



SUPPLEMENT DATED JUNE 19, 2019
TO
THE COMMONWEALTH OF MASSACHUSETTS
INFORMATION STATEMENT
DATED APRIL 10, 2019

Except as specifically provided herein, the Commonwealth Information Statement, dated April 10, 2019 (the “Information Statement”), has not been updated or supplemented. The Information Statement contains information only through its date, except as specifically set forth in this Supplement. The Information Statement, together with this Supplement, should be read in its entirety.

The Information Statement is supplemented as of the date hereof as set forth below.

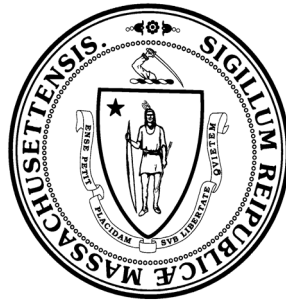
LEGAL MATTERS – OTHER

Under the heading “LEGAL MATTERS – OTHER,” the following paragraph is added to the end of the section:

DaPonte Mussotte, et al. v. Peyser, et al., Supreme Judicial Court. Parents and students from seven Massachusetts communities, all ethnically-diverse municipalities with above-average proportions of low-income families, plus two advocacy organizations, filed suit against state education and finance officials on June 13, 2019, alleging that chronic underfunding of their school districts unconstitutionally deprives many students of an appropriate public education. While the amount of new state expenditures sought by plaintiffs is unspecified in their complaint, they cite to a 2015 Foundation Budget Review Commission report issued by the then co-chairs of the Legislature’s Joint Committee on Education. That report recommends adjustments to the state’s foundation budget formula, used to calculate state aid to school districts, estimated in the report to cost hundreds of millions of dollars, to adequately account for costs of employee health care, special education, and the additional needs of low-income students and English language learners. Plaintiffs are asking a Justice of the Supreme Judicial Court to declare that: (1) the Commonwealth is violating its constitutional mandate under the Education Clause of the Massachusetts Constitution by failing to provide adequate funding to educate all Massachusetts children; (2) the Commonwealth is violating the Massachusetts Constitution’s equal protection amendment by depriving low-income students of their right to appropriate educational opportunities; and (3) the Commonwealth is violating equal protection principles by failing to provide students of color with the same educational opportunities as Caucasian students. As a remedy, plaintiffs seek, among other things, a court order directing the Commonwealth to remedy alleged constitutional violations. Defendants will respond to plaintiffs’ three-count complaint in due course. At this time, the Commonwealth cannot predict the timing, outcome or, should the plaintiffs prevail, the budgetary impact of this litigation.

THE COMMONWEALTH OF MASSACHUSETTS

**THE
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MASSACHUSETTS**



INFORMATION STATEMENT

Dated April 10, 2019

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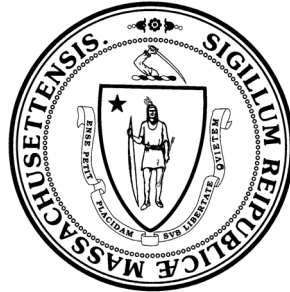
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THE COMMONWEALTH OF MASSACHUSETTS



CONSTITUTIONAL OFFICERS

Charles D. BakerGovernor
Karyn E. PolitoLieutenant Governor
William F. Galvin.....Secretary of the Commonwealth
Maura Healey Attorney General
Deborah B. Goldberg Treasurer and Receiver-General
Suzanne M. Bump Auditor

LEGISLATIVE OFFICERS

Karen E. Spilka President of the Senate
Robert A. DeLeo..... Speaker of the House

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THE COMMONWEALTH OF MASSACHUSETTS

INFORMATION STATEMENT

April 10, 2019

This Information Statement, together with its Exhibits (included by reference as described below), is furnished by The Commonwealth of Massachusetts (the Commonwealth). It contains certain fiscal, financial and economic information concerning the Commonwealth and its ability to meet its financial obligations. This Information Statement contains information only through its date, or as otherwise provided for herein, and should be read in its entirety.

The ability of the Commonwealth to meet its obligations will be affected by future social, environmental and economic conditions, among other things, as well as by legislative policies and the financial condition of the Commonwealth. Many of these conditions are not within the control of the Commonwealth.

Exhibit A to this Information Statement is the Statement of Economic Information as of July 12, 2018. Exhibit A sets forth certain economic, demographic and statistical information concerning the Commonwealth.

Exhibits B and C, respectively, are the Commonwealth's Statutory Basis Financial Report for the year ended June 30, 2018 and the Commonwealth's Comprehensive Annual Financial Report (reported in accordance with generally accepted accounting principles (GAAP)) for the year ended June 30, 2018.

Specific reference is made to Exhibits A, B and C, copies of which are attached hereto and have also been filed with the Municipal Securities Rulemaking Board (MSRB) through its Electronic Municipal Market Access System (EMMA). The financial statements are also available at the home page of the Comptroller of the Commonwealth located at <http://www.macomptroller.org> by clicking on "Financial Reports" on the Comptroller's homepage.

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THE GOVERNMENT

The government of the Commonwealth is divided into three branches: the Executive, the bicameral Legislature and the Judiciary.

Executive Branch

Governor. The Governor is the chief executive officer of the Commonwealth. Other elected members of the executive branch are the Lieutenant Governor (elected with the Governor), the Treasurer and Receiver-General (State Treasurer), the Secretary of the Commonwealth (State Secretary), the Attorney General and the State Auditor. All are elected to four-year terms. The terms of the current office holders began in January, 2019.

The Executive Council, also referred to as the “Governor’s Council,” consists of eight members who are elected to two-year terms in even-numbered years. The Executive Council is responsible for the confirmation of certain gubernatorial appointments, particularly judges, and must approve all warrants prepared by the Comptroller for payment by the State Treasurer.

Also within the Executive Branch are certain independent offices, each of which performs a defined function, such as the Board of Library Commissioners, the Office of Campaign and Political Finance, the Office of the Comptroller, the Office of the Inspector General and the State Ethics Commission.

Governor’s Cabinet. The Governor’s Cabinet, which assists the Governor in administration and policy making, comprises the secretaries who head the eight Executive Offices, which are the Executive Office for Administration and Finance, the Executive Office of Health and Human Services, the Executive Office of Public Safety and Security, the Executive Office of Housing and Economic Development, the Executive Office of Labor and Workforce Development, the Executive Office of Energy and Environmental Affairs, the Executive Office of Education, and the Executive Office of Technology Services and Security. In addition, the Secretary of Transportation, who is the chief executive of the Massachusetts Department of Transportation (MassDOT) and chairs MassDOT’s board of directors, is a member of the Governor’s Cabinet. (MassDOT has a legal existence separate from the Commonwealth but houses several departments of state government.) Cabinet secretaries and executive department chiefs, including the Secretary of Transportation, serve at the pleasure of the Governor. Most other agencies are grouped under one of the eight Executive Offices for administrative purposes.

The Governor’s chief fiscal officer is the Secretary of Administration and Finance. The activities of the Executive Office for Administration and Finance fall within five broad categories: (i) administrative and fiscal supervision, including supervision of the implementation of the Commonwealth’s operating budget and capital investment plan, and monitoring of all agency expenditures during the fiscal year; (ii) enforcement of the Commonwealth’s tax laws and collection of tax revenues through the Department of Revenue; (iii) human resource management, including administration of the state personnel system, civil service system and employee benefit programs, and negotiation of collective bargaining agreements with certain of the Commonwealth’s public employee unions; (iv) capital facilities management, including coordinating and overseeing the construction, management and leasing of all state facilities; and (v) administration of general services, including procurement management services. The Secretary of Administration and Finance serves on numerous state boards and commissions.

State Treasurer. The State Treasurer has four primary statutory responsibilities: (i) oversight of the collection of all state revenues by state agencies, including tax revenues remitted by the Department of Revenue (other than small amounts of funds held by certain agencies); (ii) the management of both short-term and long-term investment of Commonwealth funds (other than the state employee and teacher pension funds), including all cash receipts; (iii) the disbursement of Commonwealth moneys and oversight of reconciliation of the state’s accounts; and (iv) the issuance of most debt obligations of the Commonwealth, including notes, commercial paper and long-term bonds.

In addition to these responsibilities, the State Treasurer chairs the Massachusetts Lottery Commission, the State Retirement Board, the Pension Reserves Investment Management Board, the Massachusetts Clean Water Trust, and the Massachusetts School Building Authority, and appoints the members of the Alcoholic Beverages Control Commission. The State Treasurer also serves as a member of numerous other state boards and commissions.

State Auditor. The State Auditor is charged with improving the efficiency of state government by auditing the administration and expenditure of public funds and reporting the findings to the public. The State Auditor reviews the activities and operations of approximately 750 state entities and potentially thousands of private contractors doing business with the Commonwealth. See “COMMONWEALTH BUDGET AND FINANCIAL MANAGEMENT CONTROLS.”

Attorney General. The Attorney General represents the Commonwealth in all legal proceedings in both the state and federal courts, including defending the Commonwealth in actions in which a state law or executive action is challenged. The Attorney General also brings actions to enforce environmental and consumer protection statutes, among others, and represents consumer interests in public utility rate-setting proceedings and in proceedings before the Division of Insurance and other administrative bodies. The Attorney General works in conjunction with the general counsel of the various state agencies and executive departments to coordinate and monitor all pending litigation.

State Secretary. The Secretary of the Commonwealth is responsible for collection and storage of public records and archives, securities regulation, state elections, administration of state lobbying laws, and the registration of and reporting by corporations.

State Comptroller. Accounting policies and practices, publication of official financial reports, and oversight of fiscal management functions are the responsibility of the Comptroller. The Comptroller also administers the Commonwealth’s annual state single audit and manages the state accounting system. The Comptroller serves as a member of the Massachusetts Lottery Commission, the Inspector General Council, the Records Conservation Board, and the State Retiree Benefits Trust. The Comptroller is appointed by the Governor for a term coterminous with the Governor’s and may be removed by the Governor only for cause. The annual financial reports of the Commonwealth, single audit reports, and any rules and regulations promulgated by the Comptroller must be reviewed by an advisory board. This board is chaired by the Secretary of Administration and Finance and includes the State Treasurer, the Attorney General, the State Auditor, the Court Administrator of the Trial Court, and two persons with relevant experience appointed by the Governor for three-year terms.

The Commonwealth’s annual reports include financial statements on the statutory basis of accounting (the Statutory Basis Financial Report, or SBFR) and financial statements on a GAAP basis (the Comprehensive Annual Financial Report, or CAFR). The Statutory Basis Financial Report for the year ended June 30, 2018, attached hereto as Exhibit B, was reviewed, and the Comprehensive Annual Financial Report for the year ended June 30, 2018, attached hereto as Exhibit C, was audited, by KPMG LLP, as stated in its reports appearing therein. KPMG LLP 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 it performed any procedures relating to the official statement of which this Information Statement is a part. See “COMMONWEALTH BUDGET AND FINANCIAL MANAGEMENT CONTROLS.”

Legislative Branch

The Legislature (formally called the General Court) is the bicameral legislative body of the Commonwealth, consisting of a Senate of 40 members and a House of Representatives of 160 members. Members of both the Senate and the House are elected to two-year terms in even-numbered years. The Legislature meets every year. The joint rules of the House and Senate require all formal business to be concluded by the end of July in even-numbered years and by the third Wednesday in November in odd-numbered years.

All enacted bills are presented to the Governor for approval or veto. The Legislature may override the Governor’s veto of any bill by a two-thirds roll-call vote of each house. The Governor also has the power to return a bill to the chamber of the Legislature in which it originated with a recommendation that certain amendments be made; such a bill is then before the Legislature and is subject to amendment or re-enactment by each branch, at which point the Governor has no further right to return the bill a second time with a recommendation to amend but may still veto the bill. The House of Representatives must originate any bill that imposes a tax. Once a tax bill is originated by the House and forwarded to the Senate for consideration, the Senate may amend it. Any member of the House of Representatives or the Senate also may propose an amendment to the state constitution. Any such proposed amendment must receive a majority of approving votes from members of the House of Representatives

and the Senate jointly assembled in a constitutional convention in two successive biennial legislative sessions before being submitted to the voters for approval.

Judicial Branch

The judicial branch of state government is composed of the Supreme Judicial Court, the Appeals Court and the Trial Court. The Supreme Judicial Court has original jurisdiction over certain cases and hears appeals from both the Appeals Court, which is an intermediate appellate court, and in some cases, directly from the Trial Court. The Supreme Judicial Court is authorized to render advisory opinions on certain questions of law to the Governor, the Legislature and the Governor's Council. Judges of the Supreme Judicial Court, the Appeals Court and the Trial Court are appointed by the Governor, with the advice and consent of the Governor's Council, to serve until the mandatory retirement age of 70 years.

Independent Authorities and Agencies

The Legislature has established a number of independent authorities and agencies within the Commonwealth, the budgets of which are not included in the Commonwealth's annual budget. The Governmental Accounting Standards Board (GASB) Statements No. 14 and No. 34, as amended by Statement No. 61, *The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14 and No. 34*, articulate standards for determining significant financial or operational relationships between the primary government and its independent entities. In fiscal 2018, the Commonwealth had significant operational or financial relationships, or both, as defined by GASB Statements No. 14 and No. 34, as amended by Statement No. 61, with 40 of these authorities. A discussion of these entities and the relationship to the Commonwealth is included in footnotes 1 and 14 to the fiscal 2018 Basic Financial Statements in the CAFR, attached hereto as Exhibit C.

Local Government

The Commonwealth has 351 incorporated cities and towns that exercise the functions of local government, which include public safety, fire protection and public construction. Cities and towns or regional school districts established by them also provide elementary and secondary education. Cities are governed by several variations of the mayor-and-council or manager-and-council form. Most towns place executive power in a board of three or five selectmen elected to one- or three-year terms and retain legislative powers in the voters themselves, who assemble in periodic open or representative town meetings. Various local and regional districts exist for schools, water and wastewater administration, and certain other governmental functions.

Municipal revenues consist of taxes on real and personal property, distributions from the Commonwealth under a variety of programs and formulas, local receipts (including motor vehicle excise taxes, local option taxes, fines, licenses and permits, charges for utility and other services, and investment income) and appropriations from other available funds (including general and dedicated reserve funds). See "COMMONWEALTH EXPENDITURES – Local Aid."

The cities and towns of the Commonwealth are also organized into 14 counties, but county government has been abolished in nine of those counties. The county governments that remain are responsible principally for the operation of courthouses and registries of deeds. Where county government has been abolished, the functions, duties and responsibilities of the government have been transferred to the Commonwealth, including all employees, assets, valid liabilities and debts.

