

2000, 2001

plan. This administrative policy has existed for several years, and the effect of debt service on the operating budget is depicted on the graph of Debt Service as a Percent of Governmental Expenditures.

In fiscal year 1997, Standard and Poor's upgraded the rating for the Commonwealth's General Obligation Debt from "A+" to "AA-". The effect of the capital spending plan policy, the acceleration of funding of the Commonwealth's pension liability and the string of operating surpluses were cited as reasons for the upgrade. The current credit ratings from Moody's is Aa2 and Fitch Investor Services is AA-.

As authorized by state finance law, the State Treasurer may utilize short-term borrowing to support governmental cash flow. Other debt consists of certificates of participation and capital lease agreements. Such financing arrangements are used to acquire capital assets, for example computer equipment and motor vehicles. The Commonwealth continued to utilize this form of financing in fiscal year 2001.

Additional information on Commonwealth debt, including guaranteed debt of independent public authorities, is presented in Notes 7, 8, and 12 to the general purpose financial statements.

During fiscal year 2001, the Commonwealth issued a significant amount of debt for various purposes. Details of the debt issuance are portrayed in the table Commonwealth Debt Issuance - Fiscal Year 2001. The Commonwealth also defeased debt through the use of \$650 million of transfers and operating surplus through the escrow and irrevocable trust with an escrow agent that purchased U. S. Government securities. Through this action, the Commonwealth defeased debt service payments of approximately \$624 million, plus related unamortized discount, during fiscal year 2001, with an additional \$33 million occurring on July 1, 2001. The savings from this defeasance was used to fund the CA / T pursuant to the finance plan passed during fiscal year 2000.

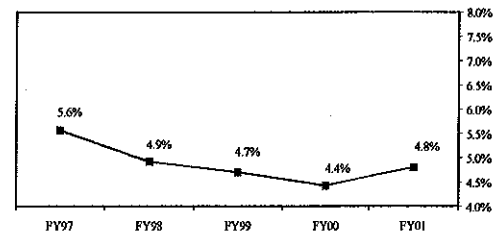
RISK FINANCING

The Commonwealth assumes the risk of loss for property damage and personal injury, breach of contract, condemnation proceedings, and other alleged violations of law, and is defended by the Attorney General's Office in such cases. In fiscal year 2001, approximately \$32 million was expended to settle such claims in special and existing appropriations. Based on the Attorney General's evaluation of cases in which it is probable that a judgment will be rendered against the Commonwealth, and a loss incurred, as well as future payments due from previously settled cases, an additional \$27.0 million has been accrued in the Governmental Funds at June 30, 2001.

ECONOMIC AND FINANCIAL PROSPECTS

Massachusetts and the rest of the nation are in the midst of a profound economic downturn exacerbated by the events of September 11th. Even though our Commonwealth is home to many world-renowned institutions of medicine and higher

Debt Service as a Percent of Governmental Expenditures



*Includes Defeased Debt Service in fiscal year 2001

Commonwealth Debt Issuance

Debt Outstanding as of June 30, 2000

\$12,383,101

New Debt

General Obligation Bonds including Fixed Rate, Variable Rate, Auction Rate, Demand Bonds and College Opportunity Bonds	1,752,198
Grant Anticipation Notes	577,605
Refund Bonds	964,645
Total New Debt Issued	3,294,448

Retired Debt

Refunded Debt	(911,270)
Defeased Debt with Cash	(638,853)
Retired Debt	(127,972)
Total Debt Retired	(1,678,095)
Net Debt Issued (Retired)	1,616,353

Debt Outstanding as of June 30, 2001

\$13,999,454

FY 2002

J. Statutory Debt Limit

The Massachusetts General Laws establish limits on the amount of governmental direct debt outstanding. By statutorily limiting the Commonwealth's ability to issue direct debt, this limit provides a control on annual capital spending. The direct debt limit for fiscal year 2002 was approximately \$11,630,307,000. Outstanding governmental debt subject to the limit at June 30, 2002 was approximately \$11,014,062,000. The limit increases 5% per year.

