4% |
| 2005 | 43,355 | 41,711 | 34,650 | 45,561 | 44,283 | 36,786 | 1.3% | 0.7% | 1.2% |
| 2006 | 46,363 | 44,558 | 36,744 | 47,258 | 45,827 | 37,791 | 3.7% | 3.5% | 2.7% |
| 2007 | 49,142 | 47,256 | 38,564 | 49,142 | 47,256 | 38,564 | 4.0% | 3.1% | 2.0% |

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

Notes: Using midyear population estimates from the Census Bureau and two CPI-U series from the U.S. Bureau of Labor Statistics for price inflation.

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 2007 was 24.3 percent higher than the national average: \$55,244 compared to \$44,458.

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 are recorded on a place-of-work basis, they are 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 increased, but in the subsequent years the Massachusetts share of the New England total has remained essentially constant at 50 percent while the Massachusetts share of the U.S. total has dropped back slightly from 3.1 to 2.9 percent.

Annual Wage and Salary Disbursements, 1990-2007
(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 | \$ 5,388,680 | \$321,473 | \$160,189 | 49.8% |
| 2005 | \$ 5,665,064 | \$332,880 | \$165,208 | 49.6% |
| 2006 | \$ 6,020,737 | \$350,809 | \$174,585 | 49.8% |
| 2007 | \$ 6,355,266 | \$371,294 | \$185,839 | 50.1% |

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 2007. 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 2007, the CPI-U for Boston increased by 1.9 percent over the average for 2006, while the index for the United States as a whole increased by 2.8 percent. The latest available data for November 2008 show that the CPI-U for the Boston metropolitan area grew at a rate of 0.7 percent from November 2007, compared with 1.1 percent for the U.S.

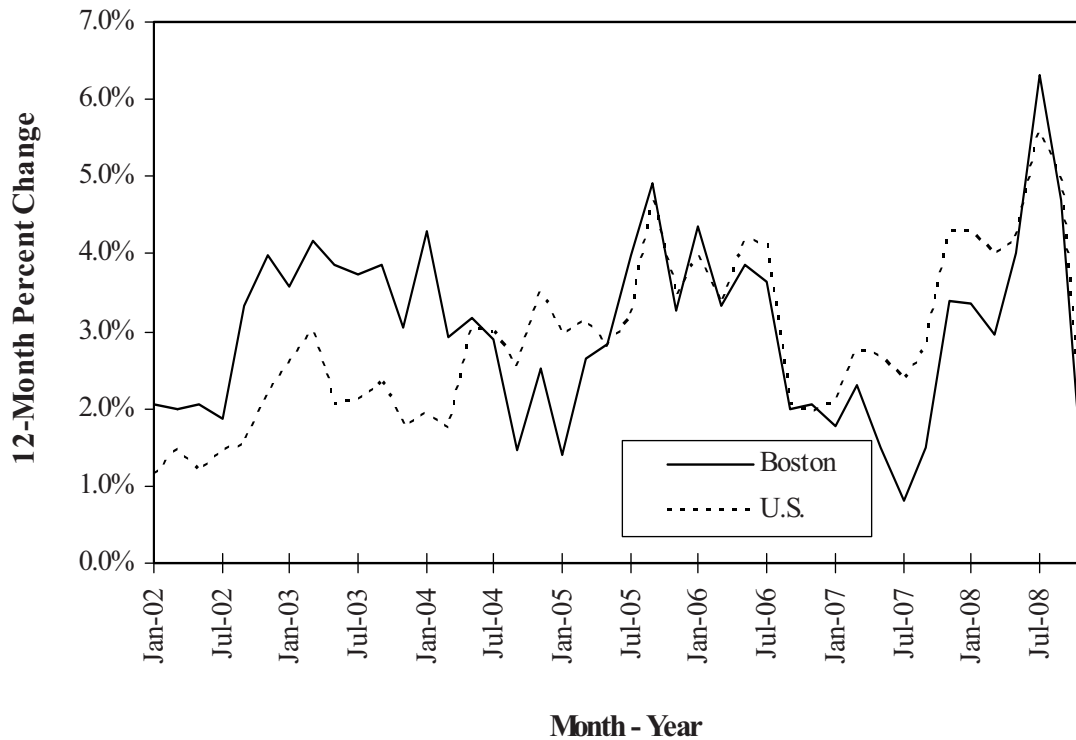
Consumer Price Index for All Urban Consumers (CPI-U), 1970-2007

(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% |
| 2007 | 227.4 | 1.9% | 207.3 | 2.8% |
| Nov-07 | 230.7 | | 210.2 | |
| Nov-08 | 232.4 | 0.7% | 212.4 | 1.1% |

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

***12-Month Percent Change in the Consumer Price Index
for All Urban Consumers, not Seasonally Adjusted***



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

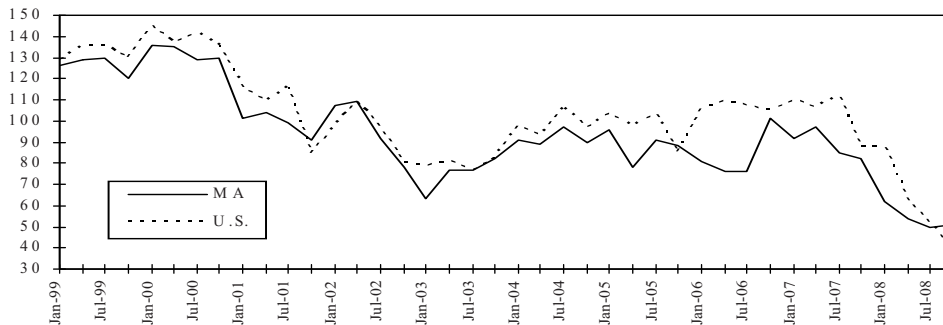
Consumer Confidence, Present Situation, and Future Expectations. These three measures offer multiple insights into consumer attitudes. The U.S. measures are compiled from a national monthly survey of 5,000 households and are published by The Conference Board, Inc. The survey for Massachusetts is conducted 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 for 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. A score of 100 is considered neutral. According to the Conference Board, consumer confidence nationally reached a six year high point of 111.9 in July 2007, but it has declined 73.1 points to an all time low of 38.8 by October, 2008. The Mass Insight Corporation reported that as of October, 2008 (the most recent survey month for the quarterly Massachusetts index) the Massachusetts index remained stable near a record low at 51. After trailing or matching the national index for 11 consecutive quarters, the Massachusetts index gained more than 12 points over the national index for October. 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 - October 2008 (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 |
| Jul-07 | 85.0 | 111.9 | 80.0 | 138.3 | 90.0 | 94.4 |
| Oct-07 | 82.0 | 87.8 | 76.0 | 115.7 | 86.0 | 69.1 |
| Jan-08 | 62.0 | 87.3 | 49.0 | 114.3 | 71.0 | 69.3 |
| Apr-08 | 54.0 | 62.8 | 35.0 | 81.9 | 67.0 | 50.0 |
| Jul-08 | 50.0 | 51.9 | 24.0 | 65.8 | 68.0 | 42.7 |
| Oct-08 | 51.0 | 38.8 | 27.0 | 43.5 | 66.0 | 35.7 |

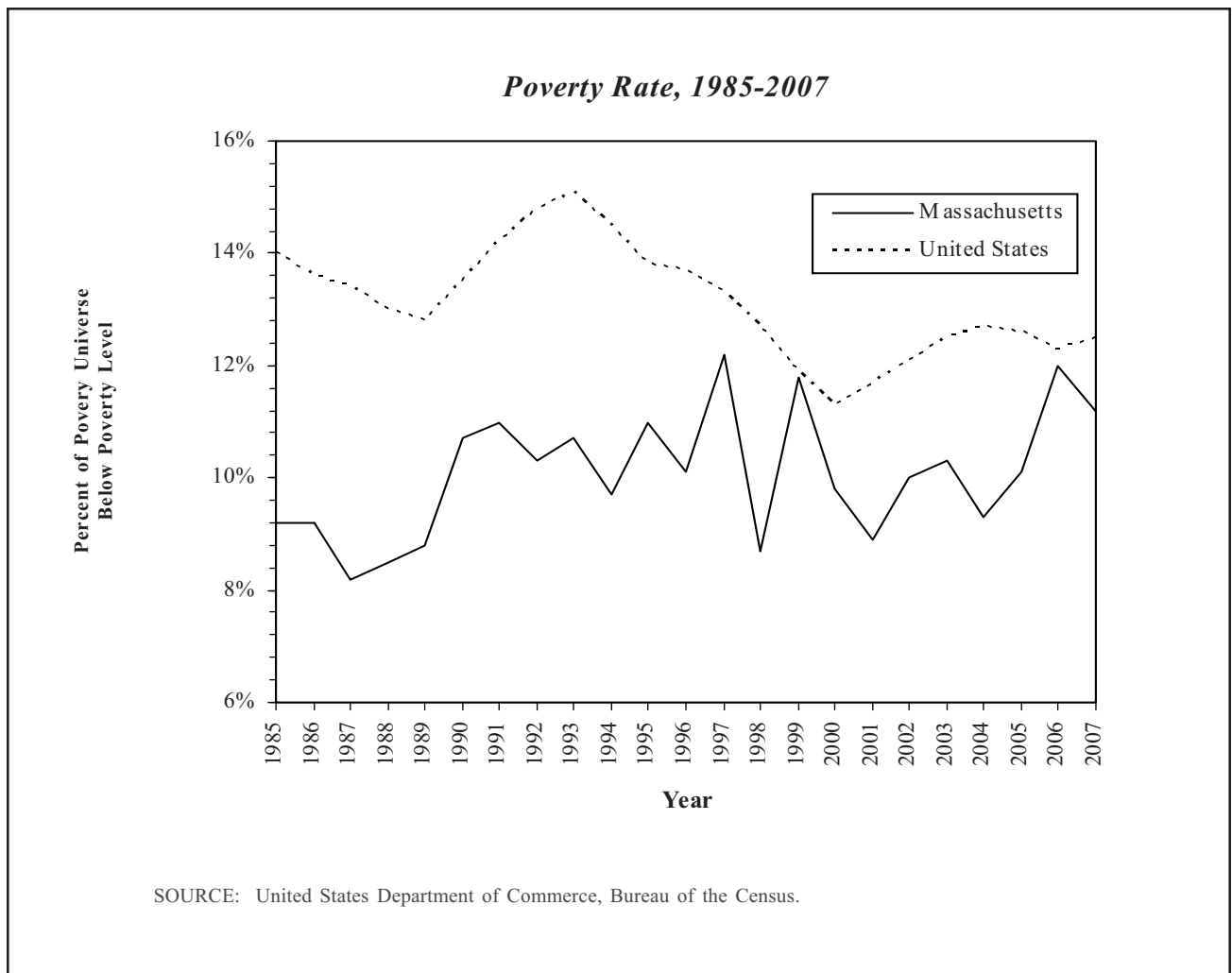
SOURCES: The Conference Board, Inc. (for U.S. measures, seasonally adjusted);
Mass Insight Corporation (for MA measures, not seasonally adjusted).

**Consumer Confidence: Massachusetts
and the U.S., January 1999 - October 2008**
(Massachusetts index not seasonally adjusted; 1985 = 100)



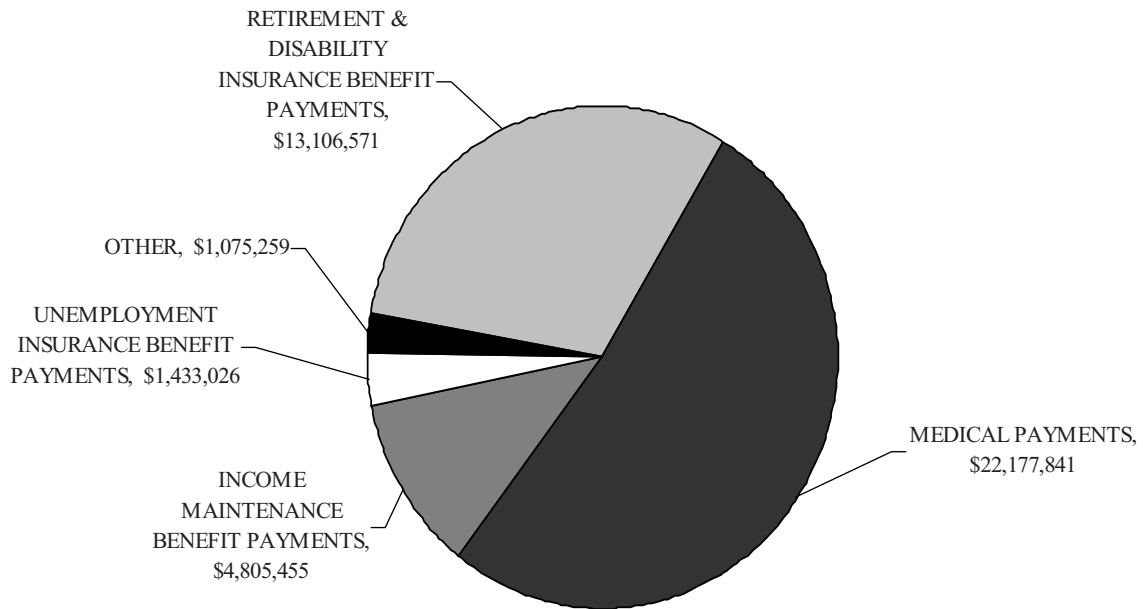
SOURCES: The Conference Board, Inc. (for U.S. index), Mass Insight Corporation (for MA index).

Poverty. The Massachusetts poverty rate remains well below the national average. Since 1980, the percentage of the Massachusetts poverty universe (persons) 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. The estimated poverty rate in Massachusetts decreased from 12.0 percent in 2006 to 11.2 percent in 2007, while the poverty rate in the United States increased from 12.3 percent in 2006 to 12.5 percent in 2007. 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 - 2007) compared with the national average during similar periods. Poverty estimates for states are not as reliable as national estimates. 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 13.9 percent of total personal income in Massachusetts in 2007. 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 42.6 billion dollars for 2007. Fifty-two percent of government transfer payments to individuals were medical payments.

***Transfer Payments from Governments to Individuals in
Massachusetts in 2007
(From Annual State Personal Income Estimates)
(in thousands of current dollars)***



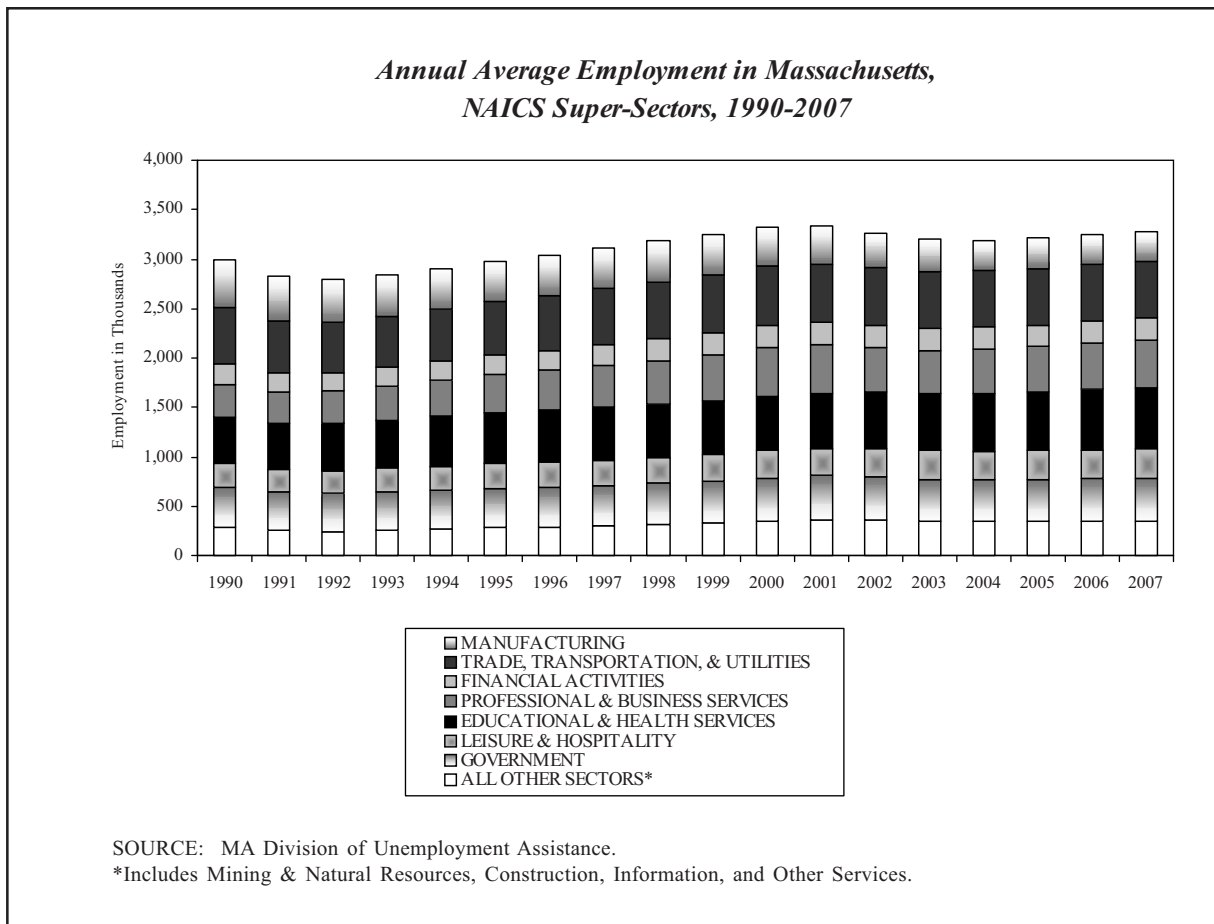
SOURCE: U.S. Department of Commerce, Bureau of Economic Analysis.
 NOTE: The category "other" includes veterans' benefit payments, federal education and training assistance payments, and a small residual of miscellaneous other payments to individuals.