Initiative Petitions

Under the Massachusetts constitution, legislation may be enacted in the Commonwealth pursuant to a voter initiative process. Initiative petitions which have been certified by the Attorney General as to proper form and as to which the requisite number of voter signatures has been collected are submitted to the Legislature for consideration. If the Legislature fails to enact the measure into law as submitted, the petitioner may place the initiative on the ballot for the next statewide general election by collecting additional voter signatures. If approved by a majority of the voters at the general election, the petition becomes law 30 days after the date of the election. Initiative petitions so approved by the voters do not constitute constitutional amendments and may be subsequently amended or repealed by the Legislature. Initiative petitions may not make appropriations.

Constitutional amendments also may be initiated by citizens, but they follow a longer adoption process, which includes gaining at least 25% of the votes of the House of Representatives and Senate jointly assembled in constitutional convention in two successive biennial legislative sessions before being decided by the voters.

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COMMONWEALTH BUDGET AND FINANCIAL MANAGEMENT CONTROLS

Operating Fund Structure

The Commonwealth's operating fund structure satisfies the requirements of state finance law and is in accordance with GAAP, as defined by GASB. The General Fund and other funds that are appropriated in the annual state budget receive most of the non-bond and non-federal grant revenues of the Commonwealth. These funds are referred to in this Information Statement as the "budgeted operating funds" of the Commonwealth. Budgeted operating funds are created and repealed from time to time through the enactment of legislation, and existing funds may become inactive when no appropriations are made from them. Budgeted operating funds do not include the capital projects funds of the Commonwealth, into which the proceeds of Commonwealth bonds are deposited. See "Capital Investment Process and Controls" below.

Two of the budgeted operating funds account for most of the Commonwealth's appropriated spending: the General Fund and the Commonwealth Transportation Fund (formerly the Highway Fund), from which approximately 98.6% of the budgeted operating fund outflows in fiscal 2018 were made. The remaining approximately 1.4% of budgeted operating fund outflows occurred in other operating funds: the Commonwealth Stabilization Fund, the Intragovernmental Service Fund, the Inland Fisheries and Game Fund, the Marine Recreational Fisheries Development Fund, the Public Safety Training Fund, the Community First Trust Fund, the Gaming Local Aid Fund, the Local Aid Stabilization Fund and the Marijuana Regulation Fund. A number of budgeted funds were authorized by law but had no activity in fiscal 2018.

At the end of a fiscal year, undesignated balances in the budgeted operating funds, unless excluded by law, are used to calculate the consolidated net surplus. Under state finance law, balances in the Stabilization Fund, the Tax Reduction Fund, the Inland Fisheries and Game Fund, the Marine Recreational Fisheries Fund, the Public Safety Training Fund, the Community First Trust Fund, and the Local Aid Stabilization Fund are excluded from the consolidated net surplus calculation. According to state finance law, deficits in any funds included in the consolidated net surplus calculation are eliminated by transfers from other consolidated net surplus funds that have surplus balances, and any undesignated or unreserved balances remaining in the consolidated net surplus funds are transferred to the Commonwealth Stabilization Fund.

Overview of Operating Budget Process

Generally, funds for the Commonwealth's programs and services must be appropriated by the Legislature. The process of preparing a budget begins with the executive branch early in the fiscal year preceding the fiscal year for which the budget will take effect. The legislative budgetary process begins in late January (or, in the case of a newly elected Governor, not later than early March) with the Governor's budget submission to the Legislature for the fiscal year commencing in the ensuing July. The Massachusetts constitution requires that the Governor recommend to the Legislature a budget which contains a statement of all proposed expenditures of the Commonwealth for the upcoming fiscal year, including those already authorized by law, and of all taxes, revenues, loans and other means by which such expenditures are to be defrayed. State finance law requires the Legislature and the Governor to approve a balanced budget for each fiscal year, and the Governor may approve no supplemental appropriation bills that would result in an unbalanced budget. However, this is a statutory requirement that may be superseded by an appropriation act.

The House Committee on Ways and Means considers the Governor's budget recommendations and, with revisions, proposes a budget to the full House of Representatives. Once approved by the House, the budget is considered by the Senate Committee on Ways and Means, which in turn proposes a budget, with revisions, to be considered by the full Senate. In recent years, the legislative budget review process has included joint hearings by the Ways and Means Committees of the Senate and the House. After Senate action, a legislative conference committee develops a joint budget recommendation for consideration by both houses of the Legislature, which upon adoption is sent to the Governor. Under the Massachusetts constitution, the Governor may veto the budget in whole or disapprove or reduce specific line items (line item veto). The Legislature may override the Governor's veto or specific line-item vetoes by a two-thirds roll-call vote of both the House and Senate. The annual budget legislation, as finally enacted, is known as the general appropriations act.

In years in which the general appropriations act is not approved by the Legislature and the Governor before the beginning of the applicable fiscal year, the Legislature and the Governor generally approve a temporary budget under which funds for the Commonwealth's programs and services are appropriated based upon the level of appropriations from the prior fiscal year budget, adjusted for any known changes in the level of spending during the first month or months of the current fiscal year.

State finance law requires the Commonwealth to monitor revenues and expenditures during a fiscal year. For example, the Comptroller publishes a quarterly report of planned and actual revenues. See "COMMONWEALTH REVENUES – Tax Revenue Forecasting." Department heads are required to notify the Secretary of Administration and Finance and the House and Senate Committees on Ways and Means of any anticipated decrease in estimated revenues for their departments from the federal government or other sources or if it appears that any appropriation will be insufficient to meet all expenditures required in the fiscal year by any law, rule, regulation or order not subject to administrative control. The Secretary of Administration and Finance must notify the Governor and the House and Senate Committees on Ways and Means whenever the Secretary determines that revenues will be insufficient to meet authorized expenditures. The Secretary of Administration and Finance is then required to compute projected deficiencies and, under Section 9C of Chapter 29 of the General Laws, the Governor is required to reduce allotments, to the extent lawfully permitted to do so, or submit proposals to the Legislature to raise additional revenues or to make appropriations from the Stabilization Fund to cover such deficiencies. The Supreme Judicial Court has ruled that, under current law, the Governor's authority to reduce allotments of appropriated funds extends only to appropriations of funds to state agencies under the Governor's control.

Cash and Budgetary Controls

The Commonwealth has in place controls designed to ensure that (i) sufficient cash is available to meet the Commonwealth's obligations, (ii) state expenditures are consistent with periodic allotments of annual appropriations, and (iii) moneys are expended consistently with statutory and public purposes. Two independently elected Executive Branch officials, the State Treasurer and the State Auditor, conduct the cash management and audit functions, respectively. Regarding periodic allotments, at the beginning of each fiscal year the Executive Office for Administration and Finance schedules the rate at which agencies will have access to funds included in their appropriation through a published periodic allotment calendar. Under state finance law, monthly appropriation allotments are ordinarily one-twelfth of the annual amount, but the Executive Office for Administration and Finance may provide for greater or lesser monthly allotments in appropriate cases. This calendar is reviewed regularly, and depending on the fiscal climate, the Executive Office for Administration and Finance may choose to adjust the allotment schedule in order to tighten spending controls. In some cases agencies may request an ad hoc allotment in order to gain access to funds faster than the existing periodic allotment schedule would allow (*e.g.*, exceptional cases where unique payment concerns must be considered); such requests are carefully reviewed by the Executive Office for Administration and Finance before they are approved. The Comptroller conducts the expenditure control function.

Capital Investment Process and Controls

Capital expenditures are primarily financed with debt proceeds and federal reimbursements. Authorization for capital spending requires approval by the Legislature, and the issuance of debt must be approved by a two-thirds roll-call vote of each house of the Legislature. The state constitution requires the Governor to recommend the terms of the authorized debt. The State Treasurer issues authorized debt at the request of the Governor, and the Governor, through the Secretary of Administration and Finance, controls the amount of capital expenditures through the allotment of funds pursuant to such authorizations. The Executive Office for Administration and Finance establishes a capital investment plan on or before July 1 each year pursuant to state law. The capital investment plan is an administrative guideline and is subject to amendment from time to time. See "COMMONWEALTH CAPITAL INVESTMENT PLAN."

The Comptroller has established various funds to account for financial activity related to the acquisition or construction of capital assets. In addition, accounting procedures and financial controls have been instituted to limit agency capital spending to the levels approved by the Governor. Capital spending is tracked against the capital investment plan on both a cash and encumbrance accounting basis on the state's accounting system, and federal reimbursements are budgeted and monitored against anticipated receipts.

Cash Management Practices of State Treasurer

The State Treasurer is responsible for ensuring that all Commonwealth financial obligations are met on a timely basis. The Massachusetts constitution requires that all payments by the Commonwealth (other than debt service) be made pursuant to a warrant approved by the Governor's Council. The Comptroller prepares certificates which, with the advice and consent of the Governor's Council and approval of the Governor, become the warrant to the State Treasurer. Once the warrant is approved, the State Treasurer's office disburses the money. Debt service is specifically exempted by the state constitution from the warrant requirement, but requires an appropriation to be paid.

The Cash Management Division of the State Treasurer's office utilizes approximately 900 operating accounts to track cash collections and disbursements for the Commonwealth. The Division relies primarily upon electronic receipt and disbursement systems.

The State Treasurer, in conjunction with the Executive Office for Administration and Finance, is required to submit quarterly cash flow projections for the then current fiscal year to the House and Senate Committees on Ways and Means on or before the last day of August, November, February and May. The projections must include estimated sources and uses of cash, together with the assumptions from which such estimates were derived and identification of any cash flow gaps. See "FISCAL 2019 AND FISCAL 2020 – Cash Flow." The State Treasurer's office, in conjunction with the Executive Office for Administration and Finance, is also required to develop quarterly and annual cash management plans to address any gap identified by the cash flow projections and variance reports. The State Treasurer's office oversees the issuance of short-term debt to meet cash flow needs, including the issuance of commercial paper and revenue anticipation notes. See "LONG-TERM LIABILITIES – General Obligation Debt."

Cash that is not needed for immediate funding needs is invested in the Massachusetts Municipal Depository Trust. The State Treasurer serves as trustee of the Trust and has sole authority pertaining to rules, regulations and operations of the Trust. The Trust has two investment options: a short-term liquidity vehicle or "cash portfolio" structured similarly to a money market fund and a short-term bond fund. For additional detail on the Massachusetts Municipal Depository Trust, see "FISCAL 2019 AND FISCAL 2020 – Cash Flow."

Fiscal Control, Accounting and Reporting Practices of the Comptroller

The Comptroller is responsible for oversight of fiscal management functions, establishment of accounting policies and practices, and publication of official financial reports. The Comptroller maintains the Massachusetts Management Accounting and Reporting System (MMARS), the centralized state accounting system that is used by all state agencies and departments for processing of all financial transactions. The University of Massachusetts, the state universities and the community colleges process only some transactions on MMARS, and the independent state authorities do not use the system. MMARS provides a ledger-based system of revenue and expenditure accounts enabling the Comptroller to control obligations and expenditures effectively and to ensure that appropriations are not exceeded during the course of the fiscal year. The Commonwealth's statewide accounting system also has various modules for receivables, payables, capital assets and other processes management.

Expenditure Controls. The Comptroller requires that the amount of all obligations under purchase orders, contracts and other commitments for the expenditures of moneys be recorded as encumbrances. Once encumbered, these amounts are not available to support additional spending commitments. As a result of these encumbrances, spending agencies can use MMARS to determine at any given time the amount of their appropriations available for future commitments.

The Comptroller is responsible for compiling expenditure requests into the certificates for approval by the Governor's Council. The Council approves an estimated warrant giving the Treasurer authority to issue payments up to the amount on the warrant, as long as those payments are otherwise determined by the Comptroller to comply with state finance law. In preparing these certificates, which become the warrant, the Comptroller's office has systems in place to ensure that the necessary moneys for payment have been both appropriated by the Legislature and allotted by the Governor in each account and sub-account. By law, certain obligations may be placed upon the warrant even if the supporting appropriation or allotment is insufficient. These obligations include Medicaid payments, which are mandated by federal law.

Although state finance law generally does not create priorities among types of payments to be made by the Commonwealth in the event of a cash shortfall, the Comptroller has developed procedures, in consultation with the State Treasurer and the Executive Office for Administration and Finance, for prioritizing payments based upon state finance law and sound fiscal management practices.

Internal Controls. The Comptroller establishes internal control policies and procedures in accordance with state finance law. Agencies are required to adhere to such policies and procedures. All unaccounted-for variances, losses, shortages or thefts of funds or property must be reported to the State Auditor, who is authorized to investigate and recommend corrective action.

Statutory Basis of Accounting. In accordance with state law, the Commonwealth adopts its budget and maintains financial information on a statutory basis of accounting. Under the statutory basis, tax and departmental revenues are accounted for on a modified cash basis by reconciling revenue to actual cash receipts confirmed by the State Treasurer. Certain limited revenue accruals are also recognized, including receivables from federal reimbursements with respect to paid expenditures. Expenditures are measured on a modified cash basis, including actual cash disbursements and encumbrances for goods or services received prior to the end of a fiscal year.

For certain programs, such as Medicaid, expenditures are recognized under the statutory basis of accounting only to the extent of disbursements supported by current-year appropriations. Some prior year services billed after the start of a fiscal year have been paid from the new fiscal year's appropriation, in an amount determined by the specific timing of billings and the amount of prior year funds that remained after June 30 to pay the prior year's accrued billings, though this practice may vary from year to year.

GAAP Basis of Accounting. The Comptroller also prepares Commonwealth financial statements on a GAAP basis. In addition to the primary government, certain independent authorities and agencies of the Commonwealth are included as component units within the Commonwealth's reporting entity.

GAAP employs an economic resources management focus and a current financial resources management focus as two bases for accounting and reporting. Under the economic resources management focus (also called the "government-wide perspective") revenues and expenses (different from expenditures) are presented similarly to private-sector entities. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met. Capital assets, including infrastructure assets net of depreciation, and the long-term portion of all liabilities are reported on the statement of net position.

Under the current financial resources management focus of GAAP (also called the "fund perspective" or "modified accrual" basis), the primary emphasis is to demonstrate inter-period equity. Revenues are reported in the period in which they become both measurable and available. Revenues are considered available when they are expected to be collected within the current period or soon enough thereafter to be used to pay liabilities of the current period.

Significant revenues susceptible to accrual include income, sales and use, corporation and other taxes, federal revenues (including both grants and reimbursements) and reimbursements for the use of materials and services. Tax accruals, which include the estimated amounts due to the Commonwealth on previous filings, over- and under-withholdings, estimated payments on income earned and tax refunds and abatements payable, are all recorded as adjustments to statutory basis tax revenues.

Major expenditure accruals are recorded for the cost of Medicaid claims that have been incurred but not paid, claims and judgments and workers' compensation claims incurred but not reported and contract assistance and amounts due to municipalities and state authorities. See Exhibit C – Comprehensive Annual Financial Report for the year ended June 30, 2018; Page 3 and Notes to the Basic Financial Statements.

