

**THE
COMMONWEALTH
OF
MASSACHUSETTS**



INFORMATION STATEMENT SUPPLEMENT

Dated December 4, 2008

[THIS PAGE INTENTIONALLY LEFT BLANK]

TABLE OF CONTENTS
INFORMATION STATEMENT SUPPLEMENT DATED DECEMBER 4, 2008

RECENT DEVELOPMENTS	A-1
Fiscal 2008	A-1
Fiscal 2009	A-2
Federal and other Non-Tax Revenues	A-5
Cash Flow	A-5
COMMONWEALTH REVENUES	A-6
Statutory Basis Distribution of Budgetary Revenues	A-6
COMMONWEALTH EXPENDITURES	A-8
Medicaid.....	A-9
Health Care Reform Legislation.....	A-10
Office of Disability and Community Services	A-10
Pension	A-10
SELECTED FINANCIAL DATA.....	A-11
Statutory Basis	A-11
LONG-TERM LIABILITIES	A-13
General Obligation Debt.....	A-13
Interest Rate Swaps.....	A-13
Budgetary Contract Assistance Liabilities	A-13
Contingent Liabilities	A-13
COMMONWEALTH CAPITAL INVESTMENT PLAN	A-14
Capital Investment Plan.....	A-14
LEGAL MATTERS	A-14
MISCELLANEOUS.....	A-16
CONTINUING DISCLOSURE.....	A-17
AVAILABILITY OF OTHER FINANCIAL INFORMATION	A-17

THE COMMONWEALTH OF MASSACHUSETTS



CONSTITUTIONAL OFFICERS

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

LEGISLATIVE OFFICERS

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

THE COMMONWEALTH OF MASSACHUSETTS
INFORMATION STATEMENT SUPPLEMENT

December 4, 2008

This supplement (“Supplement”) to the Information Statement of The Commonwealth of Massachusetts (the “Commonwealth”) dated August 22, 2008 (the “August Information Statement”) is dated December 4, 2008 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 December 4, 2008. 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 is the Statement of Economic Information as of September 30, 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, 2007. Specific reference is made to said Exhibits A, 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 is a consequence 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 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). 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 have 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 consists 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 is \$1.053 billion in spending reductions and controls. Approximately \$755 million in reductions are being made pursuant to Section 9C to accounts within state agencies under the Governor's control and through other spending controls. The other spending controls are 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 is being 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 would authorize \$50 million for snow and ice removal and place 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 version of the legislation enacted by the Legislature also would provide for a two-month tax amnesty program. The Department of Revenue estimates that a limited tax amnesty program would result in \$10 million to \$20 million of revenue. The Governor approved the legislation on November 7, 2008, except for the tax amnesty provisions, which he returned to the Legislature with proposed amendments. The amendments would provide the Department of Revenue with the discretion to decide which tax types and tax periods would be covered by a two-month tax amnesty. The Legislature has not yet acted on the proposed amendments.

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 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.

A projected loss of non-tax revenue, as well as tax collections through November that are below the year-to-date benchmark, has led to a potential additional \$80 million to \$125 million budget exposure in fiscal 2009. The Executive Office for Administration and Finance will continue to monitor closely both tax and non-tax revenue collections and take appropriate action, if necessary, to ensure a balanced budget.

State Taxes. Preliminary tax revenue collections for the first five months of fiscal 2009, ended November 30, 2008, totaled \$7.197 billion, a decrease of \$88.7 million, or 1.2%, compared to the same period in fiscal 2008. The following table shows the tax collections for the first five 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>	Tax Collections: Net of MBTA and MSBA
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 (2)	1,256.5	(59.3)	(4.5)	52.1	46.9	1,157.6
December						
January						
February						
March						
April						
May						
June						
Total (2)	\$7,196.9	(\$88.7)	(1.2)	\$301.5	\$253.9	\$6,641.6

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 \$88.7 million through November 30, 2008 is attributable in large part to a decrease of approximately \$126.2 million, or 22.7%, in corporate and business tax collections and a decrease of approximately \$56.5 million, or 3.2%, in sales tax collections, which are partially offset by changes in other revenues (net of refunds) and by a one-time estate tax payment of \$54 million received in early November. The year-to-date fiscal year 2009 collections (through November) were \$31 million below the benchmark estimate for the corresponding period, which was based on the Secretary of Administration and Finance’s fiscal 2009 revenue estimate of \$20.302 billion announced on October 15, 2008 (see “Tax Revenue Forecasting” below).

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*.”

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. The basis for this revenue revision is described below.

Economic forecasts for the remainder of fiscal 2009 have been revised sharply downward since mid-September due to the unfolding international financial crisis and its projected impact on the national and state economies. Both economic forecasters used by the Commonwealth in developing its revenue forecasts (Economy.com and Global Insight) assume that the United States is currently in a recession that will last through mid-2009.