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 2006-2007 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.

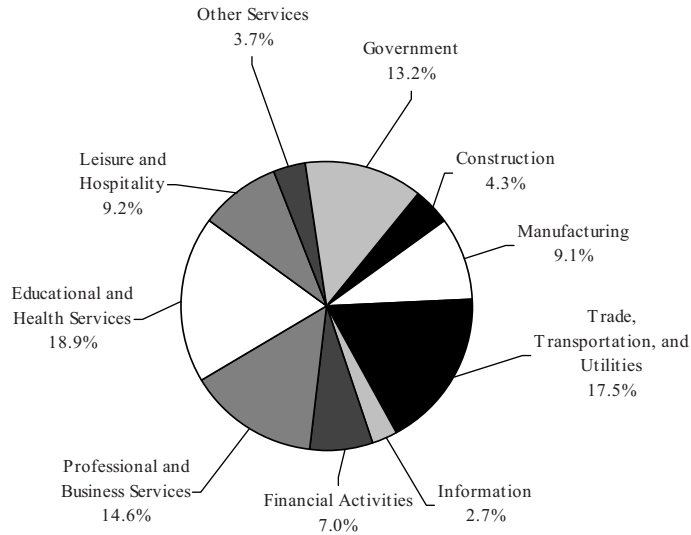
After significant declines in 2002 and 2003, total non-agricultural employment in Massachusetts declined only 0.1 percent in 2004 and increased 0.5 percent in 2005 and 1.1 percent in 2006. In 2007 employment grew another 1.0 percent, but the state still had 62 thousand (1.9%) fewer jobs than in the peak year of 2001. The comparable growth rate for the nation in 2007 was 1.1 percent. The latest seasonally adjusted estimate (3275.20 for November, 2008) is about 108 thousand below the peak month in 2001 (3384.0 in February, 2001) and 20 thousand below the 2008 peak in June (3295.40).

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 declines for 2005 and 2006 were 2.4 percent and 1.8 percent respectively, which are better than the long-term average rate of decline since 1990 (3.0 percent per year). The average for 2007 was only 1.5 percent below the comparable 2006 level, the best year for manufacturing in Massachusetts since 2000. The seasonally adjusted estimates for the first eleven months of 2008 average 1.1 percent below the comparable estimates for 2007.

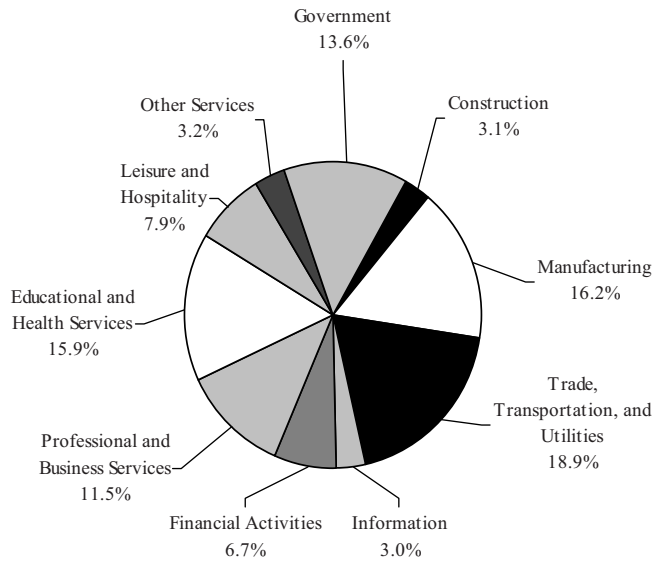


**Massachusetts Non-Farm Payroll Employment
(NAICS Industry basis)**

NAICS Super-Sectors: 2006-2007 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 March, 2008. Tufts University replaces the Friendly Ice Cream Corporations from the June, 2007 list. As noted, the list may not include some employers who do business in the state under multiple legal names or register each facility as a separate employer.

Twenty-five Largest Private Employers in Massachusetts in March, 2008
(listed alphabetically)

| | |
|---------------------------------------|-------------------------------------|
| Bank of America, NA | Raytheon Company |
| Baystate Medical Center, Inc. | S & S Credit Company, Inc. |
| Beth Israel Deaconess Medical Center | Shaw's Supermarkets, Inc. |
| Boston Medical Center Corporation | Southcoast Hospitals Group, Inc. |
| Boston University | State Street Bank & Trust Company |
| Brigham & Women's Hospital, Inc. | Target Corporation |
| Demoulas Super Markets, Inc. | Tufts University |
| E.M.C. Corporation | The Children's Hospital Corporation |
| General Hospital Corporation | UMass Memorial Medical Center, Inc. |
| Harvard University | United Parcel Service, Inc. |
| Home Depot U.S.A., Inc. | Verizon New England, Inc. |
| Massachusetts CVS Pharmacy, LLC | Wal-Mart Associates, Inc. |
| Massachusetts Institute of Technology | |

SOURCE: Massachusetts Executive Office of Labor & Workforce Development, Division of Unemployment Assistance, Research Department.

NOTE: This alphabetic listing includes private employers reporting large numbers of jobs covered by the Massachusetts unemployment insurance program. The information is based on June 2007 employment for employers as registered for unemployment insurance. The list may not include those employers who do business in Massachusetts under multiple legal corporations and those who register each store, facility or franchisee as a separate employer.

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 2005 the unemployment rate in Massachusetts was consistently below the national average. In 2006 the annual rate for the state was 0.2 percentage points above the national rate, while the rate for 2007 was 0.1 points below the national rate of 4.6 percent. The table on the following page compares the annual civilian labor force, the number unemployed, and the unemployment rates of Massachusetts, New England, and the United States from 1969 to 2007.

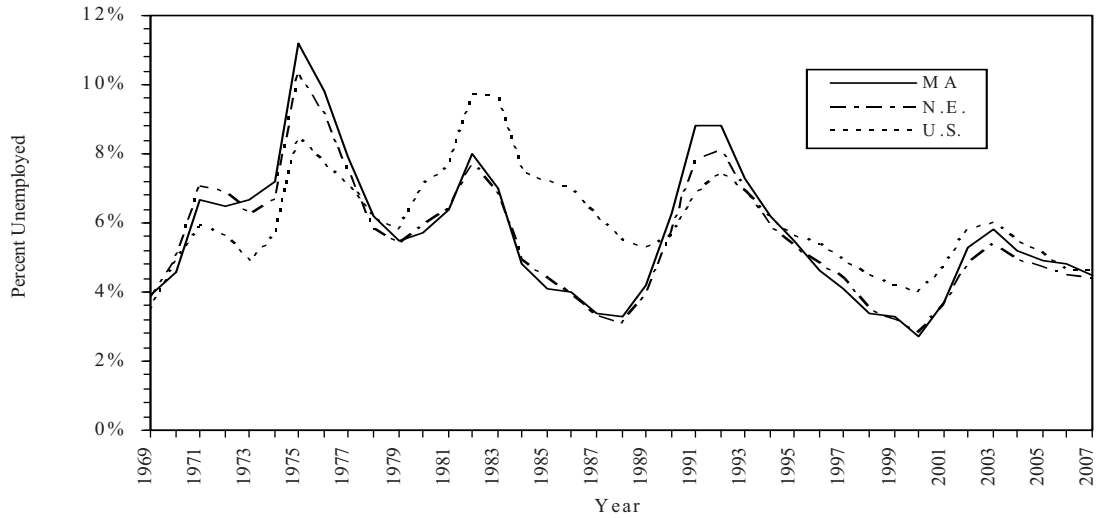
Annual Average Civilian Labor Force and Unemployment, 1969-2007

(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. |
| 1969 | 2,581 | 5,201 | 80,734 | 100 | 198 | 2,832 | 3.9% | 3.8% | 3.5% | 111.2% |
| 1970 | 2,465 | 5,128 | 82,771 | 113 | 253 | 4,093 | 4.6% | 4.9% | 4.9% | 93.7% |
| 1971 | 2,459 | 5,157 | 84,382 | 163 | 364 | 5,016 | 6.6% | 7.1% | 5.9% | 112.7% |
| 1972 | 2,487 | 5,260 | 87,034 | 161 | 363 | 4,882 | 6.5% | 6.9% | 5.6% | 115.6% |
| 1973 | 2,557 | 5,387 | 89,429 | 171 | 336 | 4,365 | 6.7% | 6.2% | 4.9% | 136.1% |
| 1974 | 2,637 | 5,514 | 91,949 | 190 | 368 | 5,156 | 7.2% | 6.7% | 5.6% | 128.5% |
| 1975 | 2,725 | 5,633 | 93,775 | 305 | 578 | 7,929 | 11.2% | 10.3% | 8.5% | 131.5% |
| 1976 | 2,726 | 5,714 | 96,158 | 268 | 521 | 7,406 | 9.8% | 9.1% | 7.7% | 127.3% |
| 1977 | 2,760 | 5,820 | 99,009 | 218 | 437 | 6,991 | 7.9% | 7.5% | 7.1% | 111.3% |
| 1978 | 2,809 | 5,936 | 102,251 | 173 | 343 | 6,202 | 6.2% | 5.8% | 6.1% | 101.6% |
| 1979 | 2,863 | 6,080 | 104,962 | 156 | 326 | 6,137 | 5.5% | 5.4% | 5.8% | 94.8% |
| 1980 | 2,886 | 6,154 | 106,940 | 164 | 365 | 7,637 | 5.7% | 5.9% | 7.1% | 80.3% |
| 1981 | 2,938 | 6,268 | 108,670 | 189 | 400 | 8,273 | 6.4% | 6.4% | 7.6% | 84.2% |
| 1982 | 2,966 | 6,345 | 110,204 | 236 | 489 | 10,678 | 8.0% | 7.7% | 9.7% | 82.5% |
| 1983 | 2,972 | 6,386 | 111,550 | 209 | 434 | 10,717 | 7.0% | 6.8% | 9.6% | 72.9% |
| 1984 | 3,032 | 6,540 | 113,544 | 146 | 318 | 8,539 | 4.8% | 4.9% | 7.5% | 64.0% |
| 1985 | 3,049 | 6,630 | 115,461 | 125 | 290 | 8,312 | 4.1% | 4.4% | 7.2% | 56.9% |
| 1986 | 3,080 | 6,724 | 117,834 | 123 | 264 | 8,237 | 4.0% | 3.9% | 7.0% | 57.1% |
| 1987 | 3,114 | 6,827 | 119,865 | 105 | 228 | 7,425 | 3.4% | 3.3% | 6.2% | 54.8% |
| 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% | 79.2% |
| 1990 | 3,226 | 7,128 | 125,840 | 204 | 409 | 7,047 | 6.3% | 5.7% | 5.6% | 112.5% |
| 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% | 117.3% |
| 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% | 101.6% |
| 1995 | 3,205 | 7,053 | 132,304 | 176 | 375 | 7,404 | 5.5% | 5.3% | 5.6% | 98.2% |
| 1996 | 3,231 | 7,118 | 133,943 | 148 | 340 | 7,236 | 4.6% | 4.8% | 5.4% | 85.2% |
| 1997 | 3,293 | 7,228 | 136,297 | 135 | 315 | 6,739 | 4.1% | 4.4% | 4.9% | 83.7% |
| 1998 | 3,322 | 7,257 | 137,673 | 113 | 253 | 6,210 | 3.4% | 3.5% | 4.5% | 75.6% |
| 1999 | 3,355 | 7,327 | 139,368 | 110 | 234 | 5,880 | 3.3% | 3.2% | 4.2% | 78.6% |
| 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 | 3,407 | 7,508 | 146,510 | 198 | 407 | 8,774 | 5.8% | 5.4% | 6.0% | 96.7% |
| 2004 | 3,380 | 7,481 | 147,401 | 177 | 366 | 8,149 | 5.2% | 4.9% | 5.5% | 94.5% |
| 2005 | 3,375 | 7,520 | 149,320 | 164 | 353 | 7,591 | 4.9% | 4.7% | 5.1% | 96.1% |
| 2006 | 3,405 | 7,607 | 151,428 | 164 | 345 | 7,001 | 4.8% | 4.5% | 4.6% | 104.3% |
| 2007 | 3,408 | 7,648 | 153,124 | 153 | 340 | 7,078 | 4.5% | 4.4% | 4.6% | 97.8% |

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

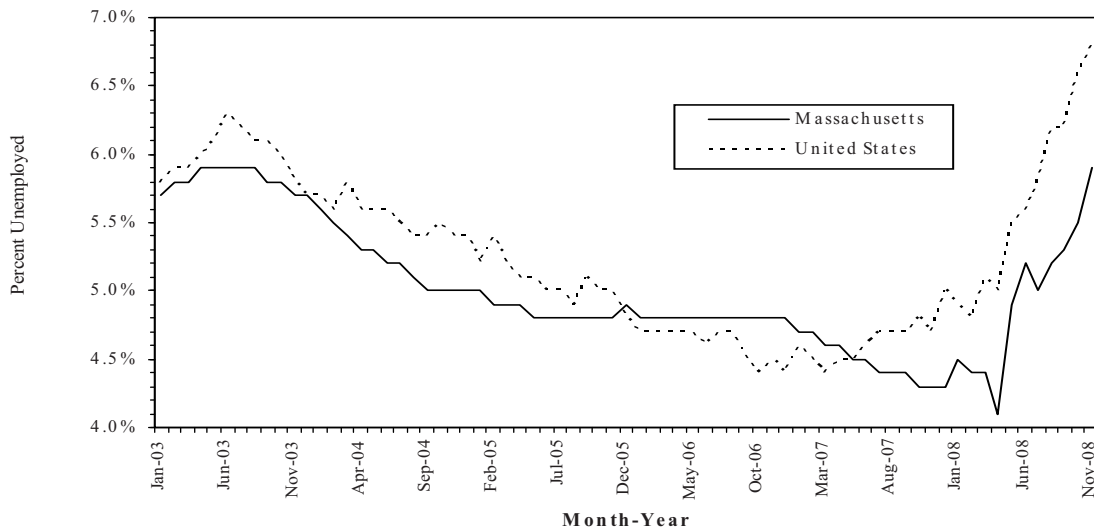
**Annual Average Unemployment Rate, 1969-2007,
Massachusetts, New England, and United States**



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

The unemployment rate in Massachusetts was consistently below the national average from mid-1995 through November, 2005, with similar patterns of gradual improvement after the mid-2003 peak. The Massachusetts rate exceeded the U.S. rate for seventeen months starting in December, 2005, but only four of those differences exceeded 0.2%. Since April, 2007 the state rate has been below the comparable U.S. rate, seasonally adjusted. In April 2008, the Massachusetts rate was 4.1 percent, the lowest it had been since September 2001. By November 2008, the Massachusetts rate had increased almost two percentage points to 5.9 percent, the highest it had been since August 2003. The following graph illustrates the movement of the state and national unemployment rates over the past seventy-one months.

**Monthly Unemployment Rate, January 2003 - November 2008
Massachusetts and United States
(seasonally adjusted)**



SOURCE: MA Division of Unemployment Assistance.

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 December 31, 2008, the Massachusetts Unemployment Trust Fund had a balance of \$1.224 billion, of which the private contributory account portion was \$1.106 billion. The October 2008 Unemployment Insurance Trust Fund report indicated that private contributory account reserves were estimated to be \$1.672 billion at the end of 2012.

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 Standard Industrial Code (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 2001 and 2007, gross domestic product in Massachusetts, New England, and the sum of all states GDP grew approximately 46.2, 47.2, and 54.7 percent respectively in current dollars. Between 2001 and 2007, gross domestic product in Massachusetts, New England and the sum of all states GDP grew approximately 10.4, 11.6, and 16.6 percent respectively in chained 2000 dollars. U.S. real GDP decreased at an annual rate of 3.8 percent in the fourth quarter of 2008, (that is, from the third quarter to the fourth quarter), according to advance estimates released by the Bureau of Economic Analysis. In the third quarter, real GDP decreased 0.5 percent. The Donahue Institute's *MassBenchmarks Current Economic Index* estimates that the Massachusetts economy also declined at a 3.5 percent annualized rate in the last quarter of 2008.