For purposes of determining compliance with the limit, outstanding direct debt is defined to include general obligation bonds and minibonds at the amount of their original net proceeds. It excludes BANs and discount and issuance costs, if any, financed by these bonds. It also excludes special obligation bonds, GANs, refunded bonds, certain refunding bonds, debt issued by counties, and debt issued in conjunction with the MBTA forward funding.

The amounts excluded from the governmental debt limit are as follows (amounts in thousands):

	Debt Outstanding
Balance, June 30, 2002.....	\$ 14,955,135
Less amounts excluded:	
Discount and issuance costs.....	(181,910)
Chapter 5 of the Acts of 1992 refunding.....	(22,043)
Special obligation principal.....	(772,812)
Grant anticipation notes principal.....	(1,500,000)
County debt assumed	(1,115)
Bonds sold for the MBTA forward funding	(625,000)
Bonds sold for the Central Artery / Tunnel Project	(838,193)
Outstanding direct debt subject to statutory debt limit	<u>\$ 11,014,062</u>

FY 2003

H. Statutory Debt Limit

The Massachusetts General Laws establish limits on the amount of direct debt outstanding. By statutorily limiting the Commonwealth's ability to issue direct debt, this limit provides a control on annual capital spending. The direct debt limit for FY03 was approximately \$12,211,823,000. Outstanding debt subject to the limit at June 30, 2003 was approximately \$11,566,472,000. The limit increases 5% per year.

For purposes of determining compliance with the limit, outstanding direct debt is defined to include general obligation bonds and minibonds at the amount of their original net proceeds. It excludes BANs and discount and issuance costs, if any, financed by these bonds. It also excludes special obligation bonds, GANs, refunded bonds, certain refunding bonds, debt issued by counties, and debt issued in conjunction with the MBTA forward funding.

The amounts excluded from the debt limit are as follows (amounts in thousands):

	<u>Debt Outstanding</u>
Balance June 30, 2003.....	\$ 15,962,506
Less amounts excluded:	
Discount and issuance cost.....	(68,718)
Chapter 5 of the Acts of 1992 Refunding.....	(10,600)
Special Obligation Principal.....	(748,124)
GANs Principal.....	(1,500,000)
County Debt Assumed.....	(855)
MBTA Forward Funding.....	(680,869)
Central Artery Tunnel.....	(1,386,868)
Outstanding Direct Debt.....	<u>\$ 11,566,472</u>

I. Changes in Long-Term Liabilities

Other long-term liabilities will be liquidated in the future from governmental funds. During the year ended June 30, 2003, the following changes occurred in liabilities reported as part of the long-term liabilities in the statement of net assets (amounts in thousands):

<i>Primary Government Governmental Activities</i>	Interest Rates	Maturity Through	July 1, 2002 Beginning Balance	Increases	Decreases	June 30, 2003 Ending Balance	Due Within One Year
Long-term debt:							
General obligation bonds	0.00 - 8.00%	2031	\$ 12,500,411	\$ 5,033,636	\$ 3,890,210	\$ 13,643,837	\$ 633,548
Special obligation bonds	4.00 - 5.30%	2017	772,812	-	24,688	748,124	25,933
Grant anticipation notes	0.00 - 7.00%	2015	1,500,000	-	-	1,500,000	-
Unamortized (Premiums) / Discounts:							
General obligation bonds			191,473	(65,743)	45,447	80,283	68,867
Special obligation bonds			(8,886)	-	177	(9,063)	137
Grant anticipation notes			(675)	-	-	(675)	-
Total long-term debt			14,955,135	4,967,893	3,960,522	15,962,506	\$ 728,485
Less: Current Portion			(744,830)	728,485	744,830	(728,485)	-
Net long-term debt			14,210,305	5,696,378	4,705,352	15,234,021	-
Other long-term liabilities:							
Due to Component Units - Central Artery / Tunnel Project.....			9,301,140	1,063,006	78,587	10,285,559	-
Due to Related organizations.....			365,000	-	-	365,000	-
School construction grants and other contract assistance payable.....			3,656,598	99,095	207,749	3,547,944	-
Other liabilities.....			551,173	388,759	341,194	598,738	-
Total Other long-term liabilities.....			13,873,911	1,550,860	627,530	14,797,241	-
Total non-current liabilities			\$ 28,084,216	\$ 7,247,238	\$ 5,332,882	\$ 30,031,262	-