The revised fiscal 2009 tax revenue forecast is based on the following economic assumptions:

- As measured by real gross domestic product (GDP), the economy saw no growth or contracted slightly in the third quarter of calendar year 2008 and is projected to decline over the next two quarters. GDP growth for all of fiscal 2009 is projected to be between 0.3% and 0.6%, compared to growth of 2.0% in fiscal 2007 and 2.4% in fiscal 2008;
- Massachusetts employment is expected to decline by 0.6% to 1.0% over the remainder of fiscal 2009, and by 0.4% to 0.7% for fiscal year 2009 as a whole;
- Massachusetts personal income (excluding capital gains) is expected to grow by only 1.6% to 2.9% over the remainder of fiscal 2009 and 2.2% to 3.3% for fiscal 2009 as a whole;
- Massachusetts wages and salaries are projected to grow by between 1.6% and 2.8% for the remainder of fiscal 2009 and 2.5% to 3.4% for the year as a whole;
- Massachusetts retail sales are expected to decline by 1.4% to 1.9% over the remainder of fiscal 2009 and by 1.0% to 1.2% for the fiscal year as a whole;
- Corporate profits at the national level are expected to decline by 4.8% to 9.4% over the remainder of fiscal 2009, and by 5.4% to 9.8% for the fiscal year as a whole. (There are no forecasts for state corporate profits);
- Due to the decline in the equity and real estate markets, Massachusetts capital gains taxes are projected to decline by close to 30% in fiscal 2009.

In addition to the economic assumptions described above, several other factors are expected to affect revenue growth over the remainder of fiscal 2009, compared to fiscal 2008.

- Over the final three quarters of fiscal 2008, the Commonwealth received approximately \$272 million in one-time corporate payments, which are not expected to recur in fiscal 2009;
- Large refunds that are \$50 million to \$100 million higher than usual will be paid out in October, 2008 and November, 2008 due to the impact of the financial crisis on financial industry profits;
- Tax revenue collections are projected to be increased by a net of approximately \$225 million due to tax corporate tax reform and other revenue initiatives.

In the first quarter of fiscal 2009, tax revenue collections grew by \$29 million, or 0.6%, but declined by 0.2% baseline (the baseline measure adjusts for tax law and processing changes that affect revenue collections) compared to the same period in fiscal 2008. Based on the economic assumptions and other factors described above, tax collections for the remainder of the fiscal 2009 are projected to decline by \$577 million, or 3.6%, actual and \$833 million, or 5.2%, baseline from the same period last year.

The Department of Revenue is currently reviewing revised economic forecasts in preparation for the development of a consensus tax revenue forecast for fiscal 2010 and an updated forecast for fiscal 2009, both of which are due by January 15, 2009 under state finance law. The House and Senate Committees on Ways and Means have scheduled a joint hearing for December 15, 2008 to receive expert testimony related to the tax revenue forecasts for fiscal 2009 and fiscal 2010. The updated economic forecasts reflect the continuing economic pressures affecting the national and state economies, which may result in a further lowering of the fiscal 2009 revenue estimate. See the August Information Statement under the heading "COMMONWEALTH REVENUES - Tax Revenue Forecasting."

Federal and other Non-Tax Revenues

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 is approximately \$41.3 million higher than the Lottery Commission's estimate of its operating revenues for fiscal 2009 of \$964.1 million. The Lottery Commission has submitted a revised spending plan for fiscal 2009 that reduces overall spending by \$3 million and is expected to reduce the expected deficiency to \$39.3 million.

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 incorporates 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 reports 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 is based on actual spending and revenue through October, 2008 and estimates for the remainder of fiscal 2009. The forecast takes into account the expenditure reductions and revised fiscal 2009 tax revenue estimate announced on October 15, 2008. See "Fiscal 2009." The forecast is also based on the five-year capital investment plan published in August, 2007 by the Executive Office for Administration and Finance. The forecast reflects the revised Lottery projections described above under "Federal and Other Non-Tax Revenues; *Lottery Revenues.*" The forecast assumes 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 shows an overall decline in the non-segregated cash balance from \$1.198 billion to \$1.128 billion. Several factors affect the overall decline in the cash balance, including general obligation bond proceeds received in fiscal 2008 which are 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 takes into account the cash flow borrowings that the Commonwealth has undertaken to date, 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 anticipates that the full \$1 billion of commercial paper will be outstanding at least through the end of March, 2009.