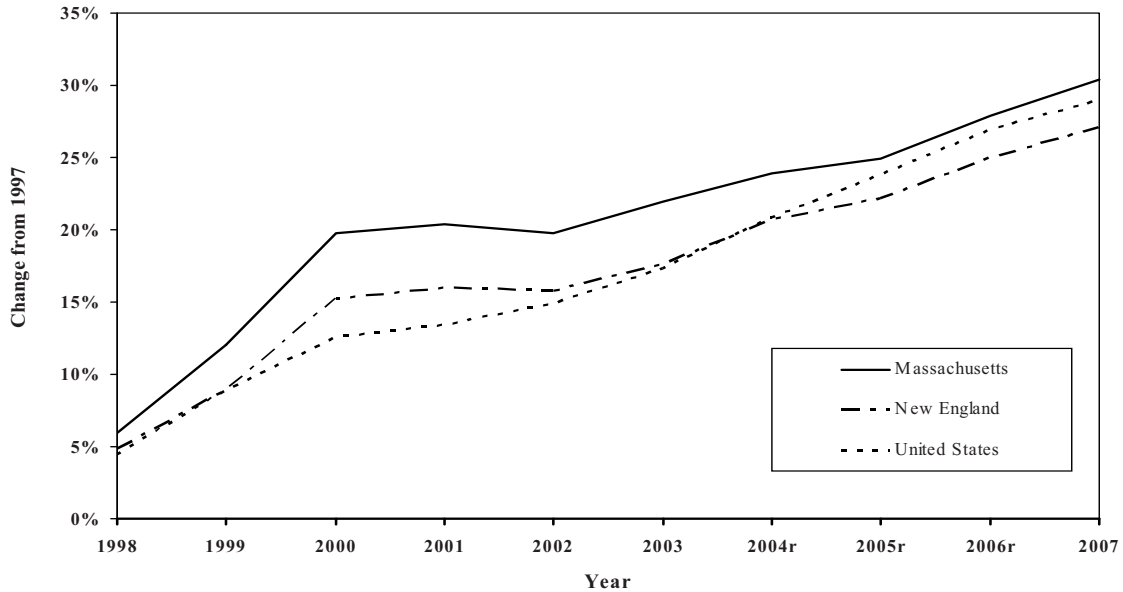
Gross Domestic Product - Cumulative Change

(millions of chained 2000 dollars)

| Year | Massachusetts | | New England | | United States | |
|-------|---------------|------------------|-------------|------------------|---------------|------------------|
| | GDP | Change from 1997 | GDP | Change from 1997 | GDP | 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% |
| 2004r | \$286,541 | 23.9% | \$597,196 | 20.7% | \$10,580,223 | 20.8% |
| 2005r | \$289,363 | 24.9% | \$606,068 | 22.2% | \$10,899,704 | 23.9% |
| 2006r | \$298,036 | 27.9% | \$623,136 | 25.0% | \$11,240,107 | 27.0% |
| 2007 | \$305,400 | 30.4% | \$636,223 | 27.1% | \$11,467,503 | 29.0% |

SOURCE: Bureau of Economic Analysis, U.S. Department of Commerce. Last revised: June 2008.
Next release date: June 2009.

Gross Domestic Product - Cumulative Percent Change
(chained 2000 dollars)



SOURCE: Bureau of Economic Analysis, U.S. Department of Commerce. Last revised: June 2008.
Next release date: June 2009.

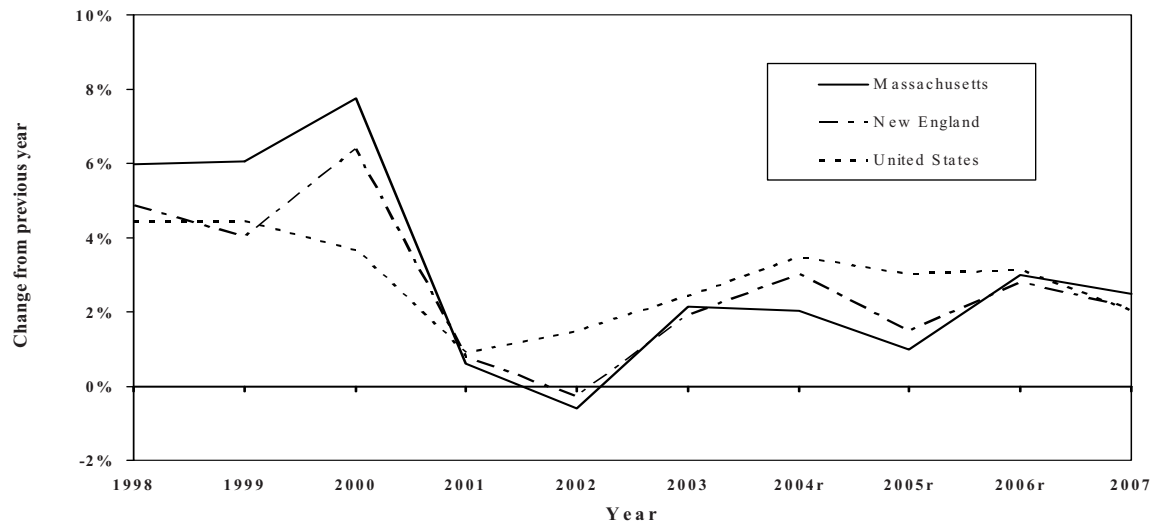
The table below indicates the Gross Domestic Product for Massachusetts, the New England states, and the United States. The United States figure is the sum of the fifty states.

Gross Domestic Product - Annual Change
(millions of chained 2000 dollars)

| Year | Massachusetts | | New England | | United States | |
|-------|---------------|---------------|-------------|---------------|---------------|---------------|
| | GDP | Annual change | GDP | Annual change | GDP | 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% |
| 2004r | \$286,541 | 2.0% | \$597,196 | 3.0% | \$10,580,223 | 3.5% |
| 2005r | \$289,363 | 1.0% | \$606,068 | 1.5% | \$10,899,704 | 3.0% |
| 2006r | \$298,036 | 3.0% | \$623,136 | 2.8% | \$11,240,107 | 3.1% |
| 2007 | \$305,400 | 2.5% | \$636,223 | 2.1% | \$11,467,503 | 2.0% |

SOURCE: Bureau of Economic Analysis, U.S. Department of Commerce. Last revised: June 2008.
Next release date: June 2009.

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



SOURCE: U.S. Department of Commerce, Bureau of Economic Analysis. Revised June 2008.
Next release date: June 2009.

The commercial base of Massachusetts is anchored by the twenty-two 2008 Fortune 1000 companies (twelve of which are Fortune 500) headquartered in Massachusetts. Rejoining the Massachusetts 2008 Fortune 1000 list was PerkinElmer (943rd). Beacon Roofing Supply, a diversified wholesale company, joined the Fortune 1000 (994th). When comparing the 2008 Fortune 1000 to 2007's, eleven Massachusetts companies gained and nine lost rank. Thermo Fisher Scientific climbed 280 places on the list (from 549th to 269th); the largest leap for a Massachusetts company.

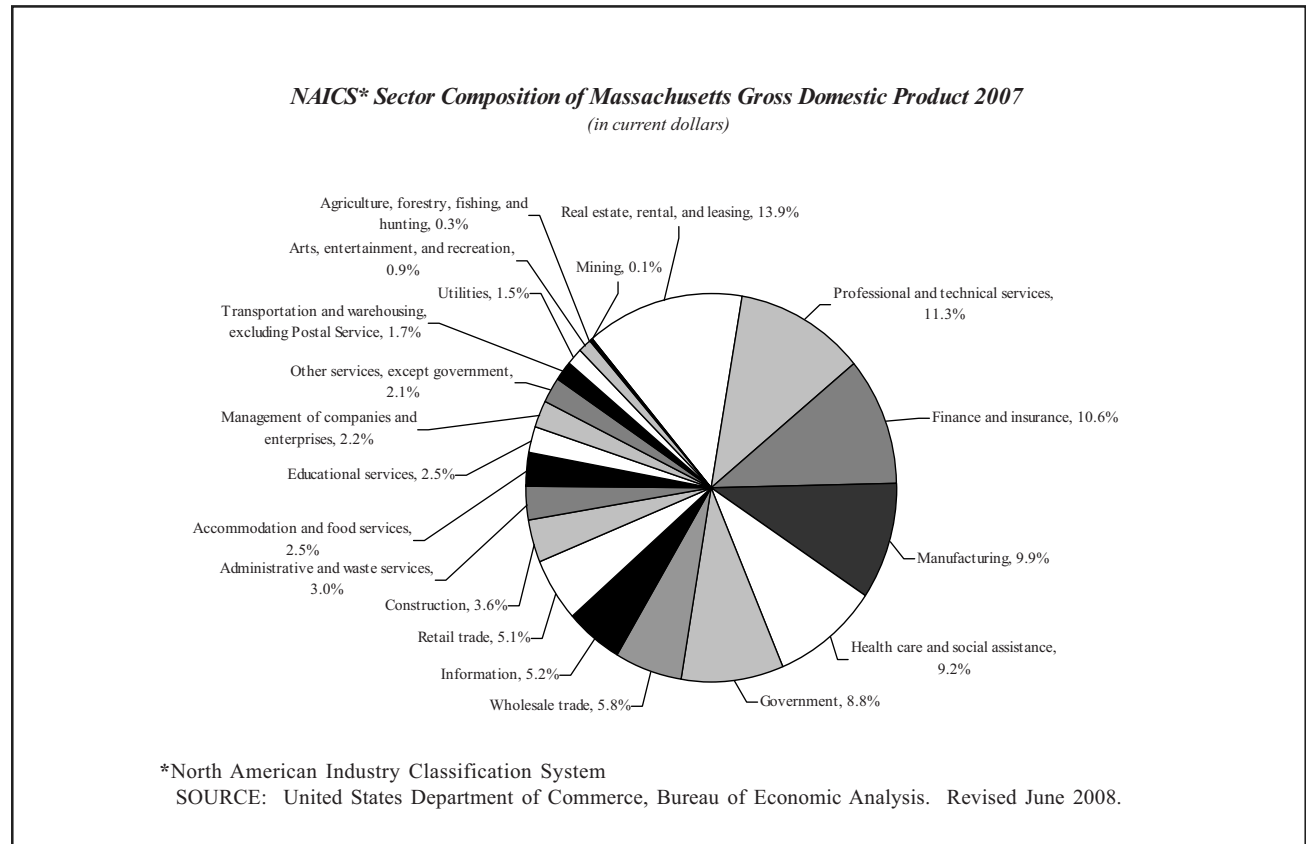
Massachusetts Companies in the 2008 Fortune 500 and 1000 Lists

| Rank | | Company | Industry | 2007 revenues (millions) |
|------|------|--------------------------------------|--|-----------------------------|
| 2008 | 2007 | | | |
| 94 | 95 | Liberty Mutual Ins. Group (Boston) | Insurance: P & C (stock) | \$25,961 |
| 99 | 90 | Mass. Mutual Life Ins. (Springfield) | Insurance: Life, Health (mutual) | \$25,268 |
| 112 | 96 | Raytheon (Waltham) | Aerospace and Defense | \$22,426 |
| 128 | 126 | Staples (Framingham) | Specialty Retailers | \$19,373 |
| 132 | 133 | TJX (Framingham) | Specialty Retailers | \$18,647 |
| 201 | 224 | EMC (Hopkinton) | Computer Peripherals | \$13,230 |
| 225 | 263 | State St. Corp. (Boston) | Commercial Banks | \$11,818 |
| 269 | 549 | Thermo Fisher Scientific (Waltham) | Scientific, Photo, Control Equipment | \$9,746 |
| 291 | 287 | BJ's Wholesale Club (Natick) | Specialty Retailers | \$9,005 |
| 310 | 308 | Boston Scientific (Natick) | Medical Products & Equipment | \$8,357 |
| 364 | 491 | Global Partners (Waltham) | Energy | \$6,758 |
| 499 | 648 | Perini (Framingham) | Engineering, Construction | \$4,628 |
| 572 | 620 | Genzyme (Cambridge) | Pharmaceuticals | \$3,814 |
| 631 | 569 | NSTAR (Boston) | Utilities: Gas & Electric | \$3,262 |
| 648 | 698 | Biogen Idec (Cambridge) | Pharmaceuticals | \$3,172 |
| 712 | 710 | Hanover Insurance Group (Worcester) | Insurance: P & C (stock) | \$2,787 |
| 718 | 728 | Analog Devices (Norwood) | Semiconductors and Other Electronic Components | \$2,740 |
| 722 | 780 | Iron Mountain (Boston) | Diversified Outsourcing | \$2,730 |
| 751 | 732 | Cabot (Boston) | Chemicals | \$2,616 |
| 902 | 873 | Commerce Group (Webster) | Insurance: P & C (stock) | \$1,982 |
| 943 | N.A. | PerkinElmer (Waltham) | Scientific, Photo, Control Equipment | \$1,787 |
| 994 | N.A. | Beacon Roofing Supply (Peabody) | Wholesalers: Diversified | \$1,646 |

SOURCE: *Fortune*, May 5, 2008.

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, finance and insurance, and manufacturing, contributed 45.6 percent of the GDP in 2007. 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 10.4 percent between 2001 and 2007. Between 2001 and 2006 (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 2001-2006 |
|---|-------------------------------------|
| Funds, trusts, and other financial vehicles | 158.1% |
| Motor vehicle, body, trailer, and parts manufacturing | 88.2% |
| Pipeline transportation | 76.9% |
| Information and data processing services | 68.3% |
| Water transportation | -23.9% |
| Petroleum and coal products manufacturing | -24.1% |
| Electrical equipment and appliance manufacturing | -27.6% |
| Textile and textile product mills | -47.0% |

*North American Industry Classification System.
SOURCE: United States Department of Commerce, Bureau of Economic Analysis. Revised June 2008.

Gross Domestic Product by Industry in Massachusetts
(millions of chained 2000 dollars)

| NAICS* Industry Sector | 1999 | 2000 | 2001 | 2002 | 2003 | 2004r | 2005r | 2006r | 2007 |
|--|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Total Gross Domestic Product by State | \$255,189 | \$274,949 | \$276,634 | \$274,997 | \$280,881 | \$286,541 | \$289,363 | \$298,036 | \$305,400 |
| Private industries | 231,945 | 251,645 | 253,140 | 251,272 | 257,997 | 263,890 | 266,547 | 275,233 | 283,005 |
| Agriculture, forestry, fishing, and hunting | 469 | 540 | 587 | 668 | 701 | 733 | 797 | 772 | 782 |
| Mining | 109 | 124 | 141 | 139 | 142 | 153 | 144 | 151 | 194 |
| Utilities | 3,218 | 3,453 | 3,162 | 3,137 | 3,486 | 3,782 | 3,706 | 3,625 | 3,914 |
| Construction | 10,995 | 11,159 | 11,850 | 11,412 | 10,544 | 10,301 | 10,323 | 9,301 | 8,085 |
| Manufacturing | 30,126 | 37,204 | 35,011 | 35,376 | 38,071 | 36,568 | 36,695 | 39,222 | 42,009 |
| Wholesale trade | 17,749 | 16,173 | 17,819 | 17,214 | 17,959 | 18,042 | 17,124 | 17,779 | 17,641 |
| Retail trade | 13,650 | 14,519 | 15,713 | 15,997 | 16,644 | 17,028 | 17,616 | 17,569 | 18,092 |
| Transportation and warehousing, excluding Postal Service | 4,766 | 5,172 | 5,063 | 4,915 | 4,835 | 5,138 | 5,184 | 5,337 | 5,500 |
| Information | 12,083 | 13,017 | 13,710 | 13,676 | 13,936 | 15,344 | 17,494 | 18,853 | 20,184 |
| Finance and insurance | 26,693 | 29,915 | 29,890 | 29,781 | 30,529 | 32,001 | 30,330 | 32,818 | 33,923 |
| Real estate, rental, and leasing | 34,129 | 35,587 | 37,683 | 37,379 | 37,952 | 38,341 | 38,872 | 39,663 | 39,973 |
| Professional and technical services | 24,648 | 28,560 | 28,572 | 27,397 | 27,486 | 30,480 | 31,728 | 33,572 | 35,107 |
| Management of companies and enterprises | 6,870 | 7,506 | 6,152 | 5,673 | 5,778 | 5,082 | 5,223 | 5,121 | 5,185 |
| Administrative and waste services | 8,252 | 8,382 | 7,400 | 7,042 | 7,459 | 7,440 | 7,793 | 7,998 | 8,532 |
| Educational services | 5,591 | 5,915 | 5,851 | 5,978 | 6,003 | 6,062 | 5,905 | 5,851 | 6,052 |
| Health care and social assistance | 19,496 | 20,363 | 20,484 | 21,179 | 22,241 | 22,764 | 23,349 | 24,418 | 25,427 |
| Arts, entertainment, and recreation | 1,906 | 1,911 | 2,023 | 2,152 | 2,244 | 2,337 | 2,344 | 2,348 | 2,502 |
| Accommodation and food services | 6,251 | 6,594 | 6,510 | 6,556 | 6,734 | 6,952 | 6,924 | 7,010 | 7,104 |
| Other services, except government | 5,307 | 5,549 | 5,477 | 5,570 | 5,596 | 5,532 | 5,424 | 5,370 | 5,522 |
| Government | 23,272 | 23,304 | 23,493 | 23,710 | 22,960 | 22,798 | 22,970 | 23,056 | 22,805 |

* North American Industry Classification System

SOURCE: United States Department of Commerce, Bureau of Economic Analysis. Revised June 2008.