2004

G. Prior Defeasance

In prior years, the Commonwealth defeased certain general and special obligation bonds by purchasing securities (from the proceeds of refunding bonds or from surplus operating funds) and placing them in irrevocable trusts to provide for all future debt service payments on the defeased bonds. Accordingly, the trust account assets and the liabilities for the defeased bonds are not included in the financial statements. At June 30, 2004, approximately \$4,327,954,000 of bonds outstanding from activities in prior fiscal years are considered defeased.

H. Statutory Debt Limit

The Massachusetts General Laws establish limits on the amount of direct debt outstanding. By statutorily limiting the Commonwealth's ability to issue direct debt, this limit provides a control on annual capital spending. The direct debt limit for FY04 was approximately \$12,822,414,000. Outstanding debt subject to the limit at June 30, 2004 was approximately \$12,459,055,000. The limit increases 5% per year.

By Legislative action, for purposes of determining compliance with the limit, outstanding direct debt is defined to include general obligation bonds and minibonds at the amount of their original net proceeds. It excludes BANs and discount and issuance costs, if any, financed by these bonds. It also excludes special obligation bonds, GANs, refunded bonds, certain refunding bonds, debt issued by counties, and debt issued in conjunction with the MBTA forward funding.

The amounts excluded from the debt limit are as follows (amounts in thousands):

	Debt Outstanding
Balance June 30, 2004.....	\$ 17,382,172
Less amounts excluded:	
Premium / (discount) and issuance cost.....	1,120
Special obligation principal.....	(1,347,882)
GANs principal.....	(1,908,015)
County debt assumed.....	(675)
MBTA forward funding.....	(601,027)
Central Artery / Tunnel.....	(1,066,638)
Outstanding Direct Debt.....	\$ 12,459,055

2005

difference between the present values of the debt service payments of the refunded and refunding bonds) of approximately \$67,273,000. At June 30, 2005, approximately \$1,286,720,000 of the bonds defeased and refunded during FY05 remain outstanding.

G. Prior Defeasance

In prior years, the Commonwealth defeased certain general and special obligation bonds by purchasing securities (from the proceeds of refunding bonds or from surplus operating funds) and placing them in irrevocable trusts to provide for all future debt service payments on the defeased bonds. Accordingly, exclusive of the aforementioned crossover refunding, the trust account assets and the liabilities for the defeased bonds are not included in the financial statements. At June 30, 2005, approximately \$5,264,035,000 of bonds outstanding from activities in prior fiscal years are considered defeased.

H. Statutory Debt Limit

The Massachusetts General Laws establish limits on the amount of direct debt outstanding. By statutorily limiting the Commonwealth's ability to issue direct debt, this limit provides a control on annual capital spending. The direct debt limit for FY05 was approximately \$13,463,535,000. Outstanding debt subject to the limit at June 30, 2005 was approximately \$12,185,286,000. The limit increases 5% per year.