The December 3, 2008 projections, like previous projections, anticipate the issuance by the Commonwealth of \$1.9 billion in bonds in fiscal year 2009 to fund capital projects. In addition, there is

past capital spending that was not funded from the proceeds of bonds issued in prior fiscal years and therefore additional borrowing of approximately \$192.9 million will be necessary in fiscal year 2009 to reimburse these expenditures. To date, the Commonwealth has issued \$500 million in bonds in September, 2008 whose proceeds are being applied to capital spending. The cash flow forecast assumes 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 plans to issue bond anticipation notes in December, 2008 in the amount of approximately \$259 million for capital purposes.

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 (7)
Tax Revenues:						
Alcoholic Beverages	\$ 67.9	\$ 68.6	\$ 68.9	\$ 71.0	\$ 71.2	\$ 72.2
Banks	238.7	198.9	349.9	340.9	547.8	241.7
Cigarettes	425.4	423.6	435.3	438.1	436.9	466.7
Corporations	997.6	1,062.7	1,390.7	1,587.6	1,512.2	1,560.6
Deeds	187.0	220.3	210.1	194.1	153.9	129.4
Income	8,830.3	9,690.3	10,483.4	11,399.6	12,483.8	12,246.5
Inheritance and Estate	194.7	255.1	196.3	249.6	254.0	230.0
Insurance(2)	420.2	423.4	448.5	418.6	417.7	424.6
Motor Fuel	684.2	685.5	671.8	676.1	672.2	654.1
Public Utilities	64.7	71.1	118.5	178.3	120.2	87.1
Room Occupancy	88.9	97.8	105.8	111.1	119.2	119.9
Sales:						
Regular	2,591.6	2,746.6	2,864.7	2,927.7	2,952.2	2,932.4
Meals	531.7	555.6	584.1	608.7	632.9	660.5
Motor Vehicles	<u>625.8</u>	<u>584.2</u>	<u>555.5</u>	<u>531.1</u>	<u>501.6</u>	<u>473.0</u>
Sub-Total-Sales	3,749.2	3,886.4	4,004.3	4,067.5	4,086.7	4,065.9
Miscellaneous(3)	<u>4.2</u>	<u>3.9</u>	<u>4.0</u>	<u>3.8</u>	<u>3.1</u>	<u>3.4</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>20,302.0</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>18,832.6</u>
Non-Tax Revenues:						
Federal Reimbursements	5,098.5	4,697.0	5,210.1	6,167.6	6,429.5	7,167.7
Departmental and Other Revenues(5)	1,847.7	1,948.9	2,094.3	2,218.4	2,355.9	2,441.1
Inter-fund Transfers from Non - Budgeted Funds and Other Sources (6)	<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>2,702.4</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>12,311.2</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>\$31,143.8</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) Excludes intergovernmental revenues.
- (6) 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.
- (7) This table reflects the fiscal 2009 revised tax revenue estimate of \$20.302 billion.

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	\$5,328.1
Medicaid(3)	5,742.4	5,977.2	6,852.5	7,550.4	8,246.3	8,315.8
Other Health and Human Services	4,174.2	4,226.0	4,433.6	4,625.3	4,872.3	5,077.4
Group Insurance	787.6	846.4	963.7	1,022.3	852.5(8)	896.0
Dept. of Elementary and Secondary Education	394.0	476.7	408.6	459.0	485.8	595.4
Higher Education	831.3	915.0	987.8	1,115.7	1,084.4	1,033.3
Dept. of Early Education and Care	338.7	348.8	387.1	507.1	549.9	559.1
Public Safety(4)	1,203.2	1,206.5	1,288.0	1,399.2	1,265.4	1,473.8
Energy and Environmental Affairs	169.2	181.1	202.0	238.5	227.4	222.4
Debt Service	1,569.2	1,738.8	1,826.7	2,234.4	1,867.9	2,120.0
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>4,917.4</u>	<u>2,312.3</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>\$30,808.4</u>	<u>29,248.0</u>
Inter-fund Transfers to Non-budgeted Funds						
Commonwealth Care Trust Fund	-	-	-	722.1	1,047.7	1,037.8
State Retiree Benefit Trust Fund	-	-	-	-	354.7	372.0
Medical Assistance Trust Fund	-	-	70.0	364.0	376.7	469.0
Other	<u>690.3</u>	<u>494.4</u>	<u>321.2</u>	<u>179.6</u>	<u>447.2</u>	<u>861.0</u>
<i>Sub Total</i>	<u>\$690.3</u>	<u>\$494.4</u>	<u>\$391.2</u>	<u>\$1,265.7</u>	<u>\$2,226.3</u>	<u>\$2,739.8</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>\$33,034.7</u>	<u>\$31,987.8</u>
Adjustment for items moved off budget(6)	(551.4)(7)	-	-	-	-	-
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>\$33,034.7</u>	<u>\$31,987.8</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 \$329.2 million, \$422.2 million, \$332.5 million and \$359.4 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) 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.
- (7) Includes \$150 million transferred from surplus for initial funding of grants by the MSBA.
- (8) 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.