Cumulative Percent Change in GDP by Industry in Massachusetts
(millions of chained 2000 dollars)

| NAICS* Industry Sector | 1999 to | 2000 | 2001 | 2002 | 2003 | 2004r | 2005r | 2006r | 2007 |
|--|---------|-------|--------|--------|--------|--------|--------|--------|--------|
| Total Gross Domestic Product by State | | 7.7% | 8.4% | 7.8% | 9.9% | 11.9% | 12.9% | 15.9% | 18.4% |
| Private industries | | 8.5% | 9.1% | 8.3% | 11.0% | 13.3% | 14.3% | 17.6% | 20.4% |
| Agriculture, forestry, fishing, and hunting | | 15.1% | 23.8% | 37.6% | 42.6% | 47.1% | 55.9% | 52.7% | 54.0% |
| Mining | | 13.8% | 27.5% | 26.1% | 28.2% | 36.0% | 30.1% | 34.9% | 63.4% |
| Utilities | | 7.3% | -1.1% | -1.9% | 9.2% | 17.7% | 15.7% | 13.5% | 21.5% |
| Construction | | 1.5% | 7.7% | 4.0% | -3.6% | -5.9% | -5.7% | -15.6% | -28.7% |
| Manufacturing | | 23.5% | 17.6% | 18.6% | 26.3% | 22.3% | 22.7% | 29.5% | 36.7% |
| Wholesale trade | | -8.9% | 1.3% | -2.1% | 2.2% | 2.7% | -2.4% | 1.4% | 0.7% |
| Retail trade | | 6.4% | 14.6% | 16.4% | 20.4% | 22.7% | 26.2% | 25.9% | 28.9% |
| Transportation and warehousing, excluding Postal Service | | 8.5% | 6.4% | 3.5% | 1.9% | 8.1% | 9.0% | 12.0% | 15.0% |
| Information | | 7.7% | 13.1% | 12.8% | 14.7% | 24.8% | 38.8% | 46.6% | 53.7% |
| Finance and insurance | | 12.1% | 12.0% | 11.6% | 14.1% | 19.0% | 13.7% | 21.9% | 25.3% |
| Real estate, rental, and leasing | | 4.3% | 10.2% | 9.4% | 10.9% | 11.9% | 13.3% | 15.3% | 16.1% |
| Professional and technical services | | 15.9% | 15.9% | 11.8% | 12.1% | 23.0% | 27.1% | 32.9% | 37.5% |
| Management of companies and enterprises | | 9.3% | -8.8% | -16.6% | -14.7% | -26.8% | -24.0% | -25.9% | -24.7% |
| Administrative and waste services | | 1.6% | -10.1% | -15.0% | -9.1% | -9.3% | -4.6% | -1.9% | 4.7% |
| Educational services | | 5.8% | 4.7% | 6.9% | 7.3% | 8.3% | 5.7% | 4.8% | 8.2% |
| Health care and social assistance | | 4.4% | 5.0% | 8.4% | 13.4% | 15.8% | 18.4% | 22.9% | 27.1% |
| Arts, entertainment, and recreation | | 0.3% | 6.1% | 12.5% | 16.8% | 20.9% | 21.2% | 21.4% | 27.9% |
| Accommodation and food services | | 5.5% | 4.2% | 4.9% | 7.6% | 10.9% | 10.5% | 11.7% | 13.1% |
| Other services, except government | | 4.6% | 3.3% | 5.0% | 5.4% | 4.3% | 2.3% | 1.3% | 4.2% |
| Government | | 0.1% | 0.9% | 1.9% | -1.3% | -2.0% | -1.2% | -0.9% | -2.0% |

* North American Industry Classification System

SOURCE: United States Department of Commerce, Bureau of Economic Analysis. Revised June 2008.

Gross Domestic Product by Industry in Massachusetts
(as a percent of total GDP chained 2000 dollars)

| NAICS* Industry Sector | 1999 | 2000 | 2001 | 2002 | 2003 | 2004r | 2005r | 2006r | 2007 |
|--|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Total Gross Domestic Product by State | 100.0% | 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% | 92.1% | 92.1% | 92.3% | 92.7% |
| Agriculture, forestry, fishing, and hunting | 0.2% | 0.2% | 0.2% | 0.2% | 0.2% | 0.3% | 0.3% | 0.3% | 0.3% |
| Mining | 0.0% | 0.0% | 0.1% | 0.1% | 0.1% | 0.1% | 0.0% | 0.1% | 0.1% |
| Utilities | 1.3% | 1.3% | 1.1% | 1.1% | 1.2% | 1.3% | 1.3% | 1.2% | 1.3% |
| Construction | 4.3% | 4.1% | 4.3% | 4.1% | 3.8% | 3.6% | 3.6% | 3.1% | 2.6% |
| Manufacturing | 11.8% | 13.5% | 12.7% | 12.9% | 13.6% | 12.8% | 12.7% | 13.2% | 13.8% |
| Wholesale trade | 7.0% | 5.9% | 6.4% | 6.3% | 6.4% | 6.3% | 5.9% | 6.0% | 5.8% |
| Retail trade | 5.3% | 5.3% | 5.7% | 5.8% | 5.9% | 5.9% | 6.1% | 5.9% | 5.9% |
| Transportation and warehousing, excluding Postal Service | 1.9% | 1.9% | 1.8% | 1.8% | 1.7% | 1.8% | 1.8% | 1.8% | 1.8% |
| Information | 4.7% | 4.7% | 5.0% | 5.0% | 5.0% | 5.4% | 6.0% | 6.3% | 6.6% |
| Finance and insurance | 10.5% | 10.9% | 10.8% | 10.8% | 10.9% | 11.2% | 10.5% | 11.0% | 11.1% |
| Real estate, rental, and leasing | 13.4% | 12.9% | 13.6% | 13.6% | 13.5% | 13.4% | 13.4% | 13.3% | 13.1% |
| Professional and technical services | 9.7% | 10.4% | 10.3% | 10.0% | 9.8% | 10.6% | 11.0% | 11.3% | 11.5% |
| Management of companies and enterprises | 2.7% | 2.7% | 2.2% | 2.1% | 2.1% | 1.8% | 1.8% | 1.7% | 1.7% |
| Administrative and waste services | 3.2% | 3.0% | 2.7% | 2.6% | 2.7% | 2.6% | 2.7% | 2.7% | 2.8% |
| Educational services | 2.2% | 2.2% | 2.1% | 2.2% | 2.1% | 2.1% | 2.0% | 2.0% | 2.0% |
| Health care and social assistance | 7.6% | 7.4% | 7.4% | 7.7% | 7.9% | 7.9% | 8.1% | 8.2% | 8.3% |
| Arts, entertainment, and recreation | 0.7% | 0.7% | 0.7% | 0.8% | 0.8% | 0.8% | 0.8% | 0.8% | 0.8% |
| Accommodation and food services | 2.4% | 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% | 1.8% |
| Government | 9.1% | 8.5% | 8.5% | 8.6% | 8.2% | 8.0% | 7.9% | 7.7% | 7.5% |

* North American Industry Classification System

SOURCE: United States Department of Commerce, Bureau of Economic Analysis. Revised June 2008.

Rank of Industry Contribution to GDP in Massachusetts
(millions of chained 2000 dollars)

| NAICS* Industry Sector | 1999 | 2000 | 2001 | 2002 | 2003 | 2004r | 2005r | 2006r | 2007 |
|--|------|------|------|------|------|-------|-------|-------|------|
| Total Gross Domestic Product by State | | | | | | | | | |
| Private industries | | | | | | | | | |
| Agriculture, forestry, fishing, and hunting | 19 | 19 | 19 | 19 | 19 | 19 | 19 | 19 | 19 |
| Mining | 20 | 20 | 20 | 20 | 20 | 20 | 20 | 20 | 20 |
| Utilities | 17 | 17 | 17 | 17 | 17 | 17 | 17 | 17 | 17 |
| Construction | 10 | 10 | 10 | 10 | 10 | 10 | 10 | 10 | 11 |
| Manufacturing | 2 | 1 | 2 | 2 | 1 | 2 | 2 | 2 | 1 |
| Wholesale trade | 7 | 7 | 7 | 7 | 7 | 7 | 9 | 8 | 9 |
| Retail trade | 8 | 8 | 8 | 8 | 8 | 8 | 7 | 9 | 8 |
| Transportation and warehousing, excluding Postal Service | 16 | 16 | 16 | 16 | 16 | 15 | 16 | 15 | 15 |
| Information | 9 | 9 | 9 | 9 | 9 | 9 | 8 | 7 | 7 |
| Finance and insurance | 3 | 3 | 3 | 3 | 3 | 3 | 4 | 4 | 4 |
| Real estate, rental, and leasing | 1 | 2 | 1 | 1 | 2 | 1 | 1 | 1 | 2 |
| Professional and technical services | 4 | 4 | 4 | 4 | 4 | 4 | 3 | 3 | 3 |
| Management of companies and enterprises | 12 | 12 | 13 | 14 | 14 | 16 | 15 | 16 | 16 |
| Administrative and waste services | 11 | 11 | 11 | 11 | 11 | 11 | 11 | 11 | 10 |
| Educational services | 14 | 14 | 14 | 13 | 13 | 13 | 13 | 13 | 13 |
| Health care and social assistance | 6 | 6 | 6 | 6 | 6 | 6 | 5 | 5 | 5 |
| Arts, entertainment, and recreation | 18 | 18 | 18 | 18 | 18 | 18 | 18 | 18 | 18 |
| Accommodation and food services | 13 | 13 | 12 | 12 | 12 | 12 | 12 | 12 | 12 |
| Other services, except government | 15 | 15 | 15 | 15 | 15 | 14 | 14 | 14 | 14 |
| Government | 5 | 5 | 5 | 5 | 5 | 5 | 6 | 6 | 6 |

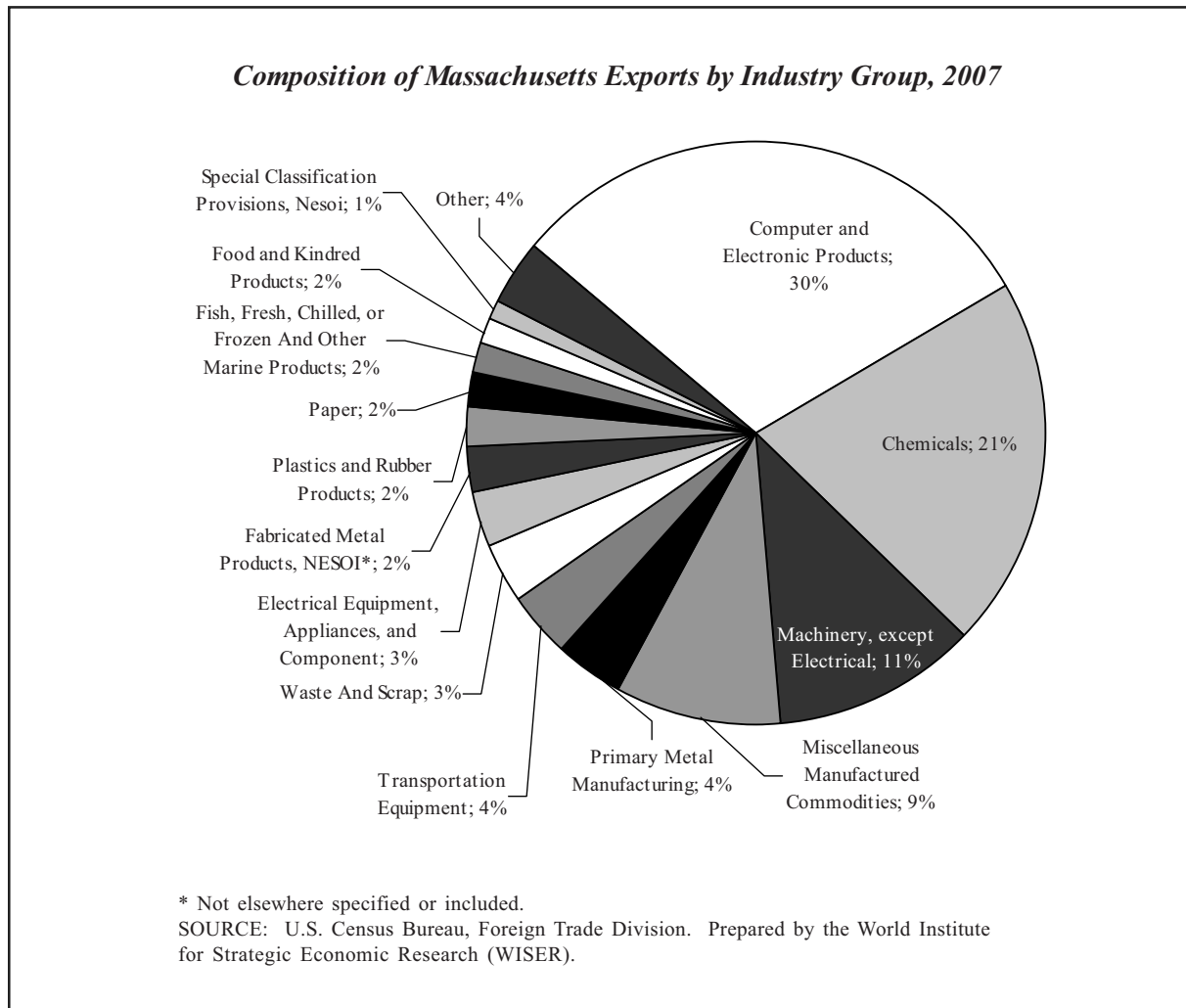
* North American Industry Classification System

SOURCE: United States Department of Commerce, Bureau of Economic Analysis. Revised June 2008.

GDP Sector Overview. Between 2001 and 2007, the portion of the total GDP in chained 2000 dollars, from the private industry sector increased 1.2 percent, and it decreased 1.0 percent in the government sector. Contributions by each industry to total GDP have remained steady for most sectors. The exceptions were information, up 1.7 percent, professional and technical services, up 1.2 percent, and manufacturing, up 1.1 percent. When the 2001 to 2007 industry contributions to total annual GDP are ranked according to their dollar value, the top five have remained fairly constant. In 2007 they were manufacturing, real estate, rental and leasing, professional and technical services, finance and insurance, and health care and social assistance.

International Trade. Massachusetts ranked 14th in the United States, and first in New England, with \$25.2 billion in international exports in 2007. This represents a 5.1 percent increase from the previous year's exports from the Commonwealth, while national exports increased by 12.1 percent in the same year. In November 2008, Massachusetts's year-to-date exports totaled \$26.2 billion, an increase of 13.0 percent compared with exports for the same period of 2007. National exports were up 14.1 percent and New England, 12.6 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 2007 were: Canada, with \$3.4 billion in purchases of Massachusetts exports; Germany with \$2.4 billion; United Kingdom, with \$2.3 billion; the Netherlands, with \$2.2 billion; and Japan, with \$2.2 billion in purchases. Between 2006 and 2007, the most significant growth in Massachusetts exports among its top ten trading partners was in exports to Taiwan, 35.8 percent, and France, 24.2 percent.