Audit Practices of State Auditor

The State Auditor is mandated under state law to conduct an audit at least once every three years of the accounts of all departments, offices, commissions, institutions and activities of the Commonwealth. This audit encompasses hundreds of state entities, including the court system and independent authorities. The State Auditor also has the authority to audit federally aided programs and vendors and their subcontractors under contract with the Commonwealth as well as to conduct special audit projects. Further, the State Auditor upon a ratified majority vote by the board of selectmen or school committee, may, in the Auditor's discretion, audit the accounts, programs, activities and other public functions of a town, district, regional school district, city or county. The State Auditor conducts both compliance and performance audits in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States.

Within the State Auditor's office is the Division of Local Mandates, which evaluates proposed and actual legislation to determine the financial impact on the Commonwealth's cities and towns. In accordance with state law, the Commonwealth is required to reimburse cities and towns for any costs incurred through mandated programs established after the passage of Proposition 2½, the statewide tax limitation enacted by the voters in 1980, unless expressly exempted from those provisions, and the State Auditor's financial analysis is used to establish the amount of reimbursement due to the Commonwealth's cities and towns. See "COMMONWEALTH EXPENDITURES – Local Aid; *Property Tax Limits.*"

Also within the State Auditor's office is the Bureau of Special Investigations, which is charged with the responsibility of investigating fraud within public assistance programs.

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COMMONWEALTH REVENUES

This section contains a description of the major categories of Commonwealth revenues. See “COMMONWEALTH EXPENDITURES” for a description of the major categories of Commonwealth expenditures. All percentages and amounts for fiscal 2019 and fiscal 2020 are projected.

In order to fund its programs and services, the Commonwealth collects a variety of taxes and receives revenues from other non-tax sources, including the federal government and various fees, fines, court revenues, assessments, reimbursements, interest earnings and transfers from its non-budgeted funds, which are deposited in the General Fund, the Commonwealth Transportation Fund (formerly the Highway Fund) and other budgeted operating funds. Revenues deposited in such funds are referred to as budgeted operating revenues in this Information Statement. In fiscal 2018, on a statutory basis, approximately 57.5% of the Commonwealth’s budgeted operating revenues and other financing sources were derived from state taxes. In addition, the federal government provided approximately 25.3% of such revenues, with the remaining 17.2% provided from departmental revenues and transfers from non-budgeted funds.

The Commonwealth’s executive and legislative branches establish the Commonwealth’s budget using the statutory basis of accounting, which differs from a GAAP basis. See “SELECTED FINANCIAL DATA – Statutory Basis Distribution of Budgetary Revenues and Expenditures” and “- GAAP Basis.”

State Taxes

The major components of state taxes are the income tax, which accounted for approximately 58.4% of total budgeted tax revenues in fiscal 2018, the sales and use tax, which accounted for approximately 23.2% of total budgeted tax revenues in fiscal 2018, and the corporations and other business and excise taxes (including taxes on insurance companies and financial institutions), which accounted for approximately 10.0% of total budgeted tax revenues in fiscal 2018. Other tax and excise sources accounted for the remaining 8.4% of total budgeted tax revenues in fiscal 2018.

The Governor annually files a “tax expenditure budget” that provides a list, description and revenue estimates of various tax credits, deductions and exemptions that represent departures from the basic provisions of the state tax code. See “Tax Credits and Other Incentives” below.

On December 22, 2017, President Trump signed into law Public Law 115-97, making major changes to the federal Internal Revenue Code, most of which were effective in the 2018 tax year, including extensive changes to federal personal income taxes, corporate income taxes, and estate taxes, and the deductibility of various taxes and interest costs. Because the Commonwealth’s tax system interacts with the federal system, the changes to the federal Internal Revenue Code have flow-through effects on the Commonwealth’s tax system and revenues. The Department of Revenue continues to review the implications of the federal changes for the Commonwealth’s tax administration and revenues. Legislation adjusting the Commonwealth’s income tax laws and corporation tax laws in response to the new forms of income that are recognized and new federal tax expenditures that are created under Public Law 115-97 was enacted on October 23, 2018.

Income Tax. The Commonwealth assesses personal income taxes at flat rates, according to classes of income, after specified deductions and exemptions. A rate of 5.3% was applied to most types of income from January 1, 2002 to January 1, 2012. Under current law, the state personal income tax rate on most classes of taxable income is scheduled to be reduced gradually to 5.0%, contingent upon “baseline” state tax revenue growth (*i.e.*, revenue growth after factoring out the impact of tax law and administrative processing changes). Pursuant to this law, the state income tax rate on most classes of taxable income has been gradually reduced from 5.3% to its current rate of 5.05%. In order to trigger a reduction, fiscal year-over-fiscal year growth in baseline revenues must increase by at least 2.5 percentage points more than the rate of inflation, as measured by the consumer price index for all urban consumers in Boston. Inflation-adjusted baseline revenues must also demonstrate positive growth for consecutive three-month periods, beginning in August and ending in November, in comparison with the same three-month periods in the prior calendar year. If these triggers are met, the personal income tax rate on most classes of taxable income is reduced by 0.05% on the following January 1. The state income tax rate on most classes of taxable

income was reduced from 5.15% to 5.10%, effective January 1, 2016, and from 5.10% to 5.05%, effective January 1, 2019, as a result of satisfying these statutory triggers.

The Department of Revenue estimates that the revenue impact of the rate reduction from 5.10% to 5.05% for fiscal 2019 will be approximately \$84 million and for fiscal 2020 (assuming no further rate reduction in calendar year 2020) will be approximately \$175 million.

Current law requires that in the tax year following that in which the personal income tax rate is reduced to 5.0%, the charitable deduction, which was in effect for tax year 2000 but subsequently suspended, will be restored.

The following table shows the Department of Revenue’s estimated impacts on income tax revenue of the state income tax rate reductions described above in fiscal years 2013 through 2020, inclusive.

Impact of Income Tax Rate Reductions (millions)

<u>Decrease from:</u>	<u>Fiscal 2013</u>	<u>Fiscal 2014</u>	<u>Fiscal 2015</u>	<u>Fiscal 2016</u>	<u>Fiscal 2017</u>	<u>Fiscal 2018</u>	<u>Fiscal 2019 (1)</u>	<u>FY2020 (1)</u>
5.3% to 5.25%	\$114	\$119	\$124	\$130	\$136	\$142	\$148	\$155
5.25% to 5.20%	-	65	133	138	145	151	158	165
5.20% to 5.15%	-	-	70	145	152	158	165	173
5.15% to 5.10%	-	-	-	74	152	159	166	173
5.10% to 5.05%	-	-	-	-	-	-	84	175

Source: Department of Revenue.

(1) Income tax revenue impacts in fiscal 2019 and fiscal 2020 are projected and subject to change.

Capital Gains Component of the Income Tax. The tax rate on gains from the sale of capital assets held for one year or less and from the sale of collectibles is 12%. The tax rate on gains from the sale of capital assets owned more than one year is currently 5.05% (effective January 1, 2019), and is equal to the state personal income tax rate. The 5.05% rate could further decline through the statutory mechanism for adjusting the personal income tax rate described above. Current state finance law provides for tax revenues collected from capital gains income during a fiscal year that exceed a specified threshold to be transferred to the Commonwealth’s Stabilization Fund, with 5% of the amount so deposited then transferred to the State Retiree Benefits Trust Fund and an additional 5% transferred to the Commonwealth’s Pension Liability Fund. Each quarter, the Department of Revenue certifies the amount of tax revenues estimated to have been collected during the preceding quarter from capital gains income, and, once the threshold has been exceeded, the excess is transferred to the Commonwealth Stabilization Fund. The final certification of capital gains tax revenues is done in November following the end of the fiscal year, but no adjustment is made to Stabilization Fund transfers if the final amount of capital gains taxes certified differs from the amount certified in the preceding July. The threshold is subject to annual adjustment to reflect the average annual rate of growth in U. S. gross domestic product over the preceding five years and is certified annually by the Department of Revenue each December for the ensuing fiscal year as part of the consensus revenue process.

In fiscal years 2015 and 2016, the Commonwealth temporarily suspended the requirement to transfer capital gains tax collections above the threshold to the Stabilization Fund, with all capital gains tax collections to remain in the General Fund.

On December 28, 2016, the Department of Revenue certified that the fiscal 2018 capital gains tax collections threshold was approximately \$1.169 billion. On July 24, 2018, the Department of Revenue certified that tax revenues estimated to have been collected from capital gains income during fiscal 2018 were \$1.683 billion. On November 30, 2018, the Department of Revenue certified that fiscal 2018 tax revenues collected from capital gains income were \$1.687 billion. For a discussion of capital gains taxes deposited to the Stabilization Fund, see “SELECTED FINANCIAL DATA – Stabilization Fund.”

On December 22, 2017, the Department of Revenue certified that the fiscal 2019 capital gains tax collections threshold is approximately \$1.212 billion. On February 20, 2019, the Department of Revenue issued a letter indicating that the year-to-date (July 1, 2018 through January 31, 2019) certification amount was \$656.9 million.

On December 27, 2018, the Department of Revenue certified that the fiscal 2020 capital gains tax collections threshold is approximately \$1.260 billion.

Sales and Use Tax. The sales tax rate imposed on retail sales of certain tangible property (including retail sales of meals) transacted in the Commonwealth and a corresponding use tax rate on the storage, use or other consumption of like tangible properties brought into the Commonwealth is 6.25%. Food, clothing, prescribed medicine, materials and produce used in food production, machinery, materials, tools and fuel used in certain industries and property subject to other excises (except for cigarettes) are exempt from sales taxation. The sales and use tax is also applied to sales of electricity, gas and steam for certain nonresidential use and to nonresidential and a portion of residential use of telecommunications services.

Certain sales tax receipts are required to be credited to the Convention Center Fund. The Convention Center Fund is not included in the calculation of revenues for budgeted operating funds. See “LONG-TERM LIABILITIES – Special Obligation Debt; *Convention Center Fund.*”

A portion of the Commonwealth’s receipts from the sales tax (other than the tax on meals) is dedicated through non-budgeted special revenue funds to the Massachusetts Bay Transportation Authority (MBTA) and the Massachusetts School Building Authority (MSBA). The amount dedicated to the MSBA is the amount raised by a 1% sales tax (not including meals). The amount dedicated to the MBTA is a comparable amount, subject to an inflation-adjusted floor, plus \$160 million annually. Effective commencing in fiscal 2015, the \$160 million adjustment was integrated into the inflation-adjusted floor, which was reset at \$970.6 million. The floor grows by the allowable base revenue growth (the lesser of sales tax growth or inflation, but not greater than 3% and not less than 0%) thereafter.

The Commonwealth’s receipts from the sales tax on account of motor vehicle sales (net of amounts required to be credited to the Convention Center Fund or dedicated to the MBTA or MSBA) are dedicated to the Commonwealth Transportation Fund.

Legislation approved by the Governor in June, 2018 established an annual two-day sales and meals tax holiday in August of each year, commencing August, 2019. Legislation was also approved by the Governor in August, 2018 to establish a two-day sales tax holiday in August, 2018. In June, 2018, the Supreme Court of the United States issued a ruling in *South Dakota v. Wayfair* that effectively removes earlier constraints on states seeking to require out-of-state sellers to collect and remit sales tax. However, because the Commonwealth had previously established collect-and-remittance agreements covering the majority of sales by out-of-state sellers to Massachusetts residents, and has proactively asserted the obligation to collect sales taxes from out-of-state sellers with economic scale in Massachusetts, the incremental impact of *South Dakota v. Wayfair* on Commonwealth tax revenues is expected to be limited. The revenue projections for budgeting purposes, as described under the heading “Tax Revenue Forecasting” below, include both existing and incremental collections on internet sales as a component of overall sales tax revenue.

Business Corporations Tax. Business corporations doing business in the Commonwealth, other than banks and other financial institutions, insurance companies, railroads and safe deposit companies, are subject to an excise that has a property measure and an income measure. The value of Massachusetts tangible property (not taxed locally) or net worth allocated to the Commonwealth is taxed at \$2.60 per \$1,000 of value. The net income assigned to Massachusetts, which is based on net income for federal taxes, is taxed at 8.0%. The minimum tax is \$456.

In general, corporations apportion their income to Massachusetts based on the proportion of payroll, property and sales within the Commonwealth, with sales being double-weighted. This general rule does not apply to manufacturing companies or to mutual fund service corporations. The net income of such entities is apportioned only by the percentage of their Massachusetts sales.

Financial Institutions Tax. Financial institutions (which include commercial and savings banks) are subject to an excise tax. The net income assigned to Massachusetts is taxed at 9.0%. In general, financial institutions apportion their income to Massachusetts based on the proportion of receipts, payroll and property within the Commonwealth.

Insurance Taxes. Life insurance companies are subject to a 2% tax on gross premiums. Property and casualty insurance companies are subject to a 2.28% tax on gross premiums. Domestic property and casualty insurance companies also pay a 1% tax on gross investment income.

Other Taxes. Other tax revenues are derived by the Commonwealth from excise taxes on motor fuels, cigarettes and other tobacco products, alcoholic beverages, deeds, and hotel/motel room occupancy, as well as taxes on estates, among other tax sources. On November 8, 2016, voters approved an initiative petition that, among other things, imposes an excise tax, in addition to the regular sales tax, on retail sales of recreational marijuana and marijuana products, which that petition legalized. Legislation approved by the Governor on December 30, 2016 delayed the effective date of the new tax from January 1, 2018 to July 1, 2018. Legislation approved by the Governor on July 28, 2017 increased the maximum combined state and local tax rate on recreational marijuana from 12% to 20%. In late 2017, the Department of Revenue estimated that the Commonwealth’s portion of the taxes (not including local option) from retail sales of recreational marijuana in fiscal 2019 may range from \$44 million to \$82 million, with a midpoint of \$63 million. However, due to delays in licensing, actual collections of marijuana tax revenues may be lower than originally projected.

On December 28, 2018, the Governor approved legislation imposed state and local excise taxes on the short-term rentals of property for more than 14 days in a calendar year. This legislation is effective July 1, 2019 and applies to rental contracts entered into on or after January 1, 2019.

Tax Credits and Other Incentives. Massachusetts law provides for a variety of tax credits that may be applied against corporate excise or personal income taxes due, as applicable under relevant law. These credits are designed as benefits for specified economic activities as a means to encourage such business in the state. Certain of these credits, to the extent not used to reduce a current tax liability, may be carried forward, transferred or refunded, as specified in the applicable statute. In addition, certain statutory provisions may also provide an exemption from sales and use taxes for qualifying expenditures, or other specified tax benefits.

The Governor annually publishes a “tax expenditure budget” that provides a list, description and revenue estimate of various tax credits, deductions and exemptions that represent departures from the basic provisions of the state tax code. A summary of the tax expenditure budget published on January 23, 2019 appears below.