For purposes of determining compliance with the limit, outstanding direct debt is defined by statute to include general obligation bonds at the amount of their original net proceeds. It excludes BANs, discount and issuance costs, if any, special obligation bonds, GANs, refunded bonds, certain refunding bonds, debt issued by counties, debt issued in conjunction with the MBTA Forward Funding, certain Central Artery / Tunnel debt and debt issued for the SMART program. The amounts excluded from the debt limit are as follows (amounts in thousands):

	Debt Outstanding
Balance June 30, 2005.....	\$ 17,856,799
Less amounts excluded:	
Premium / (discount) and issuance cost.....	70,937
Special obligation principal.....	(1,485,548)
GANs principal.....	(1,908,015)
Central Artery / Tunnel.....	(1,336,741)
County debt assumed.....	(600)
MBTA forward funding.....	(511,546)
SMART bonds for the MSBA.....	(500,000)
Outstanding Direct Debt.....	<u>\$ 12,185,286</u>

Rf 2006

H. Statutory Debt Limit

The Massachusetts General Laws establish limits on the amount of direct debt outstanding. By statutorily limiting the Commonwealth's ability to issue direct debt, this limit provides a control on annual capital spending. The direct debt limit for FY06 was approximately \$14,136,712,000. Outstanding debt subject to the limit at June 30, 2006 was approximately \$12,599,293,000. The limit increases 5% per year.

For purposes of determining compliance with the limit, outstanding direct debt is defined by statute to include general obligation bonds at the amount of their original net proceeds. It excludes BANs, discount and issuance costs, if any, special obligation bonds, GANs, refunded bonds, certain refunding bonds, debt issued by counties, debt issued in conjunction with the MBTA, certain Central Artery / Tunnel debt and debt issued for the SMART program. The amounts excluded from the debt limit are as follows:

	<u>Debt Outstanding</u>
Balance June 30, 2006.....	\$ 18,461,406
Less amounts excluded:	
Premium and issuance cost.....	112,673
Special Obligation principal.....	(1,291,266)
GANs principal.....	(1,789,876)
County Debt Assumed.....	(525)
MBTA	(416,830)
SMART bonds.....	(1,000,002)
Central Artery / Tunnel.....	(1,476,287)
Outstanding direct debt.....	<u>\$ 12,599,293</u>

FY 2007

H. Prior Defeasance

In prior years, the Commonwealth defeased certain general and special obligation bonds by purchasing securities (from the proceeds of refunding bonds or from surplus operating funds) and placing them in irrevocable trusts to provide for all future debt service payments on the defeased bonds. With the exception of the crossover refunding activity discussed previously, the trust account assets and the liabilities for the defeased bonds are not included in the financial statements. At June 30, 2007, approximately \$7,194,109,000 of bonds outstanding from activities in prior fiscal years are considered defeased.

I. Statutory Debt Limit

The Massachusetts General Laws establish limits on the amount of direct debt outstanding, that is different from GAAP due to the treatment of premiums and discounts. By statutorily limiting the Commonwealth's ability to issue direct debt, this limit provides a control on annual capital spending. The direct debt limit for FY07 was approximately \$14,843,547,000. Outstanding debt subject to the limit at June 30, 2007 was approximately \$13,132,895,000. The limit increases 5% per year.

For purposes of determining compliance with the limit, outstanding direct debt is defined by statute to include general obligation bonds at the amount of their original net proceeds, which is defined as face amount, plus premiums, but excluding issuance costs. It excludes BANs, discount and issuance costs, if any, special obligation bonds, GANs, refunded bonds, certain refunding bonds, debt issued by counties, debt issued in conjunction with the MBTA Forward Funding, certain Central Artery / Tunnel debt and debt issued for the SMART program. The amounts excluded from the debt limit are as follows (amounts in thousands):

	<u>Debt Outstanding</u>
Statutory debt June 30, 2007.....	\$ 18,736,961
Less amounts excluded:	
Premium and issuance cost.....	102,043
Special Obligation principal.....	(1,260,941)
GANs principal.....	(1,666,690)
County Debt Assumed.....	(450)
MBTA Forward Funding.....	(368,873)
SMART bonds.....	(946,285)
Central Artery / Tunnel.....	(1,462,870)
Outstanding direct debt.....	<u>\$ 13,132,895</u>

F. Prior Defeasance

In prior years, the Commonwealth defeased certain general and special obligation bonds by purchasing securities (from the proceeds of refunding bonds or from surplus operating funds) and placing them in irrevocable trusts to provide for all future debt service payments on the defeased bonds. With the exception of the crossover refunding activity discussed previously, the trust account assets and the liabilities for the defeased bonds are not included in the financial statements. At June 30, 2008, approximately \$6,656,594,000 of bonds outstanding from activities in prior fiscal years are considered defeased.