Value of International Shipments from Massachusetts, 2000 - 2007

(top ten industry groups ranked by value of 2007 exports, in millions)

| Major Industry Group | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Computer And Electronic Products | \$10,215 | \$8,122 | \$7,024 | \$7,688 | \$7,475 | \$7,004 | \$7,520 | \$7,711 |
| Chemicals | \$1,600 | \$1,534 | \$2,267 | \$3,216 | \$4,907 | \$5,284 | \$5,188 | \$5,247 |
| Machinery, Except Electrical | \$2,545 | \$2,044 | \$1,786 | \$1,668 | \$2,456 | \$2,315 | \$2,736 | \$2,877 |
| Miscellaneous Manufactured Commodities | \$1,053 | \$1,213 | \$1,210 | \$1,571 | \$1,927 | \$2,111 | \$2,240 | \$2,317 |
| Primary Metal Manufacturing | \$358 | \$272 | \$248 | \$425 | \$423 | \$405 | \$647 | \$982 |
| Transportation Equipment | \$659 | \$449 | \$346 | \$383 | \$453 | \$481 | \$547 | \$887 |
| Waste And Scrap | \$106 | \$146 | \$183 | \$190 | \$322 | \$328 | \$597 | \$847 |
| Electrical Equipment, Appliances, And Comp | \$834 | \$691 | \$649 | \$592 | \$752 | \$815 | \$872 | \$769 |
| Fabricated Metal Products, Nesoi | \$649 | \$569 | \$692 | \$539 | \$621 | \$664 | \$679 | \$614 |
| Plastics And Rubber Products | \$374 | \$400 | \$406 | \$375 | \$404 | \$469 | \$530 | \$582 |
| | | | | | | | | |
| Total Exports, Top Massachusetts Industries | \$18,393 | \$15,438 | \$14,812 | \$16,648 | \$19,739 | \$19,877 | \$21,556 | \$22,834 |
| | | | | | | | | |
| Total Massachusetts Exports | \$20,514 | \$17,490 | \$16,708 | \$18,663 | \$21,837 | \$22,043 | \$24,047 | \$25,285 |
| | | | | | | | | |
| Percent Change from Prior Year | 22.1% | -14.7% | -4.5% | 11.7% | 17.0% | 0.9% | 9.1% | 5.1% |

SOURCE: World Institute for Strategic Economic Research (WISER). These figures reflect the changover 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 2001 and 2007, the combined real gross domestic product of the transportation and warehousing and utilities sector increased 14.5 percent when measured with year 2000 chained dollars. These combined sectors contributed 3.1 percent to the total Massachusetts Real Domestic Product in 2007; 0.1 percent less than it did in 2001.

Massachusetts' major air and seaports are managed by the Massachusetts Port Authority (Massport), an independent public authority. Massport reported fiscal 2008 operating income of \$39.1 million, down 1.8 percent from fiscal 2007, operating revenues up 7.3 percent, \$526.8 million in 2007 versus \$565.5 million in 2008, and operating expenses up 8.1 percent, \$487.0 million in 2007 versus \$526.4 million in 2008.

According to Massport, as of December 31, 2007, airline service at the airport, both scheduled and non-scheduled, was provided by 91 airlines, including nine U.S. major air carrier airlines, 28 non-major domestic carriers, 34 non-U.S. flag ("foreign flag) carriers and 20 regional and commuter airlines. Based on total passenger volume in calendar year 2007 data, Logan Airport was the most active airport in New England and remained the 19th most active in the U.S. according to the Federal Aviation Authority. Massport reported that as of November, year-to-date 2008, total airport flight operations were down 6.8 percent and total airport passengers were down 7.3 percent from the same period in 2007.

Logan was served by 11 all-cargo and small package/express carriers in 2007. According to the FAA, Logan Airport ranked 26th in the nation in total air cargo volume in calendar year 2007. In 2007, the airport handled 1.06 billion pounds of cargo, a 3.7 percent decrease from 2006. Massport reported that as of November, year-to-date 2008, the combined cargo and mail volume was down 6.5 percent and total airport mail was up 30.9 percent from the same period in 2007. Please refer to the Aviation Activity charts on the following page.

At Massport's Port of Boston properties, 2007 total cargo throughput was 15.5 million metric tons, a 1.0 percent increase from 2006. Automobile processing decreased 17 percent to 10,179 units, and cruise passenger trips increased 12 percent to 234,284. Total containerized cargo increased 20.0 percent to 1.7 million metric tons. Massport reported that between November 2007 and October 2008, total containerized cargo was down 0.3 percent compared to the same period the previous year. The Army Corps of Engineers reported Massachusetts total waterborne cargo shipped or received in 2006 decreased 4.9 percent to 27.4 million short tons from 2005. Waterborne cargo in New England decreased 6.5 percent and the U.S increased 2.4 percent. Please refer to the Waterborne Tonnage by State charts on the following page.

Aviation Activity for Massachusetts Primary Airports

| <i>Passenger Boardings</i> | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|------------|------------|------------|------------|------------|------------|------------|------------|
| General Edward Lawrence Logan International | 13,613,507 | 11,739,553 | 11,077,238 | 11,087,799 | 12,758,020 | 13,214,923 | 13,544,552 | 13,783,214 |
| Nantucket Memorial | 296,451 | 272,460 | 253,422 | 229,300 | 243,313 | 252,757 | 276,866 | 161,366 |
| Barnstable Municipal-Boardman/Polando Field | 205,906 | 197,106 | 180,807 | 158,360 | 167,522 | 177,761 | 206,980 | 86,972 |
| Worcester Regional | 52,916 | 79,653 | 37,298 | 2,234 | 1,274 | 2,036 | 14,823 | 450 |
| Laurence G Hanscom Field | 82,204 | 71,381 | 40,419 | 19,375 | 17,049 | 13,887 | 14,560 | 15,736 |
| Martha's Vineyard | 71,150 | 65,374 | 59,500 | 53,011 | 49,480 | 48,977 | 45,881 | 48,833 |
| New Bedford Regional | 22,882 | 21,786 | 21,667 | 21,097 | 19,686 | 17,960 | 15,211 | 14,557 |
| Provincetown Municipal | 15,694 | 12,986 | 10,533 | 11,801 | 11,424 | 10,236 | 11,375 | 12,449 |
| Total | 14,360,710 | 12,460,299 | 11,680,884 | 11,582,977 | 13,267,768 | 13,738,537 | 14,130,248 | 14,123,577 |

| <i>Cargo - Gross Landed Weight (lbs.)</i> | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---------------|---------------|---------------|---------------|---------------|---------------|---------------|------|
| 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 | 1,100,485,850 | n/a |

Change in Aviation Activity at Massachusetts Primary Airports

| <i>Passenger Boardings</i> | 2000-2001 | 2001-2002 | 2002-2003 | 2003-2004 | 2004-2005 | 2005-2006 | 2006-2007 |
|---|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| General Edward Lawrence Logan International | -13.8% | -5.6% | 0.1% | 15.1% | 3.6% | 2.5% | 1.8% |
| Nantucket Memorial | -8.1% | -7.0% | -9.5% | 6.1% | 3.9% | 9.5% | -41.7% |
| Barnstable Municipal-Boardman/Polando Field | -4.3% | -8.3% | -12.4% | 5.8% | 6.1% | 16.4% | -58.0% |
| Worcester Regional | 50.5% | -53.2% | -94.0% | -43.0% | 59.8% | 628.0% | -97.0% |
| Laurence G Hanscom Field | -13.2% | -43.4% | -52.1% | -12.0% | -18.5% | 4.8% | 8.1% |
| Martha's Vineyard | -8.1% | -9.0% | -10.9% | -6.7% | -1.0% | -6.3% | 6.4% |
| New Bedford Regional | -4.8% | -0.5% | -2.6% | -6.7% | -8.8% | -15.3% | -4.3% |
| Provincetown Municipal | -17.3% | -18.9% | 12.0% | -3.2% | -10.4% | 11.1% | 9.4% |
| Total | -13.2% | -6.3% | -0.8% | 14.5% | 3.5% | 2.9% | 0.0% |

| <i>Cargo</i> | 2000-2001 | 2001-2002 | 2002-2003 | 2003-2004 | 2004-2005 | 2005-2006 | 2006-2007 |
|---|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| General Edward Lawrence Logan International | -7.4% | -2.3% | -5.7% | -2.3% | -2.0% | -4.2% | n/a |

SOURCE: Federal Aviation Administration Jul 2008.
http://www.faa.gov/airports_airtraffic/airports/planning_capacity/passenger_allcargo_stats/

Waterborne Tonnage by State (In Units of 1000 Tons)

| <i>State</i> | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|---------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| U.S. total | 2,424,596 | 2,386,558 | 2,340,292 | 2,394,199 | 2,551,939 | 2,527,622 | 2,588,440 |
| Maine | 31,769 | 30,586 | 29,140 | 31,698 | 32,447 | 32,353 | 28,103 |
| Massachusetts | 26,973 | 26,446 | 26,117 | 30,655 | 31,787 | 28,812 | 27,411 |
| Connecticut | 18,959 | 18,267 | 17,610 | 18,579 | 20,075 | 19,617 | 19,340 |
| Rhode Island | 9,089 | 9,170 | 8,437 | 9,417 | 9,764 | 10,972 | 11,016 |
| New Hampshire | 4,462 | 4,447 | 4,108 | 4,971 | 4,795 | 5,254 | 4,823 |
| Vermont | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| New England | 91,252 | 88,916 | 85,412 | 95,320 | 98,868 | 97,008 | 90,693 |

Waterborne Tonnage by State - Percent Change from Previous Year

| <i>State</i> | 2000-2001 | 2001-2002 | 2002-2003 | 2003-2004 | 2004-2005 | 2005-2006 |
|---------------|-----------|-----------|-----------|-----------|-----------|-----------|
| U.S. total | -1.6% | -1.9% | 2.3% | 6.6% | -1.0% | 2.4% |
| Maine | -3.7% | -4.7% | 8.8% | 2.4% | -0.3% | -13.1% |
| Massachusetts | -2.0% | -1.2% | 17.4% | 3.7% | -9.4% | -4.9% |
| Connecticut | -3.6% | -3.6% | 5.5% | 8.1% | -2.3% | -1.4% |
| Rhode Island | 0.9% | -8.0% | 11.6% | 3.7% | 12.4% | 0.4% |
| New Hampshire | -0.3% | -7.6% | 21.0% | -3.5% | 9.6% | -8.2% |
| Vermont | - | - | - | - | - | - |
| New England | -2.6% | -3.9% | 11.6% | 3.7% | -1.9% | -6.5% |

SOURCE: Army Core of Engineers, Waterborne Commerce Statistics Center (WCSC) Feb 2008.
<http://www.iwr.usace.army.mil/ndc/wcsc/wcsc.htm>

Construction and Housing. In 2007, construction activity contributed 2.6 percent to the total Massachusetts Gross Domestic Product (GDP) when measured in 2000 chained dollars. The construction sector contributed 4.3 percent to state GDP in 2001. Overall loss between 2001 and 2007 was 1.6 percent in real dollars.

Housing Permits Authorized

| <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% |
| 2007 | 15,358 | -21.6% | 37,532 | -19.8% | 1,398,415 | -24.0% |

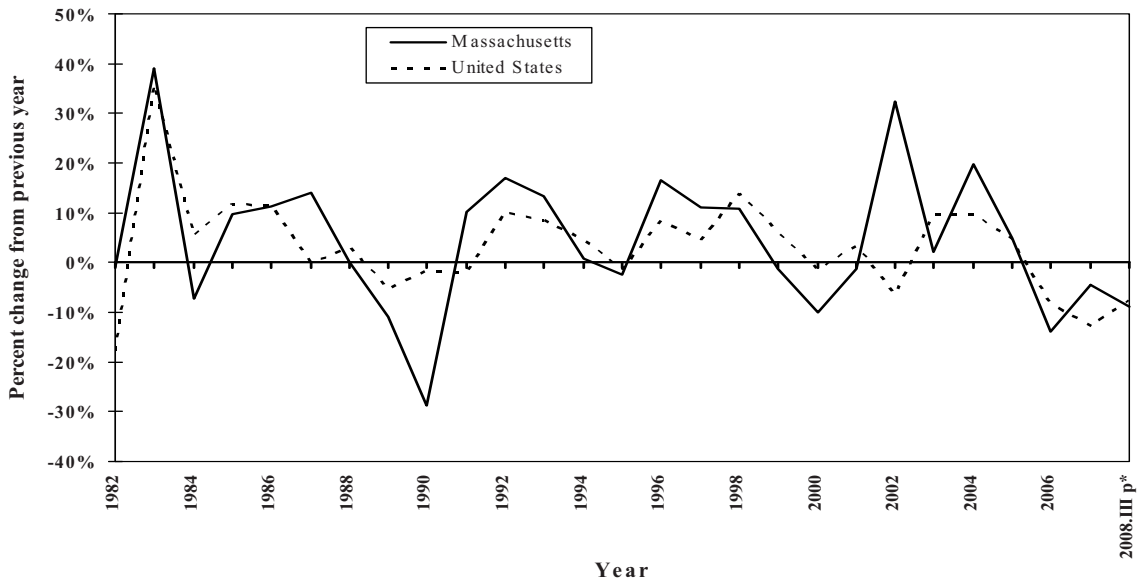
SOURCES: Federal Reserve Bank of Boston; United States Department of Commerce. June 2008.

Home Sales. Sales of existing single-family homes for Massachusetts and the U.S. 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
(Quarterly rates are seasonally adjusted, rates in thousands)

| Year | Massachusetts | | United States | |
|-------------|---------------|----------|---------------|----------|
| | Sales | % Change | Sales | % Change |
| 1981 | 43.0 | | 2,575.0 | |
| 1985 | 60.2 | 40.2% | 3,382.5 | 31.4% |
| 1990 | 48.6 | -19.4% | 3,603.5 | 6.5% |
| 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% |
| 2004 | 141.7 | 19.8% | 6,778.0 | 9.8% |
| 2005 | 148.6 | 4.9% | 7,076.0 | 4.4% |
| 2006 | 128.1 | -13.8% | 6,478.0 | -8.5% |
| 2007 | 122.4 | -4.4% | 5,652.0 | -12.8% |
| 2007.III | 120.8 | | 5,457.0 | |
| 2008.III p* | 110.0 | -8.9% | 5,037.0 | -7.7% |

Change in Existing Home Sales
Massachusetts and the United States



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

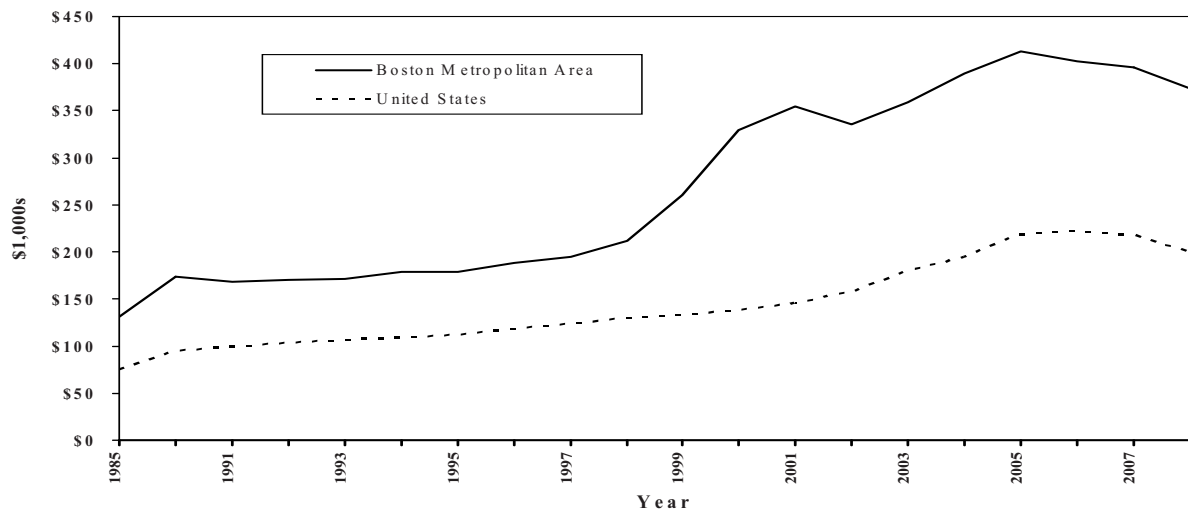
Median Home Prices. Median sales price of existing single-family homes for the Boston metropolitan area and the United States are presented in the following chart and graph.