Fiscal 2020 Tax Expenditure Budget Summary (in millions)

<u>Tax Type</u>	<u>Fiscal 2016</u>	<u>Fiscal 2017</u>	<u>Fiscal 2018</u>	<u>Fiscal 2019</u>	<u>Fiscal 2020</u>
Personal Income Tax	\$6,920.3	\$7,266.6	\$8,086.5	\$8,683.7	\$9,064.7
Corporate and Other Business Excise	1,980.2	1,982.6	2,037.4	2,092.3	2,167.3
Sales and Use Tax	<u>4,588.2</u>	<u>4,715.1</u>	<u>4,960.0</u>	<u>5,111.9</u>	<u>5,270.0</u>
Total	\$13,488.7	\$13,964.3	\$15,083.9	\$15,887.9	\$16,502.0

Source: Department of Revenue.

Under legislation approved June 15, 2018, in support of the life sciences industry, up to \$30 million per year in tax incentives is available to certified life sciences companies over a 10-year period, commencing January 1, 2019 and ending on December 31, 2028, for an aggregate amount of \$300 million. The Department of Revenue estimates that this program, which previously had an annual cap of \$25 million, resulted in revenue reductions of \$16.5 million in fiscal 2013, \$16.5 million in fiscal 2014, \$12.9 million in fiscal 2015, \$11.2 million in fiscal 2016, \$14.2 million in fiscal 2017, and \$16.6 million in fiscal 2018. The Massachusetts Life Sciences Center board approved \$20 million in tax incentives that were expected to be utilized in fiscal 2019.

Tax Revenue Forecasting

Under state law, on or before October 15 of each year, the Secretary of Administration and Finance is required to submit to the Governor and to the House and Senate Committees on Ways and Means estimates of revenues available to meet appropriations and other needs in the current fiscal year and the following fiscal year.

On or before January 15 of each year (January 31 in the first year of a new Governor), the Secretary is required to develop jointly with the House and Senate Committees on Ways and Means a consensus tax revenue forecast for the following fiscal year. State finance law requires that the consensus tax revenue forecasts be net of the amounts necessary to fully fund the pension system according to the applicable funding schedule, and to fulfill statutory commitments to the MBTA and the MSBA. These amounts are to be transferred without further appropriation from the General Fund. See “Sales and Use Tax,” above and “PENSION AND OPEB FUNDING.”

An additional component of the consensus revenue process is the requirement that the consensus tax revenue forecast joint resolution include a benchmark for the estimated growth rate of Massachusetts potential gross state product (PGSP). Health care cost control legislation requires that the Secretary and the House and Senate Committees on Ways and Means include a PGSP growth benchmark for the ensuing calendar year. PGSP is a measure of the “full employment” output of the Commonwealth’s economy. The PGSP growth benchmark is used by the Massachusetts Health Policy Commission to establish the Commonwealth’s health care cost growth benchmark. See “COMMONWEALTH EXPENDITURES – Medicaid and the Health Connector; *Health Care Cost Containment.*”

The following table compares actual budgeted tax revenues to consensus tax revenue forecasts for fiscal 2014 to 2018. Figures for fiscal 2019 and 2020 are projected. The figures include sales tax receipts dedicated to the MBTA and the MSBA and amounts transferred to the state pension system.

Tax Revenue Forecasting (in millions)

	<u>Fiscal 2015</u>	<u>Fiscal 2016</u>	<u>Fiscal 2017</u>	<u>Fiscal 2018</u>	<u>Projected Fiscal 2019</u>	<u>Projected Fiscal 2020</u>
Consensus forecast	\$24,337	\$25,479	\$26,860	\$27,072	\$27,594	\$29,299 (5)
GAA assumption of tax-related settlements and judgments exceeding \$10 million	204	100	125	125	25	
Total taxes per enacted budget	<u>\$24,591</u>	<u>\$25,711</u>	<u>\$26,356</u>	<u>\$26,604 (2)</u>	<u>\$28,392</u>	
October revision	-	-	26,056	-		
January revision	24,325	25,751	-	26,761 (2)(3)	\$28,592 (4)	
Actual budgeted operating tax revenues (1)	<u>\$24,932</u>	<u>\$25,425</u>	<u>\$25,662</u>	<u>\$27,787</u>		
Actual revenues as a percentage of consensus forecast	102%	99.8%	95.5%	102.6%		
Actual revenues as a percentage of total taxes per enacted budget	102%	98.7%	98.5%	104.4%		

SOURCE: Executive Office for Administration and Finance; actual budgeted operating tax revenues, Office of the Comptroller.

- (1) Actual revenues include tax-related settlements exceeding \$10 million each.
- (2) See discussion below. In fiscal 2018, the Commonwealth collected \$11 million in tax-related settlements and judgments exceeding \$10 million each.
- (3) Revised on January 12, 2018, including \$100 million for tax-related settlements and judgments exceeding \$10 million each.
- (4) Revised on December 31, 2018; includes an estimated \$63 million from marijuana sales and exercise taxes.
- (5) Does not include any revenue from marijuana sales or excise taxes.

On December 31, 2018, the Secretary of Administration and Finance certified a revised fiscal 2019 tax revenue estimate of \$28.529 billion (when an estimated \$63 million of revenues from marijuana sales and excise taxes is included, the revised fiscal 2019 benchmark estimate is \$28.592 billion).

Also on December 31, 2018, a fiscal 2020 consensus tax revenue estimate of \$29.299 billion was agreed upon by the Secretary and the chairs of the House and Senate Committees on Ways and Means. The fiscal 2020 consensus tax revenue estimate represents revenue growth of 2.7% from the revised fiscal 2019 estimate of \$28.529

billion. The \$29.299 billion figure for fiscal 2020 includes transfers of \$2.841 billion for pension funding, \$1.077 billion in dedicated sales tax receipts for the MBTA, \$917 million in dedicated sales tax receipts for the MSBA, and \$25 million for the Workforce Training Fund. The total amount of off-budget transfers was \$5.080 billion. Accordingly, after taking into account these off-budget allocations the Secretary and Committee chairs agreed that \$24.219 billion would be the maximum amount of tax revenue available for the fiscal 2020 budget. The fiscal 2020 consensus tax revenue estimate does not include any revenue from marijuana sales or excise taxes. The consensus tax revenue estimate for fiscal 2020 assumes that another income tax trigger will go into effect on January 1, 2020, lowering the state personal income tax rate on most classes of taxable income to 5.00% from 5.05%.

The Secretary of Administration and Finance and the chairs of the House and Senate Committees on Ways and Means also agreed upon a PGSP estimate of 3.6% for calendar year 2019, which is identical to the PGSP figure that was adopted for calendar years 2016 through 2018. The PGSP growth benchmark is to be used by the Health Policy Commission to establish the Commonwealth’s health care cost growth benchmark for calendar year 2019. See “COMMONWEALTH EXPENDITURES – Medicaid and the Health Connector; *Health Care Cost Containment.*”

Fiscal 2018 and Fiscal 2019 Tax Revenues

Fiscal 2018. Tax revenues for fiscal 2018 (including tax revenues allocated to pensions, the MBTA, the MSBA and the Workforce Training Fund, but excluding other non-budgeted tax revenues) totaled approximately \$27.787 billion, including \$11.0 million in one-time tax-related settlements and judgments, exceeding \$10 million each, an increase of approximately \$2.126 billion, or 8.3%, over fiscal 2017.

The following table shows the tax collections for fiscal 2018 and the change from tax collections in the prior year, both in dollars and as a percentage. The table also notes the amount of tax collections during the fiscal year that are dedicated to the MBTA and the MSBA.

Fiscal 2018 Tax Collections (in millions)

<u>Month</u>	<u>Tax Collections</u>	<u>Change from Prior Year</u>	<u>Percentage Change</u>	<u>MBTA Portion</u>	<u>MSBA Portion</u>	<u>Tax Collections: Net of MBTA and MSBA</u>
July	\$1,797.1	\$91.7	5.4%	\$83.5	\$70.2	\$1,643.4
August	1,711.9	(25.2)	(1.4)	82.8	69.4	1,559.7
September	2,845.4	88.5	3.2	85.4	69.6	2,690.3
October	1,826.6	34.4	1.9	84.1	70.8	1,671.8
November	1,735.8	245.4	16.5	81.7	68.3	1,585.9
December	3,007.5	517.9	20.8	86.0	70.2	2,851.3
January	2,967.6	247.5	9.1	96.0	82.6	2,789.0
February	1,269.1	96.7	8.2	77.2	63.9	1,127.9
March	2,241.2	(48.9)	(2.1)	78.5	63.1	2,099.7
April	3,304.2	449.8	15.8	80.9	67.5	3,155.8
May	1,942.1	21.0	1.1	86.0	72.7	1,783.4
June	3,138.8	406.7	14.9	86.0	79.6	2,973.2
Total (1)	<u>\$27,787.2</u>	<u>\$2,125.5</u>	<u>8.3%</u>	<u>\$1,007.9</u>	<u>\$847.9</u>	<u>\$25,931.3</u>

SOURCE: Executive Office for Administration and Finance.

(1) Totals may not add due to rounding.

The tax revenue increase of approximately \$2.126 billion from fiscal 2017 to fiscal 2018 is attributable, in large part, to an increase of approximately \$761.9 million, or 6.4%, in withholding collections, an increase of approximately \$764.8 million, or 32.2%, in income tax estimated payments, an increase of approximately \$205.4 million, or 10.6%, in income tax payments with bills and returns, an increase of approximately \$217.9 million, or 8.5%, in corporate and business tax collections, an increase of approximately \$242.7 million, or 3.9%, in sales and use tax collections, and a net increase of approximately \$109.1 million, or 4.9%, in all other taxes, which were partly offset by an increase of approximately \$175.9 million, or 11.0%, in income tax cash refunds. Fiscal 2018 collections from one-time tax related settlements and judgments exceeding \$10 million each totaled \$11.0 million. Excluding these payments, fiscal 2018 tax collections were approximately \$1.115 billion above the benchmark associated with the revised fiscal 2018 tax revenue estimate of \$26.661 billion.

A provision in the fiscal 2018 budget required that the Comptroller record in fiscal 2018 on the statutory basis of accounting certain sales tax revenues received in July, 2018, that under Massachusetts General Law and the Comptroller’s revenue recognition policy would normally be recorded as fiscal 2019 revenue. The result of this provision was that 13 months of such sales tax revenue would be recorded in fiscal 2018. This requirement was repealed. See “COMMONWEALTH BUDGET AND FINANCIAL MANAGEMENT CONTROLS – Fiscal Control, Accounting and Reporting Practices of the Comptroller; *Statutory Basis of Accounting*.”

Fiscal 2019. The fiscal 2019 General Appropriations Act was based on estimated tax collections of \$28.392 billion, including revenues dedicated to the MBTA, the MSBA and the Workforce Training Fund, excluding large tax-related settlements and judgments. On December 31, 2018, the Secretary of Administration and Finance revised the tax revenue projection of \$28.329 billion (not including the \$63 million for the estimated revenues from marijuana sales and excise taxes) upward by \$200 million to \$28.529 billion based on then current year-to-date revenues and economic data. Including the \$63 million for the estimated revenues from marijuana sales and excise taxes, the revised fiscal 2019 benchmark estimate is \$28.592 billion.

The following table shows the tax collections for the first nine months of fiscal 2019 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 during the fiscal year that are dedicated to the MBTA and the MSBA.

Fiscal 2019 Tax Collections (in millions)

<u>Month</u>	<u>Tax Collections</u>	<u>Change from Prior Year</u>	<u>Percentage Change</u>	<u>MBTA Portion</u>	<u>MSBA Portion</u>	<u>Tax Collections: Net of MBTA and MSBA</u>
July	\$1,914.0	\$116.9	6.5%	\$86.5	\$73.2	\$1,754.3
August	1,842.3	130.4	7.6	88.0	74.7	1,679.6
September	3,262.6	417.2	14.7	84.9	71.6	3,106.0
October	1,913.5	86.9	4.8	87.5	74.2	1,751.7
November	1,856.5	120.7	7.0	87.5	74.2	1,694.8
December	<u>2,571.3</u>	<u>(436.1)</u>	<u>(14.5)</u>	<u>87.5</u>	<u>74.2</u>	<u>2,409.5</u>
January	<u>2,787.4</u>	<u>(180.2)</u>	<u>(6.1)</u>	<u>99.7</u>	<u>86.3</u>	<u>2,601.4</u>
February	<u>1,420.0</u>	<u>150.9</u>	<u>11.9</u>	<u>79.8</u>	<u>66.5</u>	<u>1,273.7</u>
March (1)	<u>2,668.0</u>	<u>426.8</u>	<u>19.0</u>	<u>78.0</u>	<u>64.7</u>	<u>2,525.4</u>
Total (2)	<u>\$20,235.5</u>	<u>\$833.4</u>	<u>4.3%</u>	<u>\$779.5</u>	<u>\$659.5</u>	<u>\$18,796.5</u>

SOURCE: Executive Office for Administration and Finance.

(1) Figures are preliminary.

(2) Totals may not add due to rounding.

The year-to-date net tax revenue increase of approximately \$833.4 million through March 31, 2019 over the same period in fiscal 2018 is attributable, in large part, to an increase of approximately \$430.5 million, or 4.5%, in withholding collections, an increase of approximately \$62.3 million, or 12.7%, in income tax payments with bills and returns, a decrease of approximately \$60.9 million, or 5.0%, in income tax cash refunds, an increase of approximately \$540.9 million, or 30.8%, in corporate and business tax collections, an increase of approximately \$239.1 million, or 5.0%, in sales and use tax collections, and a net increase of approximately \$194.9 million, or 11.7%, in all other taxes, offset by a decrease of approximately \$695.2 million, or 30.2%, in income tax estimated payments. Excluding one-time tax related settlements and judgments exceeding \$10 million each, fiscal 2019 year to date tax collections were approximately \$20.187 billion, \$19 million above the year-to-date benchmark associated with the revised fiscal 2019 tax revenue estimate of \$28.592 billion.

Federal and Other Non-Tax Revenues

Federal revenues are collected through reimbursements for the federal share of entitlement programs such as Medicaid and through block grants for programs such as Transitional Assistance to Needy Families (TANF). The amount of federal reimbursements to be received is determined by state expenditures for these programs. The Commonwealth receives reimbursement for approximately 50% of its spending for Medicaid programs. Block grant funding for TANF is received quarterly and is contingent upon a maintenance-of-effort spending level determined annually by the federal government. Budgeted fund federal reimbursements were \$11.377 billion in fiscal 2018 and are projected to be \$11.602 billion in fiscal 2019.