G. Statutory Debt Limit

The Massachusetts General Laws establish limits on the amount of direct debt outstanding. By statutorily limiting the Commonwealth's ability to issue direct debt, this limit provides a control on annual capital spending. The direct debt limit for FY08 was approximately \$15,585,725,000. Outstanding debt subject to the limit at June 30, 2008 was approximately \$13,504,384,000. The limit increases 5% per year.

For purposes of determining compliance with the limit, outstanding direct debt is defined by statute to include general obligation bonds at the amount of their original net proceeds. It excludes BANs, discount and issuance costs, if any, special obligation bonds, GANs, refunded bonds, certain refunding bonds, debt issued by counties, debt issued in conjunction with the MBTA Forward Funding, certain Central Artery / Tunnel debt and debt issued for the SMART program. The amounts excluded from the debt limit are as follows (amounts in thousands):

	<u>Debt Outstanding</u>
Statutory debt June 30, 2008.....	\$ 18,734,440
Less amounts excluded:	
Premium and issuance cost.....	123,335
Special Obligation principal.....	(1,126,668)
GANs principal.....	(1,536,206)
County Debt Assumed.....	(375)
MBTA Forward Funding.....	(309,203)
SMART bonds.....	(946,285)
Central Artery / Tunnel.....	(1,434,654)
Outstanding direct debt.....	<u>\$ 13,504,384</u>

H. Administration Debt Limit

During fiscal year 2008, the administration announced a policy that sets the annual borrowing limit at a level designed to keep debt service at a maximum of 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. Debt of the Massachusetts School Building Authority and of the Massachusetts Bay Transportation Authority that is supported by the portion of the sales tax legally dedicated to such entities is not included for purposes of this analysis, as the Commonwealth is not liable for such debt; similarly, the sales tax revenues legally dedicated to such entities are not included in the budgeted revenue projections.

In addition to keeping debt service at a maximum of 8% of budgeted revenues, the debt management policy limits future annual growth in the bond cap to not more than \$125 million through fiscal 2012. This additional constraint is designed to ensure that projected growth in the bond cap will be held to stable and sustainable levels.

2009

Ten-Year Schedule of Outstanding Direct Debt and Statutory Debt Limit

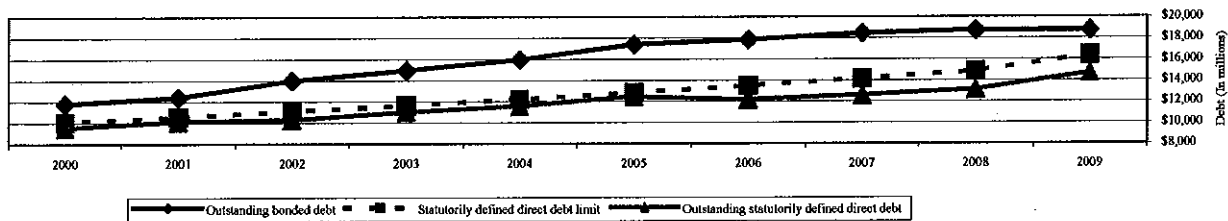
(Amounts in thousands)