Median Sales Price for Existing Single-Family Homes

(Quarterly price not seasonally adjusted, price in thousands)

| <i>Year</i> | <i>Boston Metropolitan Area</i> | <i>United States</i> | <i>Boston Prices as a Percent of the U.S.</i> | <i>Boston Annual Percent Change</i> | <i>U.S. Annual Percent Change</i> |
|-------------|---------------------------------|----------------------|---|-------------------------------------|-----------------------------------|
| 1985 | \$131 | \$75 | 173.7% | 33.5% | 4.0% |
| 1990 | \$174 | \$95 | 182.6% | -4.2% | 2.3% |
| 1991 | \$169 | \$99 | 169.5% | -3.0% | 4.4% |
| 1992 | \$171 | \$104 | 164.6% | 1.2% | 4.2% |
| 1993 | \$171 | \$107 | 160.9% | 0.5% | 2.8% |
| 1994 | \$179 | \$109 | 164.7% | 4.4% | 2.1% |
| 1995 | \$179 | \$113 | 158.6% | -0.2% | 3.7% |
| 1996 | \$189 | \$119 | 158.7% | 5.7% | 5.6% |
| 1997 | \$195 | \$124 | 157.1% | 3.0% | 4.0% |
| 1998 | \$212 | \$130 | 162.9% | 8.9% | 5.1% |
| 1999 | \$261 | \$133 | 196.2% | 23.1% | 2.2% |
| 2000 | \$330 | \$138 | 238.3% | 26.4% | 4.1% |
| 2001 | \$355 | \$146 | 242.4% | 7.6% | 5.8% |
| 2002 | \$335 | \$158 | 212.1% | -5.5% | 8.0% |
| 2003 | \$359 | \$180 | 198.9% | 6.9% | 14.0% |
| 2004 | \$390 | \$195 | 199.6% | 8.7% | 8.3% |
| 2005 | \$413 | \$219 | 188.7% | 6.0% | 12.2% |
| 2006 | \$402 | \$222 | 181.3% | -2.7% | 1.3% |
| 2007 | \$396 | \$218 | 181.6% | -1.6% | -1.8% |
| 2007.III | \$415 | \$220 | 188.2% | | |
| 2008.III p* | \$373 | \$201 | 186.2% | -10.0% | -9.0% |

*Median Sales Price, Existing Single-Family Homes
U.S. and Boston Metropolitan Area*

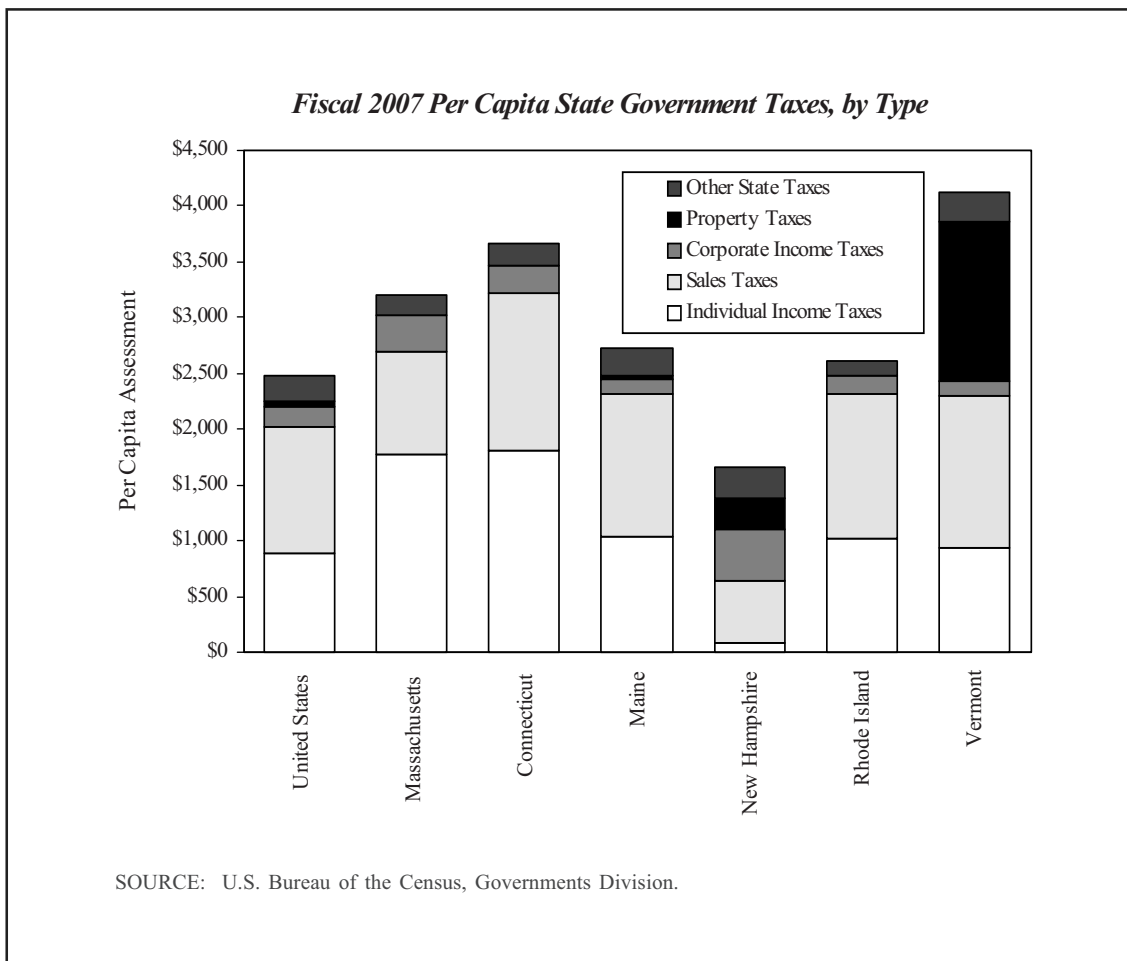


SOURCES: National Association of Realtors. Federal Reserve Bank of Boston,
p= preliminary, r=revised, *=change from previous year's quarter.

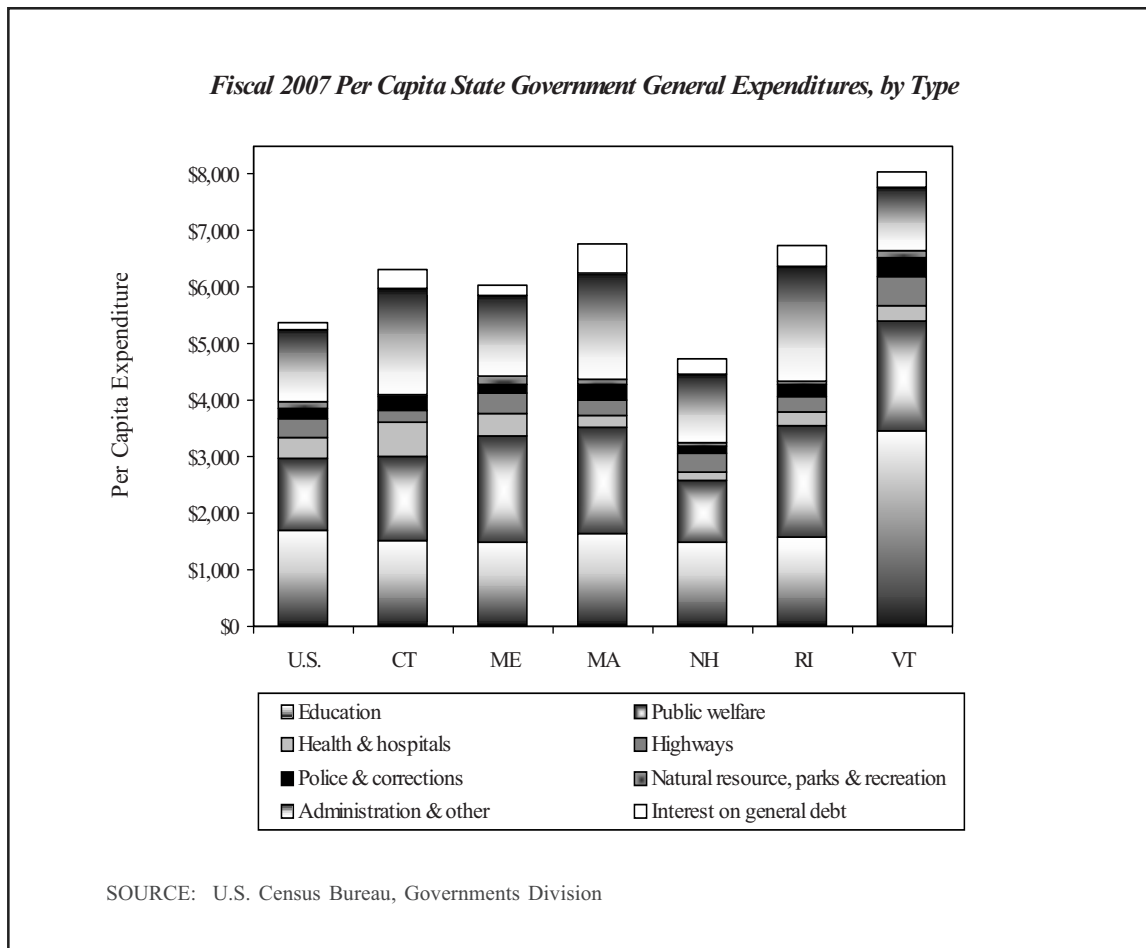
Travel and Tourism. In 2007, the arts, entertainment, recreation and accommodations industries contributed 3.1 percent to Massachusetts total GDP (real 2000 dollars). The Massachusetts Office of Travel and Tourism (MOTT) reported an annual increase of 0.1 percent in museum and attraction attendance, 11.9 million visitors, in 2007. August 2008 museum and attraction attendance was up 5.9 percent compared to August 2007 while the August 2008 year-to-date attendance was up 3.5 percent compared to August 2007.

State Taxes. Per capita state taxes in Massachusetts were significantly higher, 28.8 percent, than the national average. In fiscal year 2007, the total per capita state tax bill in the United States was \$2,487. Citizens of the Commonwealth however, paid \$3,204 on average, the tenth highest (ninth last year) in the nation and an increase of 6.3 percent from the previous year's \$3,013. In New England, citizens in Connecticut and Vermont paid more per capita, and all New England states except New Hampshire (49th) ranked in the top third for per capita state tax collections.

In fiscal year 2007, over half, 55.2 percent, of the state taxes in Massachusetts came from the state income tax. Per capita individual income taxes in Massachusetts were \$1,767, up 8.5 percent from \$1,629 in fiscal year 2006. Also increasing in fiscal year 2007 were sales receipts at 1.0 percent and corporate net income at 13.1 percent. Other taxes (licenses, death and gift, and documentary and stock transfer) increased 4.0 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 2007 per capita state general expenditures by category for the six New England states and the U.S. average state expenditure. Massachusetts ranked 8th in the nation in per capita expenditures, \$6,779 in 2007 while it ranked 11th and spent \$6,198 in 2006. This represents a 9.4 percent increase in per capita expenditures from 2006 to 2007 with the largest per capita dollar increase in education. Massachusetts spent more state funds per capita on debt service (\$518 in 2007 - 6.4 percent more than the previous year). This spending is greater than that of the other New England states.



Fiscal 2007 Per Capita State Government General Expenditures, by Type
For the U.S. and the New England States

| <i>General expenditures, by function</i> | <i>U.S.</i> | <i>CT</i> | <i>ME</i> | <i>MA</i> | <i>NH</i> | <i>RI</i> | <i>VT</i> |
|---|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Education | \$1,693 | \$1,525 | \$1,502 | \$1,640 | \$1,476 | \$1,580 | \$3,466 |
| Public welfare | \$1,293 | \$1,467 | \$1,855 | \$1,877 | \$1,099 | \$1,979 | \$1,936 |
| Health & hospitals | \$349 | \$610 | \$403 | \$227 | \$152 | \$244 | \$271 |
| Highways | \$339 | \$212 | \$378 | \$267 | \$334 | \$251 | \$535 |
| Police & corrections | \$195 | \$249 | \$153 | \$274 | \$121 | \$227 | \$309 |
| Natural resource, parks & recreation | \$92 | \$43 | \$143 | \$87 | \$58 | \$50 | \$135 |
| Administration & other | \$1,280 | \$1,883 | \$1,413 | \$1,890 | \$1,216 | \$2,039 | \$1,129 |
| Interest on general debt | \$134 | \$326 | \$181 | \$518 | \$277 | \$359 | \$257 |
| Total | \$5,377 | \$6,316 | \$6,028 | \$6,779 | \$4,732 | \$6,730 | \$8,038 |
| State's rank of total per capita expenditures | | 13 | 16 | 8 | 35 | 9 | 3 |

SOURCE: U.S. Census Bureau, Governments Division

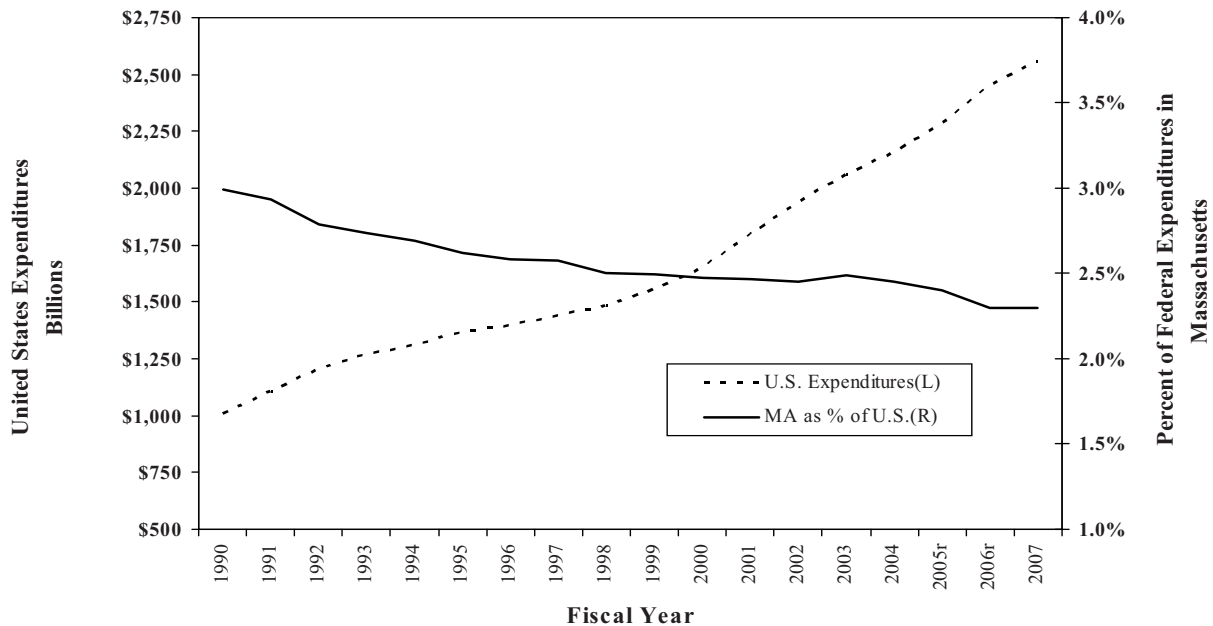
**Massachusetts Per Capita State Government General Expenditures, by Type
FY2000-2007**

| <i>General expenditures, by function</i> | <i>2000</i> | <i>2001</i> | <i>2002</i> | <i>2003</i> | <i>2004</i> | <i>2005</i> | <i>2006</i> | <i>2007</i> |
|--|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Education | \$890 | \$1,026 | \$1,020 | \$1,055 | \$1,183 | \$1,346 | \$1,401 | \$1,640 |
| Public welfare | \$1,030 | \$1,135 | \$932 | \$824 | \$1,647 | \$1,719 | \$1,843 | \$1,877 |
| Health & hospitals | \$308 | \$363 | \$377 | \$372 | \$172 | \$177 | \$187 | \$227 |
| Highways | \$439 | \$400 | \$427 | \$378 | \$471 | \$276 | \$261 | \$267 |
| Police & corrections | \$191 | \$213 | \$223 | \$230 | \$215 | \$222 | \$248 | \$274 |
| Natural resource, parks & recreation | \$58 | \$88 | \$86 | \$95 | \$90 | \$76 | \$81 | \$87 |
| Administration & other | \$1,392 | \$1,473 | \$1,630 | \$1,755 | \$1,815 | \$1,660 | \$1,690 | \$1,890 |
| Interest on general debt | \$335 | \$371 | \$418 | \$386 | \$401 | \$435 | \$487 | \$518 |
| Total | \$4,643 | \$5,067 | \$5,115 | \$5,095 | \$5,994 | \$5,911 | \$6,198 | \$6,779 |

SOURCE: US Census Bureau, Governments Division.

Federal Government Spending in Massachusetts. Federal government spending contributes significantly to the Massachusetts economy. In fiscal 2007, Massachusetts ranked twelfth among states in per capita distribution of federal funds, with total spending of \$9,462 per person, excluding loans and insurance. Massachusetts ranked fifteenth in fiscal 2006. While federal spending in Massachusetts has increased every year since 1990, its share of total U.S. spending has declined steadily since 1990. 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.