Departmental and other non-tax revenues are derived from a large number of sources, including but not limited to fees and assessments for services, licenses, and reimbursements. For fiscal 2018, budgeted fund departmental and other non-tax revenues were \$5.179 billion. The largest budgeted departmental revenues, assessments and miscellaneous revenues in fiscal 2018 included \$1.355 billion in drug rebates, recoveries and other fees, \$880 million in reimbursements from cities, towns and non-state entities for retiree benefits, \$613 million for Registry of Motor Vehicles fees, fines and assessments, and \$245 million from filing, registration and other fees paid to the Secretary of State's office. Budgeted fund departmental and other non-tax revenues are projected to be \$5.191 billion in fiscal 2019.

Lottery Revenues. For the budgeted operating funds, inter-fund transfers include transfers of net operating revenues from the State Lottery and Gaming Fund and the Arts Lottery Fund and reimbursements for the budgeted costs of the State Lottery Commission, which accounted for transfers from the Lottery of \$1.069 billion, \$1.086 billion, \$1.092 billion, \$1.136 billion and \$1.097 billion in fiscal 2014 through 2018, respectively.

The following table shows Lottery revenues and profits for fiscal 2019.

Fiscal 2019 Monthly Lottery Revenues and Profits (in thousands) (1)

<u>Month</u>	<u>Revenues</u>	<u>Prizes</u>	<u>Subtotal Operating Expenses</u>	<u>Operating Revenues</u>	<u>Administrative Expenses</u>	<u>Net Profit before Distributions</u>
July	\$404,534	\$296,140	\$23,319	\$85,075	\$4,106	\$ 80,969
August	494,492	350,556	28,299	115,637	6,854	108,783
September	394,967	287,978	22,602	84,387	6,928	77,459
October	479,393	327,649	26,813	124,931	7,202	117,729
November	502,034	358,903	28,694	114,437	5,434	109,003
December	443,342	324,600	25,526	93,216	7,443	85,773
January	519,129	396,765	30,067	92,298	7,064	85,234
February	413,708	306,367	23,631	83,709	6,389	77,320
Total	\$3,651,599	\$2,648,958	\$208,950	\$793,691	\$51,419	\$742,271
YTD prize accrual	-	3,161	-	(3,161)	-	(3,161)
Adj Totals	\$3,651,599	\$2,652,119	\$208,950	\$790,530	\$51,419	\$739,111

Source: State Lottery Commission; Monthly values from the State Lottery Commission Statement of Operations.

(1) Preliminary and subject to change.

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A five-year history of Lottery revenues and profits is shown in the following table as well as current projections for fiscal 2019.

Lottery Revenues and Profits
(in thousands)

<u>Fiscal Year</u>	<u>Revenues</u>	<u>Net Operating Revenues</u>	<u>Net Profits</u>
2019 (1)	\$5,362,454	\$1,100,515	\$ 995,056
2018	5,291,951	1,097,398	997,057
2017	5,097,765	1,136,203	1,039,697
2016	5,233,931	1,092,130	989,411
2015	5,014,535	1,086,469	985,879
2014	4,863,373	1,069,958	974,562

Source: State Lottery Commission

- (1) Fiscal 2019 figures are projected. These numbers are under review and may be adjusted.
Minor adjustments to Lottery revenues are reported several times a year based upon trends.

Tobacco Settlement. In November, 1998, the Commonwealth joined with other states in a master settlement agreement that resolved the Commonwealth’s and other states’ litigation against the cigarette industry. Under the agreement, cigarette companies have agreed to make both annual payments (in perpetuity) and five initial payments (for calendar 1999 to 2003, inclusive) to the settling states. Each payment amount is subject to applicable adjustments, reductions and offsets, including upward adjustments for inflation and downward adjustments for decreased domestic cigarette sales volume.

The Commonwealth’s allocable share of the base amounts payable under the master settlement agreement is approximately 4.04%, which equals more than \$8.962 billion through fiscal 2024, subject to adjustments, reductions and offsets. However, since fiscal 2006 certain amounts have been withheld from each year’s payments by tobacco manufacturers who claim that because of certain developments they are entitled to reduce such payments under the master settlement agreement. Those withheld amounts ranged from \$21 million to \$35 million to the Commonwealth in the period from 2006 through 2012, inclusive. A smaller amount has been withheld for 2013 through 2016, inclusive. The Commonwealth believes it is due the full amount and is pursuing its claim to unreduced payments. See “LEGAL MATTERS – Other Revenues.” The Commonwealth was also awarded \$414.3 million from a separate Strategic Contribution Fund established under the master settlement agreement to reward certain states’ particular contributions to the national tobacco litigation effort. This additional amount, also subject to a number of adjustments, reductions and offsets, was payable in equal annual installments during the years 2008 through 2017, inclusive. Massachusetts received its final Strategic Contribution Fund payment in April, 2017.

From fiscal 2003 through fiscal 2012, all payments received by the Commonwealth pursuant to the master settlement agreement were deposited in the General Fund. Since fiscal 2012, state law has stipulated that a portion of annual tobacco settlement revenues be deposited into the State Retiree Benefits Trust Fund. See “PENSION AND OPEB FUNDING – Other Post-Employment Benefit Obligations (OPEB).”

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The following table sets forth the tobacco settlement amounts received by the Commonwealth to date.

Payments Received Pursuant to the Tobacco Master Settlement Agreement (in millions) (1)

<u>Fiscal Year</u>	<u>Initial Payments</u>	<u>Annual Payments</u>	<u>Total Payments</u>
2000	\$186.6 (2)	\$139.6	\$326.2(2)
2001	78.2	164.2	242.4
2002	82.8	221.7	304.5
2003	86.4	213.6	300.0
2004	-	253.6	253.6
2005	-	257.4	257.4
2006	-	236.3	236.3
2007	-	245.4	245.4
2008	-	288.5	288.5
2009	-	315.2	315.2
2010	-	263.7	263.7
2011	-	248.7	248.7
2012	-	253.6	253.6
2013	-	253.5	253.5
2014	-	282.1	282.1
2015	-	245.8	245.8
2016	-	257.6	257.6
2017	-	254.5	254.5
2018	-	243.3	243.3
Total	<u>\$434.0</u>	<u>\$4,638.3</u>	<u>\$5,072.3</u>

SOURCE: Office of the Comptroller.

(1) Amounts are approximate. Totals may not add due to rounding.

(2) Payments received for both 1999 and 2000.

Settlements and Judgments. State finance law provides that any one-time settlement or judgment exceeding \$10 million is to be deposited in the Stabilization Fund to the extent that the total of all such one-time settlements and judgments in a fiscal year exceeds the average of such totals for the five preceding fiscal years. The amount of such one-time settlements and judgments totaled approximately \$436.5 million in fiscal 2014, \$226.1 million in fiscal 2015, \$155.3 million in fiscal 2016, \$111.6 million in fiscal 2017 and \$36.6 million in fiscal 2018. The threshold applicable in fiscal 2019 is \$193.2 million (average of fiscal 2014 through fiscal 2018).

On March 6, 2019, the Commissioner of Revenue and the Attorney General certified that the Commonwealth had received \$48.8 million in one-time settlement and judgment payments exceeding \$10 million each (all of which were tax-related) during the first eight months of fiscal 2019.

In fiscal 2013 and fiscal 2014, projected tax-related settlements or judgments exceeding \$10 million were included as part of the consensus revenue estimate. Beginning in fiscal 2015, such settlements or judgments have been counted separately from the consensus revenue estimate in the General Appropriations Act.

Gaming. On November 22, 2011, the Governor approved legislation that authorized the licensing of up to three regional resort casinos (one per region) and one slot facility (up to 1,250 slots) in the Commonwealth. The legislation established an appointed, independent state Gaming Commission to oversee the implementation of the law and the regulation of the resultant gaming facilities. The legislation also provided that licensing fees collected by the Gaming Commission are to be applied to a variety of one-time state and local purposes, and gaming revenues received by the Commonwealth are to be applied to various funds created by the legislation. The legislation stipulates that initial licensing fees, which are set by the Gaming Commission, must be at least \$85 million per casino (Category 1 license) and \$25 million for the slot facility (Category 2 license). According to the Gaming Commission, aggregate state tax revenues from gaming licenses are expected to total approximately \$300 million per year once the facilities are operational.

The Gaming Commission entered into agreements with the Category 1 licensees in two of the three regions, pursuant to which the licensees each received a license effective on November 7, 2014. The \$85 million license fees were paid by each licensee in November, 2014. The facility in Springfield (Region B) opened on August 24, 2018; the facility in Everett (Region A) is expected to be operational in calendar 2019.

The Category 2 slot facility opened on June 24, 2015. In fiscal 2017, the facility generated approximately \$158.3 million in gross gaming revenue, resulting in \$63.4 million in budgetary fund taxes collected by the Commonwealth. In fiscal 2018, the facility generated approximately \$170 million in gross gaming revenue, resulting in \$68.0 million in budgetary fund taxes collected by the Commonwealth.

Fiscal 2019 Monthly Gaming Revenues (in thousands) (1)

<u>Month</u>	<u>Category 1 Gross Gaming Revenue (2)</u>	<u>Category 1 Total Collected State Taxes (3)</u>	<u>Category 2 Slot Gross Gaming Revenue (2)</u>	<u>Category 2 Total Collected State Taxes (4)</u>	<u>Category 2 Race Horse Assessments (5)</u>	<u>Statewide Gross Gaming Revenue (6)</u>	<u>Statewide Budgetary Taxes & Race Horse Assessments (6)</u>
July	\$ -	\$ -	\$ 15,150	\$ 6,060	\$ 1,365	\$ 15,150	\$ 7,425
August	9,457	2,364	15,380	6,152	1,384	24,837	9,900
September	26,952	6,738	14,319	5,728	1,289	41,271	13,755
October	22,243	5,561	13,526	5,410	1,217	35,769	12,188
November	21,248	5,312	12,852	5,141	1,157	26,389	11,610
December	21,583	5,396	14,090	5,636	1,268	27,219	12,300
January	19,968	4,925	12,379	4,952	1,114	24,650	10,991
February	21,501	5,375	12,594	5,038	1,133	26,539	11,546
Total (6)	\$142,952	\$35,671	\$110,290	\$44,117	\$9,927	\$221,824	\$89,715

Source: Massachusetts Gaming Commission, Revenue Reports through February 2019.

- (1) Preliminary and subject to change.
- (2) "Gross gaming revenue" is the total of all sums actually received from gaming operations, less the total of all sums paid out as winnings.
- (3) Each Category 1 licensee pays a tax of 25% of gross gaming revenues.
- (4) Each Category 2 licensee pays a tax of 40% of gross gaming revenues.
- (5) Each Category 2 licensee pays an assessment of 9% of gross gaming revenue.
- (6) Totals may not sum due to rounding.

In March, 2016, the Mashpee Wampanoag tribe announced that it would commence construction of a tribal resort casino in the third region (Region C), based upon the assumed power of the U. S. Secretary of the Interior to take land into trust for the tribe. On April 28, 2016, the Gaming Commission voted to deny an application for a Category 1 license in Region C. On July 28, 2016, in the case of *Littlefield v. the U. S. Department of the Interior*, the U. S. District Court held that the Secretary of the Interior lacked the authority to take land into trust for the Mashpee Wampanoag tribe and remanded the matter back to the Secretary of the Interior for further proceedings consistent with the opinion as well as the declaratory judgment entered. The U.S. Bureau of Indian Affairs filed a motion for reconsideration, which was denied by the District Court, and the Mashpee Wampanoag filed a motion to intervene, which was granted. In December, 2016, the U. S. Department of the Interior and the Mashpee Wampanoag each filed a notice of appeal to the U. S. Court of Appeals for the First Circuit. On April 24, 2017, the Mashpee Wampanoag filed an assent to motion to stay briefing pending the revised decision from the Department of the Interior. On May 8, 2017, the Department of the Interior moved to withdraw its appeal. The Mashpee Wampanoag have asked the Court of Appeals to stay the matter further pending a decision from the Department of the Interior, and the Court has agreed to the requested stay. On July 25, 2018, the U.S. House of Representative Subcommittee on Indian, Insular and Alaska Native Affairs held a hearing on proposed legislation (H.R. 5244) that would allow the Mashpee Wampanoag land to remain in trust. This legislation has been refiled in the 115th Congress as S.2628. No action has yet been taken on this legislation. On September 7, 2018, the Department of the Interior issued a revised land-in-trust decision concluding that the Mashpee Wampanoag did not meet the statutory requirements to have land taken into trust. The Mashpee Wampanoag filed an appeal of this decision in the U.S. District Court for the District of Columbia; they have asked the First Circuit Court of Appeals to further extend the stay in the appeal currently pending before the First Circuit. The Gaming Commission will continue to monitor this matter.

On June 6, 2018, the unsuccessful applicant in Region C sent a letter to the Gaming Commission requesting that the Gaming Commission reconsider its unsuccessful application filed in 2015 and denied by the Gaming Commission on April 28, 2016. The Gaming Commission acknowledged the applicant's letter at its July 26, 2018

meeting and subsequently requested public comments on the issues raised therein. The comment period concluded on November 30, 2018. The Gaming Commission is reviewing comments and considering next steps.

Various municipalities have filed suit contesting certain aspects of the Gaming Commission's issuance of the Region A Category 1 license. Certain of these claims have been dismissed, either voluntarily or by order of the Massachusetts Superior Court. The Gaming Commission currently is defending the remaining intervenor claim filed by Mohegan Sun and the appeals filed by the City of Revere and the individuals who filed an open meeting law claim as part of the City of Revere litigation. That claim and those appeals were argued before the Massachusetts Supreme Judicial Court in November, 2016. On March 10, 2017, the Supreme Judicial Court issued a decision affirming Mohegan Sun's intervenor claim, reversing the Superior Court's dismissal of the open meeting law claim, and remanding the case to the Superior Court for further proceedings. Briefing on Mohegan Sun's intervenor claim was completed in January, 2018. Since the completion of the briefing on Mohegan Sun's intervenor claim, Mohegan Sun has filed a motion to amend its complaint. The Gaming Commission opposed this motion and, on July 16, 2018, the Superior Court allowed Mohegan Sun's motion in part and denied it in part, thus granting Mohegan Sun the right to add additional information to its existing complaint. The parties do not have a schedule for briefing or arguments in the amended Mohegan Sun intervenor claim.

Discovery on the open meeting law claim has concluded; however, the open meeting law plaintiffs have requested that the Superior Court allow further discovery. The motion was argued in December, 2018 and it was denied. Briefing on the parties' motions for summary judgment is complete and the motions for summary judgment on the open meeting law claim will be argued in April, 2019. The Gaming Commission is proceeding with its defense of these claims.