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.

The Commonwealth is currently engaged with CMS on finalizing the documentation associated with this agreement in principle. During this time, the Commonwealth will continue to operate under a short-term extension of the agreement that was originally set to expire on June 30, 2008, and is currently authorized through December 5, 2008. The Commonwealth anticipates requesting and receiving an additional extension to allow for final clearance of documentation.

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)

<u>Valuation Date</u>	<u>Total Actuarial Accrued Liability</u>	<u>Actuarial Value of Assets(1)</u>	<u>Unfunded Accrued Liabilities</u>		<u>Valuation Date</u>
			<u>Unfunded Actuarial Liability(2)</u>	<u>Market Value of Unfunded Liability</u>	
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. 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	18,832.6(4)
Federal Reimbursements	5,098.5	4,697.0	5,210.1	6,167.6	6,429.5	7,167.7
Departmental and Other Revenues	1,847.7	1,948.9	2,094.3	2,218.4	2,355.9	2,441.1
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>2,702.4</u>
Budgeted Revenues and Other Sources	23,988.3	24,373.4	26,305.5	28,615.9	30,313.2	31,143.8
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>	<u>957.4</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>32,101.2</u>
<u>Expenditures and Uses</u>						
Programs and Services	22,158.0	23,284.7	25,193.4	27,657.2	28,630.2	29,248.0
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>2,739.8</u>
Budgeted Expenditures and Other Uses	22,848.3	23,779.1	25,584.6	28,922.9	30,808.4	31,987.8
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>957.4</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>32,945.2</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>(844.0)</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	1,671.0
Undesignated	<u>90.9</u>	<u>98.4</u>	<u>106.2</u>	<u>114.7</u>	<u>115.1</u>	<u>113.5</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>\$1,800.1</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 \$20.302 billion, net of transfers to the MSBA and MBTA.

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).

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 are 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.*" The Commonwealth plans to refund the bonds with general obligation debt of the Commonwealth and terminate the related swap, using previously appropriated funds and other available funds related to the lease revenue bonds to pay termination costs. The August Information Statement is hereby corrected to note that a ratings downgrade of FSA would not, in fact, trigger termination costs under the swaps, because the FSA insurance covers only the bonds, not the swaps.

Route 3 North Transportation Improvements Association Commonwealth Lease Revenue Bonds. On November 19, 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 has been 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.

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*” are now subject to termination at the option of the Authority. The Turnpike Authority would owe a termination payment on each of these swaptions if they were to be terminated at this time. The Turnpike Authority is evaluating its options and has made no decision at this time regarding the Lehman swaptions. 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 December 2, 2008, the aggregate termination costs of the Turnpike Authority’s various swaps and swaptions are estimated (based on mid-market valuations) to be approximately \$479.4 million (\$420.0 million for the UBS swaps, \$44.4 million for the Lehman swaptions and \$15.0 million for the JPMorgan Chase Bank basis swap).

COMMONWEALTH CAPITAL INVESTMENT PLAN

Capital Investment Plan

The updated bond cap and debt affordability analysis and updated five-year capital investment plan are not yet finalized. They are expected to be completed in the near future. See the August Information Statement under the heading “COMMONWEALTH CAPITAL INVESTMENT PLAN - Capital Investment Plan.”

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.

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. In response to a notice of appeal filed by a group of class members who objected to the court-approved settlement agreement, the United States Court of Appeals for the First Circuit has asked all parties to brief the question whether that court has jurisdiction to hear the appeal, given that no final judgment has entered in the case. This case carries the potential for a prospective increase in annual program costs of more than \$20 million.

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 December 1, 2008. While DLC requests only injunctive relief, estimated increased program costs could amount to over \$25 million in the event of an adverse outcome.

Fleet Funding, Inc. & Fleet Funding II, Inc. v. Commissioner of Revenue, Appeals Court. The appellants and the Commissioner have filed their principal briefs, and the appellants' reply brief is currently due on December 2, 2008.

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 and the plaintiff's opposition memorandum to that motion is due on December 1, 2008. 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 is scheduled to occur on December 8, 2009. 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 F"), 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. The Court heard oral argument in Capital One's appeal from an adverse Appellate Tax Board ruling in October, 2008.

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. The global settlement allocates \$ 21 million to the Commonwealth's claim for damages in *Commonwealth et al. v. Bechtel Corp. et al.* The settlement agreement must be approved by the Bankruptcy Court before it is 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 matter is not described in the August Information Statement:

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. The litigation is currently in its initial stages, with the plaintiff having moved for a preliminary injunction and the defendants, including the state attorneys general, having moved to dismiss the complaint. All of these motions are expected to be decided later in December, 2008.

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

December 4, 2008