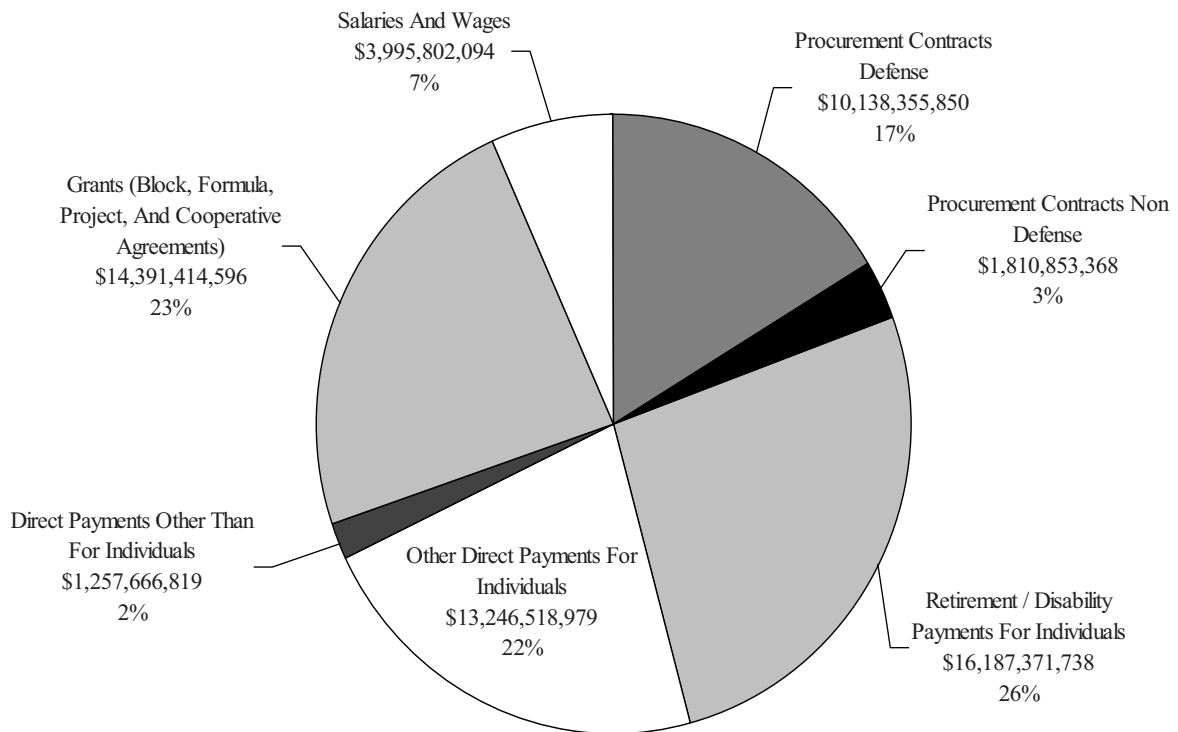
**Total Federal Expenditures and Percentage of
Federal Expenditures in Massachusetts**



SOURCE: Consolidated Federal Funds Report for Fiscal Year 2007. <http://harvester.census.gov/cffr/index.html>

Half of FY 2007 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 37 percent above the national average in per capita federal grants to state and local governments, receiving \$2,231 per capita compared to a national average of \$1,624. Per capita federal spending on salaries and wages in 2007 was 25 percent lower in Massachusetts than in the rest of the nation at \$620 compared to a national average of \$825, but Massachusetts was 6 percent above the national average in per capita direct federal payments to individuals at \$4,759 compared to a national average of \$4,498. Massachusetts ranked 9th, 12th in 2006, among states in per capita procurement contract awards at \$1,853 compared to a national average of \$1,393 in 2007. The following chart shows the composition of direct federal spending within Massachusetts in fiscal 2007, excluding loans and insurance.

Composition of \$61 Billion Direct Federal Spending in Massachusetts by Program - Fiscal Year 2007



SOURCE: U.S. Census Bureau, Consolidated Federal Funds Report: FY 2007.

Federal Contracts. The total dollar value of all federal contracts performed in Massachusetts increased an average of 11.1 percent a year since 2000, similar to the U.S. average of 11.3 percent. The following two pages compare Massachusetts federal contract dollars to the U.S. total and summarize the period from fiscal year 2000, most of fiscal 2008 and a little of the first quarter of 2009.

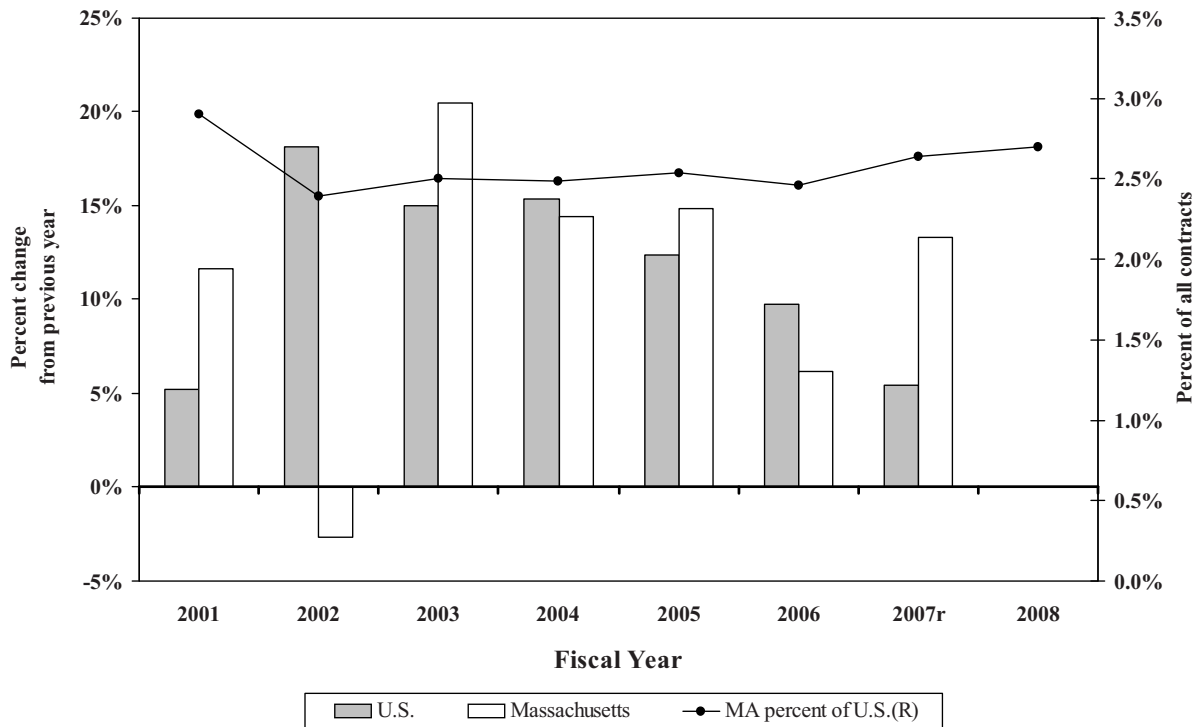
Federal Contracts Performed in Massachusetts and the U.S.

| Year | Massachusetts | MA percent increase from previous year | MA portion of all | U.S. | U.S. percent increase from previous year |
|----------|-----------------|--|-------------------|-------------------|--|
| 2000 | \$5,713,505,463 | | 2.7% | \$208,840,867,387 | |
| 2001 | 6,380,163,118 | 11.7% | 2.9% | 219,801,616,396 | 5.2% |
| 2002 | 6,209,687,064 | -2.7% | 2.4% | 259,595,354,560 | 18.1% |
| 2003 | 7,480,679,804 | 20.5% | 2.5% | 298,514,185,587 | 15.0% |
| 2004 | 8,557,401,479 | 14.4% | 2.5% | 344,441,316,185 | 15.4% |
| 2005 | 9,831,281,411 | 14.9% | 2.5% | 387,076,298,315 | 12.4% |
| 2006 | 10,438,625,342 | 6.2% | 2.5% | 424,694,644,428 | 9.7% |
| 2007r | 11,831,199,106 | 13.3% | 2.6% | 447,698,184,091 | 5.4% |
| 2008* | 9,930,875,388 | | 2.7% | 368,409,402,172 | |
| 2009 1Q* | 807,346 | | 0.4% | 200,762,751 | |

SOURCE: <http://www.usaspending.gov>.

*Note: FY 2008 incomplete. FY 2009 is partial data for the first quarter. January 15, 2009. r=revised

Massachusetts Share of Federal Contracts Grows



SOURCE: <http://www.usaspending.gov>.

Summary of Federal Contracts Performed in Massachusetts

Fy 2000 To Q1-2009

Total Dollars: \$76,374,225,520

This State Is Ranked 10 Among States For All Years.

Total Number Of Contractors: 14,242

Total Number Of Transactions: 603,403

Top 5 Products Or Services Sold

| | |
|--|-----------------|
| Gas Turbines And Jet Engines, Aircraft; Prime Moving, And Components | \$8,188,316,026 |
| Engineering -- Advanced Development (R&D) | \$3,187,581,878 |
| Other Research And Development -- Advanced Development (R&D) | \$2,406,413,634 |
| Miscellaneous Communication Equipment | \$2,379,232,907 |
| Other Research And Development -- Engineering Development (R&D) | \$2,285,932,442 |

Top 5 Contracting Agencies Purchasing From Contractor(S)

| | |
|---|------------------|
| Navy, Department Of The | \$23,205,961,226 |
| Army, Department Of The (Except Corps Of Engineers Civil Program Financing) | \$19,345,807,079 |
| Air Force, Department Of The (Headquarters, Usaf) | \$15,619,720,809 |
| Defense Logistics Agency | \$2,543,372,934 |
| Veterans Affairs, Department Of | \$2,262,134,668 |

Top 10 Contractors

| | |
|---|------------------|
| Raytheon Company | \$15,480,078,136 |
| General Dynamics Corporation | \$10,601,909,470 |
| General Electric Company | \$9,353,701,375 |
| Massachusetts Institute Of Technology | \$4,399,558,298 |
| The Charles Stark Draper Laboratory Inc | \$2,463,496,336 |
| The Mitre Corporation | \$2,264,331,603 |
| Textron Inc. | \$1,545,516,419 |
| L-3 Communications Holdings, Inc. | \$932,231,865 |
| Bae Systems Plc | \$824,240,650 |
| Amerisourcebergen Corporation | \$769,934,540 |

SOURCE: <http://www.usaspending.gov>. Revised as of January 15, 2009.

Federal Contracts Performed in Massachusetts in:

Fiscal Year: 2008

Total Dollars: \$9,930,875,388

The Amount For This Search Is 2.7% Of All Awarded Dollars For The Fiscal Year.

This State Is Ranked 10 Among States For This Year.

Total Number Of Contractors: 5,850

Total Number Of Transactions: 110,703

Top 5 Products Or Services Sold

| | |
|---|---------------|
| Engineering -- Advanced Development (R&D) | \$852,057,925 |
| Gas Turbines And Jet Engines, Aircraft; Prime Moving, And Components | \$783,978,668 |
| Defense Electronics And Communication Equipment -- Basic Research (R&D) | \$607,086,122 |
| Guided Missile Warheads And Explosive Components | \$473,712,983 |
| Adpe System Configuration | \$388,684,655 |

Top 5 Contracting Agencies Purchasing From Contractor(S)

| | |
|---|-----------------|
| Navy, Department Of The | \$3,136,612,516 |
| Army, Department Of The (Except Corps Of Engineers Civil Program Financing) | \$2,889,519,673 |
| Air Force, Department Of The (Headquarters, Usaf) | \$1,612,723,060 |
| Missile Defense Agency | \$390,069,533 |
| Veterans Affairs, Department Of | \$236,067,985 |

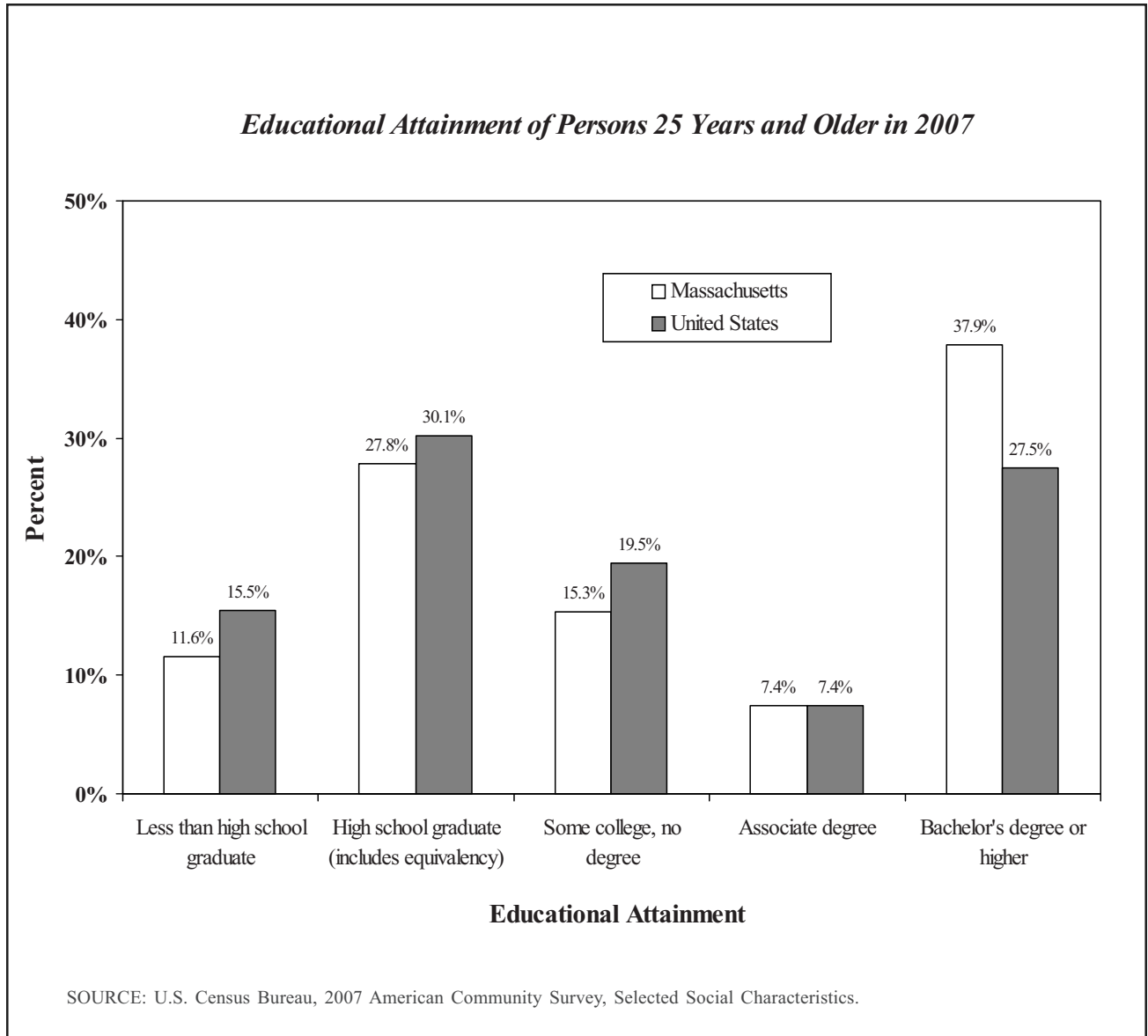
Top 10 Contractors

| | |
|---|-----------------|
| Raytheon Company | \$2,889,233,133 |
| General Dynamics Corporation | \$1,302,549,282 |
| General Electric Company | \$995,651,218 |
| Massachusetts Institute Of Technology | \$603,482,068 |
| The Charles Stark Draper Laboratory Inc | \$330,358,456 |
| The Mitre Corporation | \$313,737,269 |
| Bae Systems Plc | \$227,906,746 |
| Mckesson Corporation | \$133,729,047 |
| Bbn Technologies Corp | \$116,385,842 |
| Textron Inc. | \$113,107,355 |

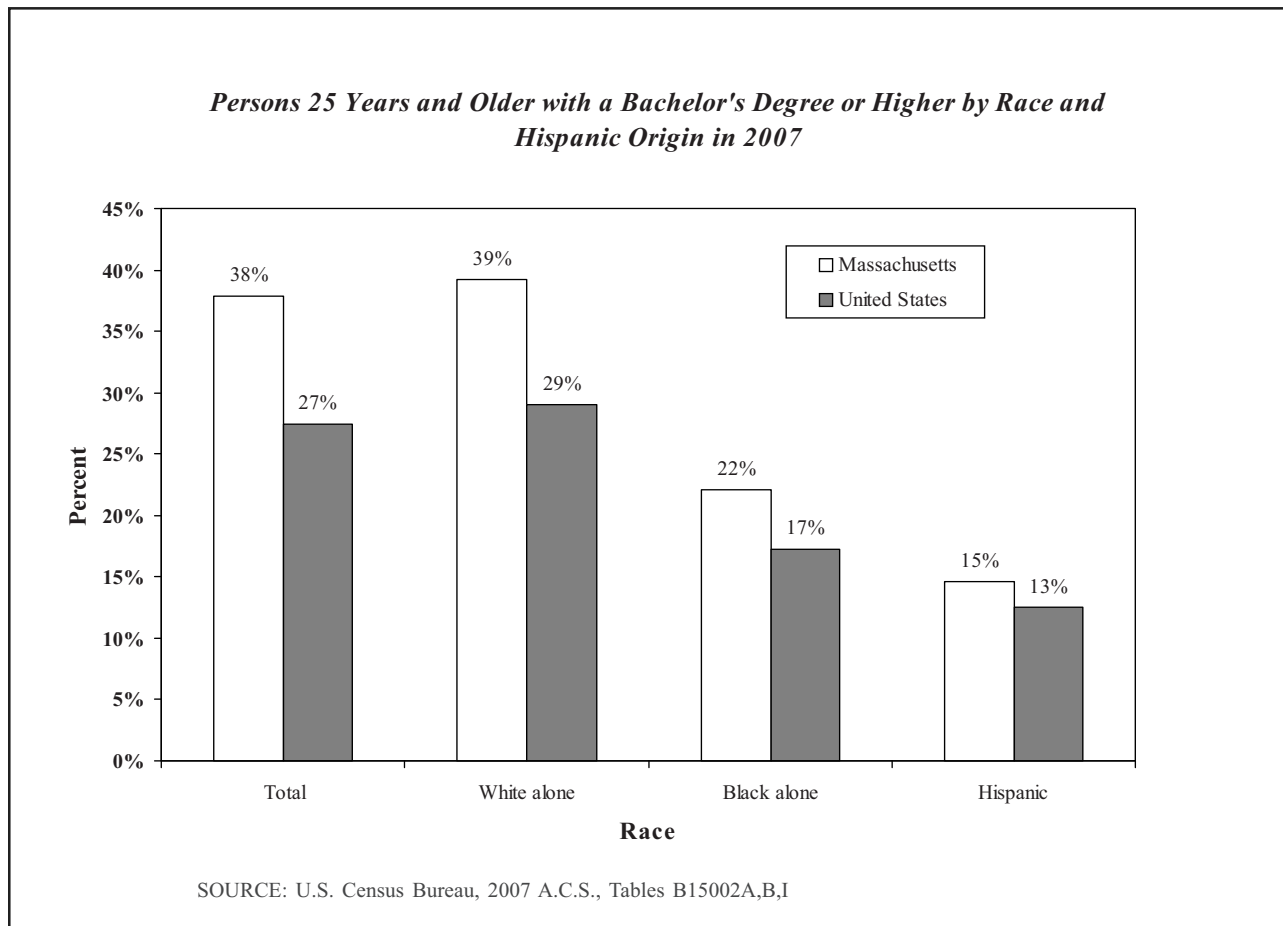
SOURCE: <http://www.usaspending.gov>. Revised as of January 15, 2009.