On November 14, 2016, the Gaming Commission was sued for tortious interference with respect to the plaintiff's agreement to sell property to the licensee for the Region A Category 1 facility. The plaintiff is requesting damages as determined at trial. On April 7, 2017, the Gaming Commission filed a motion to dismiss the suit, which was granted by the Massachusetts Superior Court on June 7, 2017; however, the plaintiff filed an amended complaint while the Superior Court was in the process of issuing its decision. The Superior Court's decision stands and the Gaming Commission filed a motion to dismiss the claims in the amended complaint. The Gaming Commission's motion to dismiss was argued in October, 2017. The Superior Court denied the Gaming Commission's motion in part and asked for further briefing on a jurisdictional issue from both parties. In lieu of a briefing on the jurisdictional issue, the case was transferred by agreement of the parties from Suffolk County to Middlesex County. The case was reargued on March 23, 2018. On May 14, 2018, the Superior Court granted the Gaming Commission's motion to dismiss on two of three remaining claims. The Gaming Commission filed a motion asking the Superior Court to reconsider its decision not to dismiss the remaining claim. That motion was denied. The plaintiff has served the Gaming Commission with its initial discovery on the remaining claim and discovery is proceeding. The Gaming Commission is proceeding with its defense of this claim. On July 5, 2018, the Gaming Commission filed a third party complaint against the Region A Category 1 licensee for unjust enrichment and indemnification on the remaining claim. The Region A Category 1 licensee has advised the Gaming Commission that it will file a request with the court for additional time to file its response to the third party complaint.

In January, 2018, the Gaming Commission instituted an investigation into certain public allegations related to the former chief executive officer of the parent company of the Region A Category 1 licensee. Since the commencement of the investigation, the president of the parent company has been named its chief executive officer and president, and the general counsel of the parent company has resigned. In April, 2018, the parent company elected three new directors to replace directors who had resigned or elected not to stand for re-election to the board of directors. In July 2018, the parent company appointed a new general counsel. The former chief executive officer filed a lawsuit in Nevada alleging that the Gaming Commission improperly obtained attorney client privileged and other information for use in its investigative report. That litigation was resolved by agreement on March 1, 2019. The Gaming Commission investigation is completed. The Gaming Commission held an adjudicatory hearing on the results of the investigation in the first week of April, 2019 and will issue a written decision in due course.

Limitations on Tax Revenues

Chapter 62F of the General Laws establishes a state tax revenue growth limit for each fiscal year equal to the average positive rate of growth in total wages and salaries in the Commonwealth, as reported by the federal government, during the three calendar years immediately preceding the end of such fiscal year. The growth limit is used to calculate “allowable state tax revenue” for each fiscal year. Chapter 62F also requires that allowable state tax revenues be reduced by the aggregate amount received by local governmental units from any newly authorized or increased local option taxes or excises. Any excess in state tax revenue collections for a given fiscal year over the prescribed limit, as determined by the State Auditor, is to be applied as a credit against the then-current personal income tax liability of all taxpayers in the Commonwealth in proportion to the personal income tax liability of all taxpayers in the Commonwealth for the immediately preceding tax year. The law does not exclude principal and interest payments on Commonwealth debt obligations from the scope of its tax limit. However, the preamble contained in Chapter 62F provides that “although not specifically required by anything contained in this chapter, it is assumed that from allowable state tax revenues as defined herein the Commonwealth will give priority attention to the funding of state financial assistance to local governmental units, obligations under the state governmental pension systems and payment of principal and interest on debt and other obligations of the Commonwealth.”

The following table sets forth the Commonwealth’s net state tax revenues and allowable state tax revenues, as defined in Chapter 62F, for fiscal 2014 through fiscal 2018.

	<u>Net State Tax Revenues</u>	<u>Allowable State Tax Revenues</u>	<u>Net State Tax Revenues (under)</u> <u>Allowable State Tax Revenues</u>
2018	\$28,178,560,547	\$32,531,393,763	(\$4,352,833,216)
2017	26,044,206,400	31,095,184,910	(5,050,978,510)
2016	25,801,807,368	29,477,204,724	(3,675,397,356)
2015	25,239,065,862	28,071,638,151	(2,832,572,289)
2014	23,666,801,084	27,048,676,153	(3,381,875,070)

SOURCES: State Auditor’s Office.

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COMMONWEALTH EXPENDITURES

This section contains a description of the major categories of Commonwealth expenditures. All percentages and amounts for fiscal 2019 are projected.

Local Aid

Commonwealth Financial Support for Local Governments. The Commonwealth makes substantial payments to its cities, towns and regional school districts (local aid) to mitigate the impact of local property tax limits on local programs and services. See “Property Tax Limits” below. Local aid payments to cities, towns and regional school districts take the form of both direct and indirect assistance. Direct local aid consists of general revenue sharing funds and specific program funds sent directly to local governments and regional school districts. The Commonwealth’s budget for fiscal 2019 provides \$6.354 billion of state-funded direct and indirect local aid to municipalities.

A large portion of general revenue sharing funds is earmarked for public education and is distributed through a formula designed to ensure that each district reaches at least a minimum level of “foundation” spending per public education pupil. The fiscal 2019 budget includes state funding for so-called “Chapter 70” public education aid of \$4.907 billion. This level of funding brings all school districts to the foundation level, ensures that all local educational authorities receive an increase of funding of at least \$30 per pupil, and is an increase of \$160.6 million over fiscal 2018.

The other major component of direct local aid is unrestricted general governmental aid, which provides unrestricted funds for municipal use. The fiscal 2019 budget provides for \$1.099 billion in unrestricted general government aid, which was allocated to provide a 3.5% increase over fiscal 2018 levels to all municipalities.

Property Tax Limits. In November, 1980, voters in the Commonwealth approved a statewide tax limitation initiative petition, commonly known as Proposition 2½, to constrain levels of property taxation and to limit the charges and fees imposed on cities and towns by certain governmental entities, including county governments. Proposition 2½ is not a provision of the state constitution and accordingly is subject to amendment or repeal by the Legislature. Proposition 2½, as amended to date, limits the property taxes that may be levied by any city or town in any fiscal year to the lesser of (i) 2.5% of the full and fair cash valuation of the real estate and personal property therein or (ii) 2.5% over the previous year’s levy limit plus any growth in the tax base from certain new construction and parcel subdivisions. The law contains certain voter override provisions and, in addition, permits debt service on specific bonds and notes and expenditures for identified capital projects to be excluded from the limits by a majority vote at a general or special municipal election. Between fiscal 1981 and fiscal 2019, the aggregate property tax levy across all cities and towns grew from \$3.347 billion to \$17.249 billion, a compound annual growth rate of 4.42%.

Medicaid and the Health Connector

Many of the Commonwealth’s healthcare programs and expenditures are governed by the federal Affordable Care Act (ACA), to which strong opposition has been expressed by President Trump, the Secretary of the U. S. Department of Health and Human Services, and certain members of Congress, and which has been and continues to be the subject of certain legal challenges. In December, 2017, Congress eliminated the financial penalty under the ACA’s individual shared responsibility provision, otherwise known as the individual mandate. In February, 2018, Congress enacted legislation that both deferred the commencement and accelerated the full implementation of reductions in federal reimbursement for hospitals that treat a disproportionate number of Medicaid recipients. To date, such actions have not had or are not expected to have a material adverse impact on the Commonwealth and its health care programs; however, additional measures are being considered which, if enacted into law, could have a material adverse impact on the Commonwealth. While it is not possible to predict with any certainty whether or when any other provisions of the ACA may be, in whole or in part, modified, repealed, or withdrawn, any such actions could have a material adverse effect on the Commonwealth’s healthcare programs and expenditures. Accordingly, the following discussion should be read with the understanding that significant additional changes could occur in the near future and beyond with respect to many of the programs discussed.

MassHealth. The Commonwealth’s Medicaid program, called MassHealth, provides health care to 1.8 million low-income children and families, low-income adults, disabled individuals and low-income elders. The program, administered by the Office of Medicaid within the Executive Office of Health and Human Services, generally receives 50% in federal reimbursement on most expenditures for adults, and 88% in federal reimbursement on most expenditures for children’s benefits reimbursable under the Children’s Health Insurance Program (CHIP). On February 9, 2018, CHIP was reauthorized through federal fiscal 2027. For Massachusetts, the CHIP matching rate is 88% for federal fiscal 2019, then drops to 76.5% in federal fiscal 2020 and 65% for federal fiscal 2021 and beyond. Under the ACA, beginning January 1, 2014, MassHealth began receiving enhanced federal reimbursement for spending on the new adult group (generally, childless adults with incomes under 133% of the federal poverty limit). In calendar 2019, the federal reimbursement rate for this group is 93%. The reimbursement rate is scheduled to decrease to 90% in calendar 2020 and beyond.

The fiscal 2019 budget as approved in July, 2018 and amended in October, 2018 includes \$17.0 billion in funding for non-administrative spending for the MassHealth program. The \$17.0 billion includes \$16.2 billion in programmatic spending, including costs related to the settlement of a claim against the Commonwealth. See “LEGAL MATTERS – Programs and Services; *Hutchinson et al. v. Patrick et al.*” The \$17.0 billion also includes approximately \$754 million to support supplemental payments to providers. Fiscal 2019 estimated programmatic spending as of March, 2019 is \$16.5 billion, which exceeds the fiscal 2019 budget by \$17 million net.

Budgeted Operating Funds Medicaid Expenditures and Enrollment (in millions)

	<u>Fiscal 2014 (1)</u>	<u>Fiscal 2015 (2)</u>	<u>Fiscal 2016</u>	<u>Fiscal 2017</u>	<u>Fiscal 2018 (3)</u>	<u>Projected Fiscal 2019 (6)</u>
Medicaid program expenses	\$11,900.8	\$13,681.9	\$14,851.0	\$15,251.7	\$15,744.5	\$16,466.8
Medicaid administrative expenses	\$86.7	\$87.3	\$93.0	\$97.3	\$98.3	\$104.1
Total expenditures (4)	\$11,987.5	\$13,769.2	\$14,944.0	\$15,349.0	\$15,842.8	\$16,570.9
Annual percentage growth in total expenditures	10.1%	14.9%	8.5%	2.7%	3.2%	4.6%
Enrollment (in average member months) (5)	1,592,050	1,907,366	1,861,298	1,892,264	1,856,686	1,822,826
Annual percentage growth in enrollment	13.5%	19.8%	(2.4%)	1.7%	(1.9%)	(1.8%)

SOURCE: Fiscal 2014-2018 (excluding Medicaid administrative expense and enrollment), Office of the Comptroller; fiscal 2014-2018 (Medicaid administrative expense and enrollment only) and fiscal 2019, Executive Office of Health and Human Services.

(1) Fiscal 2014 figures include spending and enrollment growth for a half year of ACA implementation; enrollment figures include the temporary Medicaid coverage population starting January 1, 2014 through the end of the fiscal year.

(2) Fiscal 2015 figures include spending and enrollment coverage for a full year of ACA implementation; enrollment figures include the temporary Medicaid coverage population through February 23, 2015.

(3) Account restructuring in fiscal 2018 budget shifted spending for the Choices program (\$214 million in fiscal 2017) from MassHealth to Elder Affairs.

(4) Total expenditures exclude supplemental payments to providers.

(5) Enrollment in prior fiscal years changes due to the effects of redeterminations, retroactive eligibility, application verification, and eligibility appeals.

(6) Reflects fiscal 2019 estimated spending as of March, 2019.

Commonwealth Health Insurance Connector Authority. State health care reform legislation enacted in 2006 created the Commonwealth Health Insurance Connector Authority (Health Connector). The Health Connector is governed by a board, of which the Secretary of Health and Human Services is the chairperson and the Secretary of Administration and Finance is also a member, each *ex officio*. Most of the funding to support the Health Connector and its programs is paid from the Commonwealth Care Trust Fund (CCTF), which is supported by dedicated revenue sources. The Health Connector is also responsible for policy development relative to the Affordability Schedule and Minimum Credible Coverage rules and public education and outreach, including the ACA-required Navigator program.

The Health Connector administers the Commonwealth's Health Insurance Marketplace under the ACA. As the Commonwealth's Marketplace, the Health Connector offers qualified health plans to individuals and small businesses. Individuals with incomes under 400% of the federal poverty level (FPL) are eligible for federal tax credits, and certain small businesses shopping through the Marketplace can access federal small business health care tax credits for up to two years. Individuals with incomes between 133% and 300% FPL, as well as certain Aliens with Special Status (AWSS) with incomes between 0% and 300% FPL, have access to additional state and federal subsidies through a program called ConnectorCare. The state provides additional state subsidies via ConnectorCare to ensure that the premiums and point-of-service cost sharing for certain low-income members, after factoring in federal subsidies, are similar to what was available through the Commonwealth Care program.

Total Health Connector gross spending in fiscal 2018 from the CCTF was \$307.3 million, an increase of \$70.4 million from fiscal 2017 gross spending of \$236.9 million. Fiscal 2018 spending for the Health Connector, net of federal revenue, was \$192.3 million, an increase of \$39 million compared to \$153.4 million in fiscal 2017.

The fiscal 2019 budget for the Health Connector reflects \$337.7 million in gross spending from the CCTF. Net of federal revenue, fiscal 2019 expenditures are estimated to be \$205.6 million, an increase of \$13.3 million compared to fiscal 2018. The fiscal 2019 budget for the Health Connector is expected to be fully funded from dedicated revenues in the CCTF.

Federal 1115 MassHealth Demonstration Waiver. Section 1115 of the Social Security Act gives the U. S. Secretary of Health and Human Services authority to waive provisions of major health and welfare programs, including certain Medicaid requirements, and to allow a state to use federal Medicaid funds in ways that are not otherwise allowed under federal rules. The Commonwealth's 1115 waiver was renewed on November 4, 2016. The renewal consisted of an amendment to the current 1115 waiver, which was effective through June 30, 2017, as well as a five-year waiver extension. This waiver extension is authorized from July 1, 2017 through June 30, 2022. The waiver extension is a \$52.4 billion agreement that supports a restructuring of the MassHealth program and is expected to bring in significant federal investment to support health care delivery system reforms. The agreement also extends eligibility and benefit provisions authorized under the waiver, such as coverage for diversionary behavioral health benefits and for individuals with HIV. The waiver extension includes more than \$29 billion in revenue to the Commonwealth through federal financial participation. Additionally, the waiver extension expands services for substance use disorder treatment.

The 1115 waiver extension also preserves and maintains the stability of the Safety Net Care Pool (SNCP) for the full five years of the waiver period with an \$8 billion authorization. This authorization includes a \$1.8 billion investment of new Delivery System Reform Incentive Program (DSRIP) funding that will support MassHealth's payment reform objectives. The SNCP renews authority for the Health Safety Net program, which makes payments to hospitals and community health centers for providing certain health care services to their low-income patients who are not eligible for health insurance or cannot afford it. Under the new SNCP, supplemental payments for safety net hospitals have been restructured and linked to delivery system reform participation. The number of hospitals eligible for these payments increased from seven in the previous waiver to 14 in the waiver extension. In addition, the SNCP expands authority for federal match to include cost-sharing affordability subsidies and enrollment gap coverage for Health Connector enrollees up to 300% FPL. Lastly, the SNCP establishes non-state public hospital payments and incentive programs for Cambridge Health Alliance, tied to delivery system reform performance.