	2009	2008	2007	2006
Outstanding debt for Statutory Purposes as of June 30 (2).....	\$ 19,264,569	\$ 18,734,440	\$ 18,736,961	\$ 18,461,406
Less amounts excluded by statute:				
Central artery project bonds principal.....	(1,401,581)	(1,434,654)	(1,462,870)	(1,476,287)
Chapter 5 of the Acts of 1992 bonds principal.....	-	-	-	-
County debt assumed.....	(300)	(375)	(450)	(525)
Premium / (Discount) and issuance costs.....	216,890	123,335	102,048	112,673
Grant anticipation notes (GANs) principal (1).....	(1,134,797)	(1,536,206)	(1,666,690)	(1,789,876)
School Modernization and Reconstruction Trust bonds.....	(921,751)	(946,285)	(946,285)	(1,000,002)
Convention Center bonds principal.....	(643,715)	(643,715)	(643,715)	(643,715)
MBTA forward funding bonds principal.....	(231,000)	(309,203)	(368,873)	(416,830)
Special obligation bonds principal (1).....	(456,984)	(482,953)	(617,226)	(647,551)
Outstanding statutorily defined direct debt.....	\$ 14,691,332	\$ 13,504,384	\$ 13,132,900	\$ 12,599,293
Statutorily defined direct debt limit.....	\$ 16,365,011	\$ 15,585,725	\$ 14,843,547	\$ 14,136,712
Debt margin (Debt limit less direct debt).....	\$ 1,673,679	\$ 2,081,341	\$ 1,710,647	\$ 1,537,418
Debt margin as a percentage of direct debt limit.....	10.23%	13.35%	11.52%	10.88%

(1) Inclusive of Crossover Refunding Amounts.

(2) Exclusive of the Massachusetts School Building Authority debt.

Outstanding Bonded Debt, Statutory Direct Debt and Statutory Debt Limit
2000 - 2009



	<u>Debt Outstanding</u>
Statutory debt June 30, 2010.....	\$ 19,726,507
Less amounts excluded:	
Premium and issuance cost.....	216,688
Special obligation principal.....	(1,063,500)
GANs principal.....	(997,467)
County debt assumed.....	(225)
MBTA forward funding.....	(165,559)
SMART bonds.....	(894,502)
Central Artery / Tunnel.....	(1,243,250)
Outstanding direct debt.....	<u>\$ 15,578,692</u>

I. Administration Debt Limit

During fiscal year 2009, the administration announced a policy that sets the annual borrowing limit at a level designed to keep debt service at a maximum of 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. Debt of the Massachusetts School Building Authority and of the Massachusetts Bay Transportation Authority that is supported by the portion of the sales tax legally dedicated to such entities is not included for purposes of this analysis, as the Commonwealth is not liable for such debt; similarly, the sales tax revenues legally dedicated to such entities are not included in the budgeted revenue projections.

In addition to keeping debt service at a maximum of 8% of budgeted revenues, the debt management policy limits future annual growth in the bond cap to not more than \$125 million through fiscal 2012. This additional constraint is designed to ensure that projected growth in the bond cap will be held to stable and sustainable levels.

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

The following table shows the annual bond cap, the resulting total annual debt service payment obligations and the debt service as a percentage of budgeted revenues.

Bond Cap (in millions except for percentages)

	<u>Fiscal 2010</u>
Bond Cap as approved by the Governor.....	\$ 1,650
Total Debt Service Obligations.....	1,926
Budgeted Revenue.....	31,081
Debt Service as % of Budgeted Revenues.....	6.20%

	Debt Outstanding
Statutory debt June 30, 2011.....	21,210,134
Less amounts excluded:	
Premium and issuance cost.....	(335,078)
Special obligation principal.....	(1,015,380)
Accelerated Bridge Program.....	(676,125)
GANs principal.....	(666,790)
County debt assumed.....	(150)
MBTA forward funding.....	(44,472)
SMART bonds.....	(824,279)
Central Artery / Tunnel.....	(1,356,606)
Outstanding direct debt.....	<u>\$ 16,291,254</u>

I. Administration Debt Limit

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The following table shows the annual bond cap, the resulting total annual debt service payment obligations and the debt service as a percentage of budgeted revenues.

Bond Cap (in millions except for percentages)

	Fiscal 2011
Bond Cap as approved by the Governor.....	\$ 1,765
Total Annual Debt Service Obligations.....	1,820
Budgeted Revenue.....	36,536
Debt Service as % of Budgeted Revenues.....	4.98%