HUMAN RESOURCES

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 2007, the Census Bureau's American Community Survey (ACS) reported that Massachusetts had a smaller proportion of persons who had not completed high school, 11.6 percent, than the national average, 15.5 percent. Massachusetts had a much higher proportion of persons with a bachelor's degree or more, 37.9 percent, than the nation, 27.5 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 enrolled 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 2007

| | Total | White alone | Black alone | Asian alone | Other race | Hispanic or Latino |
|---------------|------------|-------------|-------------|-------------|------------|--------------------|
| United States | 20,793,948 | 71.0% | 14.0% | 6.9% | 8.2% | 11.7% |
| Massachusetts | 524,147 | 77.9% | 8.6% | 8.0% | 5.5% | 6.4% |

Source: U.S. Census Bureau, 2007 A.C.S., Tables B14001, B14001 A,B,D,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 the Institute of International Education, 31,683 foreign students were enrolled in Massachusetts colleges and universities in the 2007/2008 school year. This was an increase of 3,003 and 10.5 from the previous year. Massachusetts is still ranked 4th among states for foreign student enrollment.

The Massachusetts public higher education system is composed of universities, state colleges, and community colleges on 29 campuses with a combined enrollment of 263,836 students in the 2006-07 school year. The system awarded 31,986 degrees in the 2007-08 school year. In addition, Massachusetts has a system of private higher education that accounted for over half of the total enrollment in Massachusetts in 2005. 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 1,724 science and engineering doctorates awarded in 2006, 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 post doctorates in doctorate granting institutions in 2006, with 6,670 post doctorates.

The preeminence 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 or \$2.2 billion of total national academic expenditures on Research and Development in fiscal 2006. Massachusetts is still ranked sixth in the nation behind California, New York, Texas, Maryland and Pennsylvania.

Life sciences receive almost half of the research and development funds performed at Massachusetts educational institutions. Of the \$2.2 billion in total fiscal 2006 outlays for science and engineering research to universities and colleges in Massachusetts, 49.0 percent was for life sciences, 17.7 percent for engineering, 12.1 percent for physical sciences, 8.9 percent for environmental, 4.7 percent for math and computer, 3.8 percent for social sciences, 2.1 percent for other sciences and 1.8 percent for psychology. Massachusetts ranked 6th in the nation in 2006 for research and development funds performed at educational institutions.

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 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 31 percent more per pupil on primary and secondary education than the national average since 1981. During the 2005-2006 school year, Massachusetts increased per student expenditures to \$11,981; 31 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
(in current, unadjusted dollars)

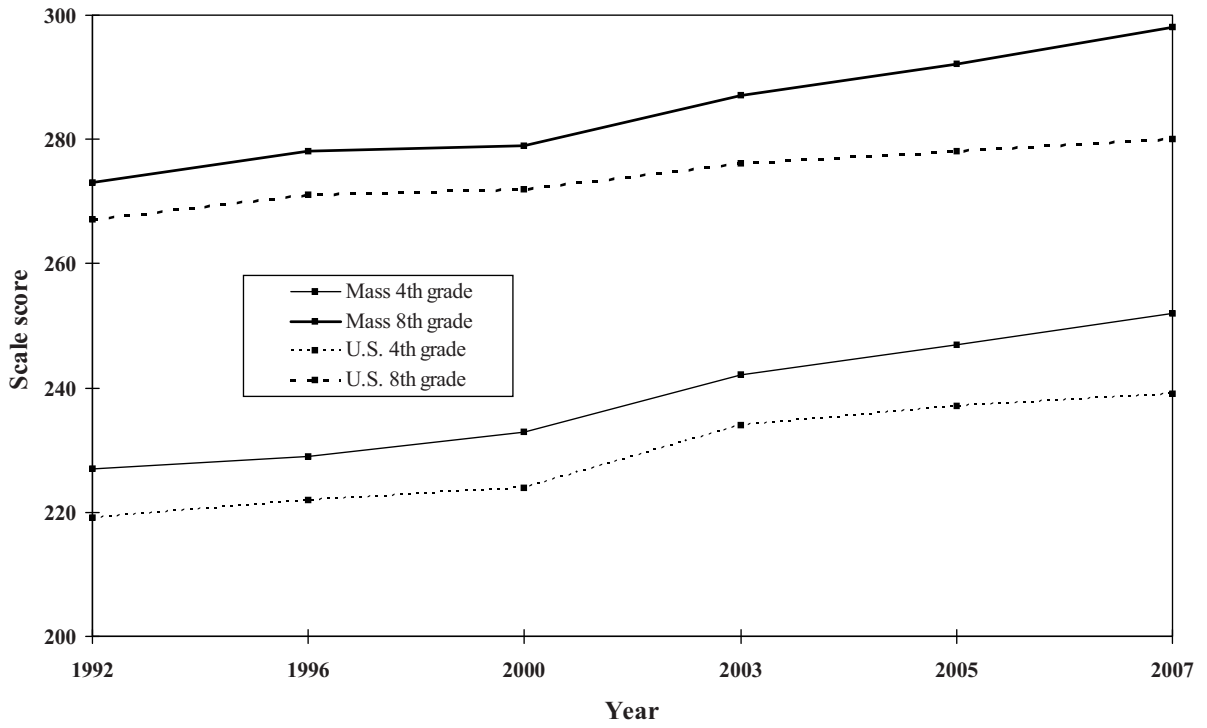
| <i>Fiscal Year</i> | <i>Massachusetts</i> | <i>United States</i> | <i>Ratio (MA/U.S.)</i> |
|--------------------|----------------------|----------------------|------------------------|
| 1981 | \$2,735 | \$2,307 | 1.19 |
| 1982 | 2,823 | 2,525 | 1.12 |
| 1983 | 3,072 | 2,736 | 1.12 |
| 1984 | 3,298 | 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 |
| 2006 | 11,981 | 9,138 | 1.31 |

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

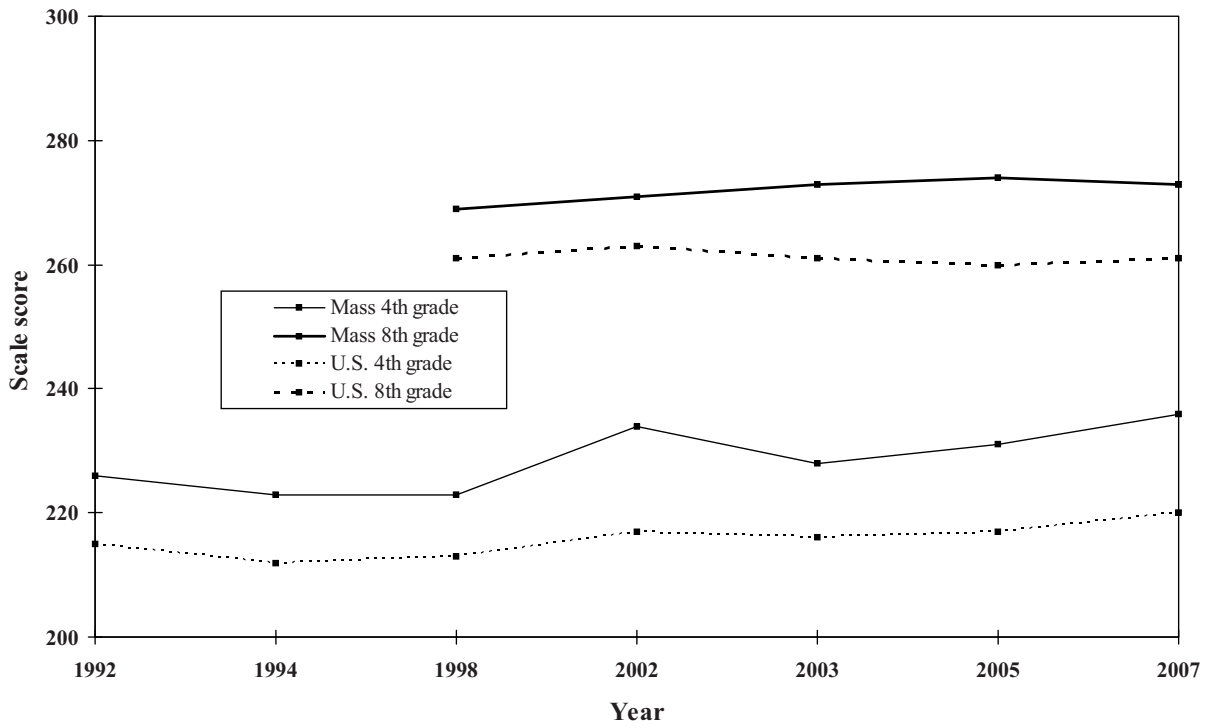
The National Assessment of Educational Progress (NAEP), also known as "the Nation's Report Card," is the only nationally representative and continuing assessment of what America's students know and can do in various subject areas. Since 1969, assessments have been conducted periodically in reading, mathematics, 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



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.gov/regional/index.htm>

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

Mass. Executive Office of Labor and Workforce Development, Division of Unemployment Assistance

<http://lmi2.detma.org/Lmi/LMIDataProg.asp>

U.S. Department of Labor, Bureau of Labor Statistics

<http://www.bls.gov/data/home.htm>

Economic Base and Performance

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

<http://www.bea.gov/regional/index.htm>

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.gov/regional/index.htm>

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>

Federal Spending - contract, grant, and other award data.

<http://www.usaspending.gov>

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.iee.org>

TABLE OF REFUNDED OBLIGATIONS**

The following list of obligations expected to be refunded from the proceeds of the Refunding Bonds is not final and is subject to change prior to the issuance of the Refunding Bonds. The Commonwealth reserves the right not to refund any or all of the obligations listed in this Appendix B and to refund obligations not listed in this Appendix B, including without limitation general obligation bonds of the Commonwealth.

Certificates of Participation (Plymouth County Correctional Facility Project) Series 1999:

| <u>Maturity Date</u> | <u>Amount</u> | <u>Coupon</u> |
|----------------------|---------------|---------------|
| April 1, 2009 | \$2,655,000 | 4.50% |
| October 1, 2009* | 2,710,000 | 4.50 |
| April 1, 2010* | 2,775,000 | 4.50 |
| October 1, 2010* | 2,830,000 | 4.50 |
| April 1, 2011* | 2,905,000 | 4.70 |
| October 1, 2011* | 2,965,000 | 4.70 |
| April 1, 2012* | 3,035,000 | 4.80 |
| October 1, 2012* | 3,110,000 | 4.80 |
| April 1, 2013* | 3,185,000 | 5.125 |
| October 1, 2013* | 3,265,000 | 5.125 |
| April 1, 2014* | 3,350,000 | 5.125 |
| October 1, 2014* | 3,440,000 | 5.125 |
| April 1, 2015* | 3,525,000 | 5.00 |
| October 1, 2015* | 3,610,000 | 5.00 |
| October 1, 2018* | 23,685,000 | 5.125 |
| April 1, 2022* | 32,525,000 | 5.000 |

* To be redeemed on April 1, 2009** at a call price of 102%.

**Preliminary; subject to change.

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PROPOSED FORM OF BOND COUNSEL OPINION

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

EDWARDS ANGELL PALMER & DODGE LLP

111 Huntington Avenue Boston, MA 02199 617.239.0100 fax 617.227.4420 eapdlaw.com

[Date of Delivery]

The Honorable Timothy P. Cahill
Treasurer and Receiver-General
The Commonwealth of Massachusetts
State House - Room 227
Boston, Massachusetts 02133

\$ _____
The Commonwealth of Massachusetts
General Obligation Bonds, Consolidated Loan of 2009, Series A,
and
\$ _____ The Commonwealth of Massachusetts
General Obligation Refunding Bonds, 2009 Series A
(together, the "Bonds")
Dated Date of Delivery

We have acted as bond counsel to The Commonwealth of Massachusetts (the "Commonwealth") in connection with the issuance by the Commonwealth of the above-referenced Bonds. In such capacity, we have examined the law and such certified proceedings and other papers as we have deemed necessary to render this opinion.

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

Based on our examination, we are of the opinion, under existing law, as follows:

1. The Bonds are valid general obligations of the Commonwealth and the full faith and credit of the Commonwealth are pledged for the payment of the principal of and interest on the Bonds. It should be noted, however, that Chapter 62F of the General Laws of the Commonwealth 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.

2. Interest on the Bonds is excluded from the gross income of the owners of the Bonds for federal income tax purposes. In addition, interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes. However, such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. In rendering the opinions set forth in this paragraph, we have assumed compliance by the Commonwealth with all requirements of the Internal Revenue Code of 1986 that must be satisfied subsequent to the

issuance of the Bonds in order that interest thereon be, and continue to be, excluded from gross income for federal income tax purposes. The Commonwealth has covenanted to comply with all such requirements. Failure by the Commonwealth to comply with certain of such requirements may cause interest on the Bonds to become included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds.

3. 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 regarding any other Massachusetts tax consequences arising with respect to the Bonds or any tax consequences arising with respect to the Bonds under the laws of any state other than Massachusetts.

This opinion is expressed as of the date hereof, and we neither assume nor undertake any obligation to update, revise, supplement or restate this opinion to reflect any action taken or omitted, or any facts or circumstances or changes in law or in the interpretation thereof, that may hereafter arise or occur, or for any other reason.

The rights of the holders of the Bonds and the enforceability of the Bonds may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable, and their enforcement may also be subject to the exercise of judicial discretion in appropriate cases.

EDWARDS ANGELL PALMER & DODGE LLP

The Commonwealth of Massachusetts

\$ _____
 General Obligation Bonds
 Consolidate Loan of 2009, Series A

\$ _____
 General Obligation Refunding Bonds
 2009 Series A

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. Effective July 1, 2009, the sole NRMSIR within the meaning of the Rule will be the Municipal Securities Rulemaking Board (the “MSRB”). 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 August 22, 2008 (the “Information Statement”), as it appears as Appendix A in the Official Statement dated September 4, 2008 of the Commonwealth with respect to its \$652,790,000 General Obligation Bonds, Consolidated Loan of 2008, Series A, which Official Statement has been filed with each NRMSIR and with 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” |

| Financial Information and Operating Data Category | | Reference to Information Statement for Level of Detail |
|--|--|--|
| 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” |
| 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 EXPENDITURES” |
| 6. | Summary presentation of the then-current, statutorily imposed funding schedule for future Commonwealth pension liabilities, if any | “COMMONWEALTH EXPENDITURES - Pension” |
| 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 INVESTMENT PLAN - Capital Investment 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 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” |
| 15. | Summary presentation of the then-current, Commonwealth interest rate swap agreements | “LONG-TERM LIABILITIES - Interest Rate Swaps” |

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

^{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.

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 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.



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