Health Care Cost Containment. The Center for Health Information and Analysis (CHIA) is an independent state agency, funded through an industry assessment, to monitor the Massachusetts health care system through data collection and research and to release reliable information and meaningful analysis to a wide variety of audiences.

The Health Policy Commission (HPC) is an independent agency within, but not subject to the control of, the Executive Office for Administration and Finance. The HPC's mission is to advance a more transparent, accountable, and innovative health care system through independent policy leadership and investment programs, to achieve better health and better care at a lower cost across the Commonwealth. Beginning in fiscal 2017, the HPC is funded through an annual assessment on the health care industry, similar to CHIA's assessment.

As required by statute, the health care cost growth benchmark has been equal to PGSP, or 3.6%, for calendar 2013 to 2017. Each year, the HPC, in collaboration with CHIA, releases a report on the Commonwealth's performance under the benchmark. The 2018 Cost Trends Report provides that total health care expenditures per capita in the Commonwealth grew from 2016 to 2017 by 1.6%, compared to 3.0% growth from 2015 to 2016. Pursuant to statute, the benchmark in calendar 2019 was set at PGSP minus a half of a percent, or 3.1%.

The statutory cost growth target from 2019 through 2022 will be equal to the growth rate of PGSP minus 0.5%, and from 2023 on, will be equal to the growth rate of PGSP. However, the HPC and the Legislature have some ability to change those growth targets.

Other Health and Human Services

Other Health and Human Services - Budgeted Operating Funds (in millions)

<u>Expenditure Category</u>	<u>Fiscal 2014</u>	<u>Fiscal 2015</u>	<u>Fiscal 2016</u>	<u>Fiscal 2017</u>	<u>Fiscal 2018</u>	<u>Projected Fiscal 2019</u>
Office of Health Services						
Department of Mental Health	\$663.0	\$682.4	\$712.5	\$739.2	\$749.1	\$883.3
Department of Public Health	<u>547.7</u>	<u>518.7</u>	<u>525.2</u>	<u>553.8</u>	<u>586.4</u>	<u>652.0</u>
Sub Total	\$1,210.7	\$1,201.2	\$1,237.7	\$1,293.0	\$1,335.5	\$1,535.2
Office of Children, Youth, and Family Services						
Department of Children and Families	\$795.5	\$876.4	\$920.0	\$958.9	\$974.2	\$1,014.9
Department of Transitional Assistance	693.8	660.9	630.2	608.1	593.7	658.3
Department of Youth Services	160.6	168.3	169.2	171.7	169.1	180.5
Office for Refugees and Immigrants	<u>0.9</u>	<u>1.1</u>	<u>1.1</u>	<u>1.3</u>	<u>1.1</u>	<u>0.5</u>
Sub Total	\$1,650.8	\$1,706.7	\$1,720.5	\$1,740.0	\$1,738.1	\$1,854.2
Office of Disabilities and Community Services						
Department of Developmental Services	\$1,466.8	\$1,678.9	\$1,735.4	\$1,813.5	\$1,858.3	\$1,968.6
Other (1)	<u>124.1</u>	<u>129.9</u>	<u>79.5</u>	<u>86.0</u>	<u>82.0</u>	<u>93.8</u>
Sub Total	\$1,590.9	\$1,808.8	\$1,814.9	\$1,899.5	\$1,940.4	\$2,062.3
Executive Office of Elder Affairs (2)	\$260.1	\$291.7	\$312.0	\$308.2	\$527.4	\$546.7
Executive Office of Health and Human Services (3)	254.6	278.1	283.5	295.2	323.7	302.4
Department of Veterans' Services (4)	<u>12.6</u>	<u>14.4</u>	<u>64.4</u>	<u>65.5</u>	<u>65.3</u>	<u>71.9</u>
Sub Total	\$527.2	\$584.2	\$659.9	\$668.9	\$916.4	\$921.0
Budgeted Expenditures and Other Uses	\$4,979.5	\$5,300.8	\$5,433.0	\$5,601.4	\$5,930.5	\$6,372.7

SOURCES: Fiscal 2014-2018 Office of the State Comptroller; fiscal 2019, Executive Office for Administration and Finance.

- (1) Includes Massachusetts Rehabilitation Commission, Massachusetts Commission for the Blind, Massachusetts Commission for the Deaf and Hard of Hearing, and, prior to fiscal 2016, the Chelsea Soldiers' Home, and the Holyoke Soldiers' Home.
- (2) Account restructuring in fiscal 2018 budget shifted spending for the Choices program from MassHealth to Elder Affairs.
- (3) Includes Medicaid program administration.
- (4) The fiscal 2015 budget transferred the Chelsea Soldiers' Home and the Holyoke Soldiers' Home from the Office of Disabilities and Community Services to Veterans' Services. Fiscal 2016 and later years include the Chelsea Soldiers' Home and the Holyoke Soldiers' Home. Beginning in fiscal 2014, Veterans' Services spending does not include veterans' annuities spending, which is captured under local aid spending.

Office of Health Services. The Office of Health Services encompasses programs and services from the Department of Public Health and the Department of Mental Health. Its goal is to promote healthy people, families, communities and environments through coordinated care. The departments work in unison to determine that individuals and families can live and work in their communities self-sufficiently and safely. The following are a few examples of programs and services provided by this office: substance abuse programs, immunization services, early intervention programs, environmental health services, youth violence programs, supportive housing and residential services for the mentally ill of all ages, and emergency and acute hospital services.

Office of Children, Youth and Family Services. The Office of Children, Youth and Family Services works to provide services to children and their families through a variety of programs and services. The programs and services are offered through the Department of Children and Families, the Department of Youth Services, the Department of Transitional Assistance and the Office of Refugees and Immigrants. The collaborative goal of this

office is to work to ensure that individuals, children and families are provided with public assistance needed as well as access to programs that will allow for them to be safe and self-sufficient.

The Department of Children and Families (DCF) is charged with protecting children from abuse and neglect, and in partnership with families and communities, ensuring that children are able to grow and thrive in a safe and nurturing environment. DCF serves approximately 46,000 children at any given time, primarily children through age 18, and youth ages 18-22 who are transitioning from DCF custody to independent living. DCF is currently undergoing an agency improvement initiative to implement new programmatic policies, review agency management structure, and strengthen workforce capacity.

Through the Department of Transitional Assistance (DTA), the Commonwealth funds three major programs of public assistance for eligible state residents: Transitional Aid to Families with Dependent Children (TAFDC); Emergency Aid to the Elderly, Disabled and Children; and the State Supplemental Program (SSP) for individuals enrolled in the federal Supplemental Security Income program. In addition, DTA is responsible for administering the entirely federally funded Supplemental Nutrition Assistance Program, as well as other smaller programs that assist DTA clients with completing their education, gaining career skills and finding employment.

Disabilities and Community Services. Programs and services provided by the Massachusetts Rehabilitation Commission, the Massachusetts Commission for the Deaf and Hard of Hearing, the Massachusetts Commission for the Blind and the Department of Developmental Services assist some of the most disadvantaged residents of the Commonwealth. These agencies provide assistance to this population and create public awareness in the citizens of the Commonwealth, as well as promote inter-agency collaboration which attend to the needs of the community, disabled and multi-disabled population. This holistic approach is designed to ensure that those of all ages with disabilities are able to lead functionally equivalent lives despite limitations that they may face.

Executive Office of Elder Affairs. The Executive Office of Elder Affairs provides a variety of services and programs to eligible seniors and their families. The office administers supportive and congregate housing programs, regulates assisted living residences, and provides home care and caregiver support services and nutrition programs. Eligibility for services is based largely on age, income, and disability status. The Executive Office of Elder Affairs also administers a state-supported prescription drug program for seniors.

Department of Veterans' Services. The Department of Veterans' Services provides a variety of services, programs and benefits to eligible veterans and their families. The Department of Veterans' Services provides outreach services to help eligible veterans enroll in a variety of programs, administers supportive housing and homeless services, and provides approximately 26,000 veterans, veterans' spouses and parents with annuity and benefit payments. The Department also oversees the Chelsea Soldiers' Home and the Holyoke Soldiers' Home, state-owned facilities providing long-term health care and domiciliary services to veterans.

Education

Executive Office of Education. The Executive Office of Education includes the Department of Early Education and Care, the Department of Elementary and Secondary Education (previously the Department of Education), and the Department of Higher Education (previously the Board of Higher Education). The Secretary of Education serves on the board of each department as well as the board of the University of Massachusetts. The office is committed to advancing actions and initiatives that will improve achievement for all students, close persistent achievement gaps, and creating a 21st century public education system that prepares students for higher education, work and life in a world economy and global society.

Department of Elementary and Secondary Education. The Department of Elementary and Secondary Education (DESE) serves the student population from kindergarten through 12th grade by providing support for students, educators, schools and districts and by providing state leadership for elementary, secondary, vocational-technical, and adult basic education. There are 408 school districts in the Commonwealth, serving over 950,000 students. DESE is governed by the Board of Elementary and Secondary Education, which includes 11 members. The Board of Elementary and Secondary Education nominates, and the Secretary of Education appoints, a Commissioner of Elementary and Secondary Education, who is responsible for carrying out the policies established by the Board.

Department of Higher Education. The Commonwealth's system of higher education includes the five-campus University of Massachusetts, nine state universities and 15 community colleges. The higher education system is coordinated by the Department of Higher Education, which is governed by the Board of Higher Education. Each institution of higher education is governed by a separate board of trustees; the University of Massachusetts has one board that governs its five campuses. The Board of Higher Education appoints, subject to the approval of the Secretary of Education, a Commissioner of Higher Education, who is responsible for carrying out the policies established by the board at the Department of Higher Education.

The operating revenues of each institution consist primarily of state appropriations and of student fees that are set by the board of trustees of each institution. Tuition levels are set by the Board of Higher Education for the state universities and community colleges, while the University of Massachusetts board of trustees has the authority to set and retain tuition for its campuses. The Massachusetts College of Art and Design and the Massachusetts Maritime Academy also have authority to retain tuition from all students. The other institutions have authority to retain tuition received from out-of-state students and tuitions from self-supporting programs, such as colleges of continuing education and evening schools. Otherwise, tuition revenue is required to be remitted to the State Treasurer by each institution.

The board of trustees of each institution submits annually audited financial statements to the Comptroller and the Board of Higher Education. The Department of Higher Education prepares annual operating budget requests on behalf of all institutions, which are submitted to the Executive Office of Education and subsequently to the Executive Office for Administration and Finance and to the House and Senate Committees on Ways and Means. The Legislature appropriates funds for the higher education system in the Commonwealth's annual operating budget in various line items for each institution.

Department of Early Education and Care. The Department of Early Education and Care (EEC) is the agency responsible for all early education and care services and funding in the Commonwealth, including licensing and oversight of and technical assistance to programs for infants, toddlers, preschoolers, and school age children during out-of-school time; group homes; foster care and adoption placement agencies; and residential schools for children with special needs. EEC also oversees community-based family engagement networks that provide literacy and other developmental activities for children and parents in libraries and adult education centers. EEC licenses approximately 9,000 child care programs, residential facilities, and foster care/adoption placement agencies that have the capacity to serve an estimated 230,000 children. EEC supports an average of 55,000 children from low-income or at-risk families to attend family or group child care programs, including referrals from the Commonwealth's Department of Children and Families and Department of Transitional Assistance.

Public Safety

Eleven state agencies fall under the umbrella of the Executive Office of Public Safety and Security. The largest is the Department of Correction, which operates 16 correctional facilities and centers across the Commonwealth. Other public safety agencies include the State Police, the Parole Board, the Department of Fire Services, the Military Division, the Office of the Chief Medical Examiner, and five other public safety related agencies.

Energy and Environmental Affairs

The Executive Office of Energy and Environmental Affairs is responsible for policy development, environmental law enforcement services, and oversight of agencies and programs. Six state agencies and numerous boards fall under the umbrella of the Executive Office of Energy and Environmental Affairs. The largest is the Department of Conservation and Recreation, which operates public parkland, recreational facilities, watersheds and forests across the Commonwealth. Other environmental agencies include the Department of Agricultural Resources, responsible for the state's agricultural and food safety programs, the Department of Environmental Protection, responsible for clean air, water, recycling and environmental remediation programs, and the Department of Fish and Game, responsible for the management and protection of endangered species, fisheries and habitat. Additional agencies include the Department of Public Utilities, responsible for oversight of electric, gas, water and transportation utilities, and the Department of Energy Resources, responsible for energy planning, management and oversight.

Debt Service

Debt service expenditures relate to general obligation bonds and notes, special obligation bonds and federal grant anticipation notes issued by the Commonwealth. See “LONG-TERM LIABILITIES.”

Employee Benefits

Group Insurance. The Group Insurance Commission (GIC) provides health insurance benefits to more than 440,000 people, including state and participating municipalities’ employees, retirees, their spouses and dependents, and certain retired municipal teachers, their spouses and dependents. State employee contributions are currently based on date of hire; employees hired on or before June 30, 2003 contribute 20% of total premium costs, and employees hired after June 30, 2003 contribute 25% of premium costs. Similarly, state retirees contribute either 10%, 15% or 20%, depending on their retirement date. The GIC also provides health insurance benefits for the employees and retirees of participating municipalities; the municipalities reimburse the state for their enrollees’ premium costs. The contribution ratio(s) for municipal enrollees is set through a collective bargaining process within each community. As of July 1, 2018, the GIC provides health insurance to employees and retirees of 57 municipal entities: 11 cities, 30 towns, and 16 other governmental entities, including regional school districts, union and non-union educational collaboratives, charter schools, and regional planning councils.

Fiscal 2019 GIC appropriations total \$1.715 billion, approximately \$565 million of which is offset by municipal revenue and \$204 million of which is offset by non-state agency revenue to reimburse the state for providing health insurance benefits to the participating governmental units, including municipalities. In addition, the fiscal 2019 budget authorizes transfers of up to \$441 million to the State Retiree Benefits Trust Fund for the purpose of making expenditures for current state retirees and their dependents.

In keeping with the GIC’s commitment to cost containment, the GIC approved a package of benefit changes to be effective in fiscal 2020 that moved the focus of tiering from individuals to group-based systems. This was designed to encourage greater use of providers in lower-cost high quality groups. Additionally, the GIC reduced copayments for some ambulatory outpatient procedures performed at free standing facilities to lower the utilization of higher-cost services. The aggregate fiscal 2020 premium rates for GIC state and municipal members will increase 3.3% over the aggregate premium rates in effect in fiscal 2019.

Pensions. The Commonwealth is responsible for the payment of pension benefits for Commonwealth employees and for teachers of the cities, towns and regional school districts throughout the state. See “PENSION AND OPEB FUNDING.”

Other Post-Employment Benefit Obligations (OPEB). The Commonwealth is required under state law to provide certain health care and life insurance benefits for retired employees of the Commonwealth and certain other governmental agencies. See “PENSION AND OPEB FUNDING – Other Post-Employment Benefit Obligations (OPEB).”

The fiscal 2019 budget is consistent with the requirements of Government Accounting Standards Board (GASB) Statements No. 45 and No. 75, that spending for current retirees be accounted for separately, and that deposits towards the Commonwealth’s non-pension retiree liability be made into an irrevocable trust.

Other Program Expenditures

The remaining expenditures on other programs and services for state government include constitutional officers, the judiciary and district attorneys, sheriffs, the Executive Office for Administration and Finance, the Executive Office for Housing and Economic Development, the Executive Office of Labor and Workforce Development, the Executive Office of Technology Services and Security, and various other programs.

SELECTED FINANCIAL DATA

The table below in this section presents combined revenues and expenditures in the budgeted operating funds. The measurement of revenues for the budgeted operating funds is on a statutory basis and differs from governmental revenues on a GAAP basis. See “Statutory Basis Distribution of Budgetary Revenues and Expenditures” and “GAAP Basis” below.

Statutory Basis Distribution of Budgetary Revenues and Expenditures

The revenues and expenditures of the budgeted operating funds presented in the following table are derived from the Commonwealth’s Statutory Basis Financial Reports (SBFR) for fiscal 2014 through 2018. Projections for fiscal 2019 have been prepared by the Executive Office for Administration and Finance.

The following table sets forth the Commonwealth’s budgeted operating funds revenues and expenditures for fiscal 2014 through fiscal 2018 and projected revenues and expenditures for fiscal 2019. Projected revenues and expenditures for fiscal 2019 are based on the fiscal 2019 budget and on (i) the Executive Office for Administration and Finance’s most recent estimate of tax revenue (as officially issued) and non-tax revenue, (ii) enacted appropriations adjusted for projected reversions, and (iii) other spending the Executive Office for Administration and Finance reasonably projects. See “FISCAL 2019 AND FISCAL 2020 – Fiscal 2019.”

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

	<u>Fiscal 2014 (2)</u>	<u>Fiscal 2015</u>	<u>Fiscal 2016</u>	<u>Fiscal 2017</u>	<u>Fiscal 2018</u>	<u>Projected Fiscal 2019</u>
<u>Beginning Fund Balances</u>						
Reserved or Designated	\$297.1	\$190.0	\$226.0	\$126.0	\$117.4	\$371.5
Stabilization Fund	1,556.7	1,248.4	1,252.4	1,291.5	1,300.7	2,001.3
Undesignated	<u>20.6</u>	<u>12.1</u>	<u>92.3</u>	<u>64.5</u>	<u>29.7</u>	<u>13.9</u>
Total	<u>\$1,874.4</u>	<u>\$1,450.5</u>	<u>\$1,570.7</u>	<u>\$1,482.0</u>	<u>\$1,447.8</u>	<u>\$2,386.7</u>
<u>Revenues and Other Sources</u>						
Alcoholic Beverages	78.8	80.8	83.4	85.4	85.8	88.1
Banks	135.8	51.9	23.5	(0.1)	17.4	0.3
Cigarettes	520.7	510.3	505.6	490.3	471.2	475.0
Corporations	2,049.1	2,172.1	2,312.0	2,196.7	2,392.2	2,338.6
Deeds	223.1	238.3	281.9	297.2	284.5	327.3
Income	13,201.6	14,448.7	14,393.7	14,683.7	16,239.6	16,732.4
Inheritance and Estate	401.5	340.9	399.4	336.6	473.0	450.1
Insurance	368.1	391.4	429.6	421.9	430.9	473.5
Marijuana Excise	-	-	-	-	-	40.0
Motor Fuel	732.2	756.1	766.6	769.4	769.1	767.3
Public Utilities (3)	9.8	3.4	(1.6)	(0.1)	(0.7)	0.0
Room Occupancy	138.3	150.7	162.2	156.7	158.7	165.3
Sales:						
Regular	3,810.6	3,986.6	4,156.9	4,226.1	4,433.2	4,635.0
Meals	948.9	998.8	1,063.8	1,132.5	1,154.4	1,207.0
Motor Vehicles	<u>736.4</u>	<u>789.1</u>	<u>833.9</u>	<u>852.5</u>	<u>866.3</u>	<u>878.0</u>
Sub-Total-Sales	5,495.9	5,774.4	6,054.6	6,211.1	6,453.9	6,720.0
Miscellaneous	15.1	12.8	13.6	12.9	11.5	14.4
Settlements and Judgments (4)	-	-	-	-	-	49.0
Total Tax Revenues	<u>\$23,370.0</u>	<u>\$24,932.2</u>	<u>\$25,424.5</u>	<u>\$25,661.7</u>	<u>\$27,787.2</u>	<u>\$28,641.3</u>
MBTA Transfer (5)	(799.3)	(970.6)	(986.2)	(992.2)	(1,007.9)	(1,042.1)
MSBA Transfer	(727.5)	(764.1)	(798.5)	(816.8)	(847.9)	(882.1)
Workforce Training Fund Transfer (6)	(21.2)	(23.6)	(22.8)	(24.4)	(24.7)	(24.0)
Total Budgeted Operating Tax Revenues	<u>\$21,822.0</u>	<u>\$23,173.8</u>	<u>\$23,616.9</u>	<u>\$23,828.3</u>	<u>\$25,906.7</u>	<u>\$26,693.1</u>
Federal Reimbursements Departmental and Other Revenues	8,372.1	9,480.4	10,642.7	10,857.8	11,376.9	11,602.1
Inter-fund Transfers from Non-budgeted Funds and other sources (7)	<u>1,555.2</u>	<u>1,729.5</u>	<u>1,848.7</u>	<u>2,099.1</u>	<u>1,793.4</u>	<u>1,976.3</u>
Budgeted Revenues and Other Sources	<u>\$35,461.7</u>	<u>\$38,236.5</u>	<u>\$40,365.5</u>	<u>\$41,167.3</u>	<u>\$43,819.2</u>	<u>\$45,462.6</u>
Inter-fund Transfers	<u>1,757.0</u>	<u>735.4</u>	<u>472.9</u>	<u>617.4</u>	<u>1,217.0</u>	<u>1,221.8</u>
Total Budgeted Revenues and Other Sources	<u>\$37,218.7</u>	<u>\$38,971.9</u>	<u>\$40,838.4</u>	<u>\$41,784.7</u>	<u>\$45,036.2</u>	<u>\$46,684.5</u>
<u>Expenditures and Uses</u>						
Direct Local Aid	5,292.5	5,420.4	5,567.7	5,703.0	5,885.5	6,084.2
Medicaid	11,900.8	13,655.2	14,851.0	15,251.7	15,744.5	16,466.8
Other Health and Human Services	4,979.5	5,300.8	5,433.0	5,601.4	5,930.0	6,372.7
Group Insurance	1,402.9	1,665.1	1,629.7	1,662.5	1,634.0	1,670.9
Department of Elementary and Secondary Education	515.3	514.9	539.3	523.2	552.3	616.9
Higher Education	1,091.5	1,161.6	1,194.3	1,168.3	1,173.4	1,267.3
Department of Early Education and Care	509.6	537.7	547.6	540.0	564.3	621.2
Public Safety	1,010.4	1,040.7	1,065.6	1,059.6	1,102.0	1,207.3

	<u>Fiscal 2014 (2)</u>	<u>Fiscal 2015</u>	<u>Fiscal 2016</u>	<u>Fiscal 2017</u>	<u>Fiscal 2018</u>	<u>Projected Fiscal 2019</u>
Energy and Environmental Affairs	215.0	225.0	221.4	222.1	229.6	264.6
Debt Service (8)	2,122.0	2,190.4	2,174.3	2,284.7	2,323.4	2,453.3
Post -Employment Benefits (9)	2,050.4	2,213.4	2,503.4	2,659.7	2,891.5	3,074.8
Other Program Expenditures	<u>3,293.7</u>	<u>3,113.1</u>	<u>3,240.7</u>	<u>3,235.0</u>	<u>3,316.0</u>	<u>3,673.4</u>
Total - Programs and Services before transfers to Non-budgeted funds	<u>\$34,383.6</u>	<u>\$37,038.3</u>	<u>\$38,968.0</u>	<u>\$39,911.2</u>	<u>\$41,346.5</u>	<u>\$43,773.2</u>
<u>Inter-fund Transfers to Non-budgeted Funds</u>						
Commonwealth Care Trust Fund (10)	390.1	-	-	-	-	-
Medical Assistance Trust Fund	395.0	71.0	665.6	403.4	579.9	586.6
Massachusetts Transportation Trust Fund	270.1	588.6	566.8	484.7	634.7	603.2
Other	<u>446.7</u>	<u>418.4</u>	<u>253.8</u>	<u>402.3</u>	<u>319.2</u>	<u>214.5</u>
Total Inter-Fund Transfers to Non-Budgeted Funds	<u>\$1,501.9</u>	<u>\$1,078.0</u>	<u>\$1,486.2</u>	<u>\$1,290.4</u>	<u>\$1,533.8</u>	<u>\$1,404.2</u>
Budgeted Expenditures and Other Uses	<u>\$35,885.5</u>	<u>\$38,116.3</u>	<u>\$40,454.2</u>	<u>\$41,201.6</u>	<u>\$42,880.3</u>	<u>\$45,177.4</u>
Inter-fund Transfers	<u>1,757.0</u>	<u>735.4</u>	<u>472.9</u>	<u>617.4</u>	<u>1,217.0</u>	<u>1,221.8</u>
Total Budgeted Expenditures and Other Uses	<u>\$37,642.5</u>	<u>\$38,851.7</u>	<u>\$40,927.1</u>	<u>\$41,819.0</u>	<u>\$44,097.3</u>	<u>\$46,399.2</u>
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	<u>(\$423.8)</u>	<u>\$120.2</u>	<u>(\$88.7)</u>	<u>(\$34.3)</u>	<u>\$938.9</u>	<u>\$285.2</u>
<u>Ending Fund Balances</u>						
Reserved or Designated (11)	190.0	226.0	126.0	117.4	371.5	186.1
Stabilization Fund	1,248.4	1,252.4	1,291.5	1,300.7	2,001.3	2,495.4
Undesignated	<u>12.1</u>	<u>92.3</u>	<u>64.5</u>	<u>29.7</u>	<u>13.9</u>	<u>(9.5)</u>
Total	<u>\$1,450.5</u>	<u>\$1,570.7</u>	<u>\$1,482.0</u>	<u>\$1,447.8</u>	<u>\$2,386.7</u>	<u>\$2,671.9</u>

SOURCES: Fiscal 2014-2018, Office of the Comptroller; fiscal 2019, Executive Office for Administration and Finance.

- (1) Totals may not add due to rounding.
- (2) Some fiscal 2014 amounts were reclassified to conform to the fiscal 2015 presentation in the Statutory Basis Financial Report.
- (3) Prior to January 1, 2014, public utility corporations were subject to an excise tax of 6.5% on net income. Legislation enacted in 2013 repealed the separate excise tax for utility corporations, which are now subject to the corporate excise imposed on business corporations.
- (4) For fiscal 2014 through 2018, tax and non-tax revenue from judgments and settlements in excess of \$10 million is included in specific tax and non-tax revenue categories. See "COMMONWEALTH REVENUES – Federal and Other Non-Tax Revenues; *Settlements and Judgments.*"
- (5) Beginning in fiscal 2015, the annual amount of sales tax receipts statutorily credited to the MBTA was increased by \$160 million. See "COMMONWEALTH REVENUES AND EXPENDITURES – State Taxes; *Sales and Use Tax.*"
- (6) The Workforce Training Fund is not subject to annual appropriation, and employer contributions are deposited directly in the Workforce Training Fund after their collection.
- (7) Inter-fund Transfers from Non-budgeted Funds and Other Sources include profits from the State Lottery, abandoned property proceeds and other inter-fund transfers.
- (8) Fiscal 2016 budgeted Debt Service excluded \$113 million in payments made from a non-budgeted fund that was made from budgeted funds in other years.
- (9) Post-Employment Benefits include all budgeted pension transfers and transfers to the State Retiree Benefits Trust Fund (SRBTF). See "PENSION AND OPEB FUNDING – Other Post-Employment Benefit Obligations (OPEB)."
- (10) Starting in fiscal 2015, transfers of funding for the Health Connector have not occurred because increased dedicated revenues, federal grants and self-generated revenues have been able to cover the full program and administrative costs.
- (11) Consists largely of appropriations authorized to be expended in the following year.

Stabilization Fund

The Stabilization Fund is established by state finance law as a reserve of surplus revenues to be used for the purposes of covering revenue shortfalls, covering state or local losses of federal funds or for any event which threatens the health, safety or welfare of the people or the fiscal stability of the Commonwealth or any of its political subdivisions. The fund is sometimes referred to as the state's "rainy day fund," serving as a source of financial support for the state budget in times of slow revenue growth or revenue declines and as the primary source of protection against having to make drastic cuts in state services in periods of economic downturns.

Required Deposits and Allowable Stabilization Fund Balance. From fiscal 2005 through fiscal 2013, state finance law provided that (i) 0.5% of current year net tax revenues be deposited into the Stabilization Fund at fiscal year-end, (ii) 0.5% of current-year net tax revenues be made available for the next fiscal year and (iii) any remaining amount of the year-end statutorily defined surplus be transferred to the Stabilization Fund. Since fiscal 2014, state finance law has required that the entire year-end statutorily defined surplus be transferred to the Stabilization Fund. Since fiscal 2011, state finance law has required that tax revenue from capital gains exceeding \$1 billion in a fiscal year (adjusted annually, beginning in fiscal 2014, for U. S. gross domestic product growth) be deposited into the Stabilization Fund, with 5% of such amount then transferred to the State Retiree Benefits Trust Fund and, beginning in fiscal 2013, with an additional 5% of such amount then transferred to the Commonwealth's Pension Liability Fund. However, all of these requirements may be modified or superseded by individual appropriation acts. Legislative enactments in 2015 retained all fiscal 2015 and fiscal 2016 capital gains tax revenues in the General Fund. The fiscal 2017 budget required the Comptroller to transfer all capital gains tax collections that were above \$1.278 billion to the Stabilization Fund in fiscal 2017; however, capital gains tax collections for fiscal 2017 did not exceed this amount. The fiscal 2018 budget required the Comptroller to transfer all capital gains tax collections that were above \$1.169 billion to the Stabilization Fund in fiscal 2018.

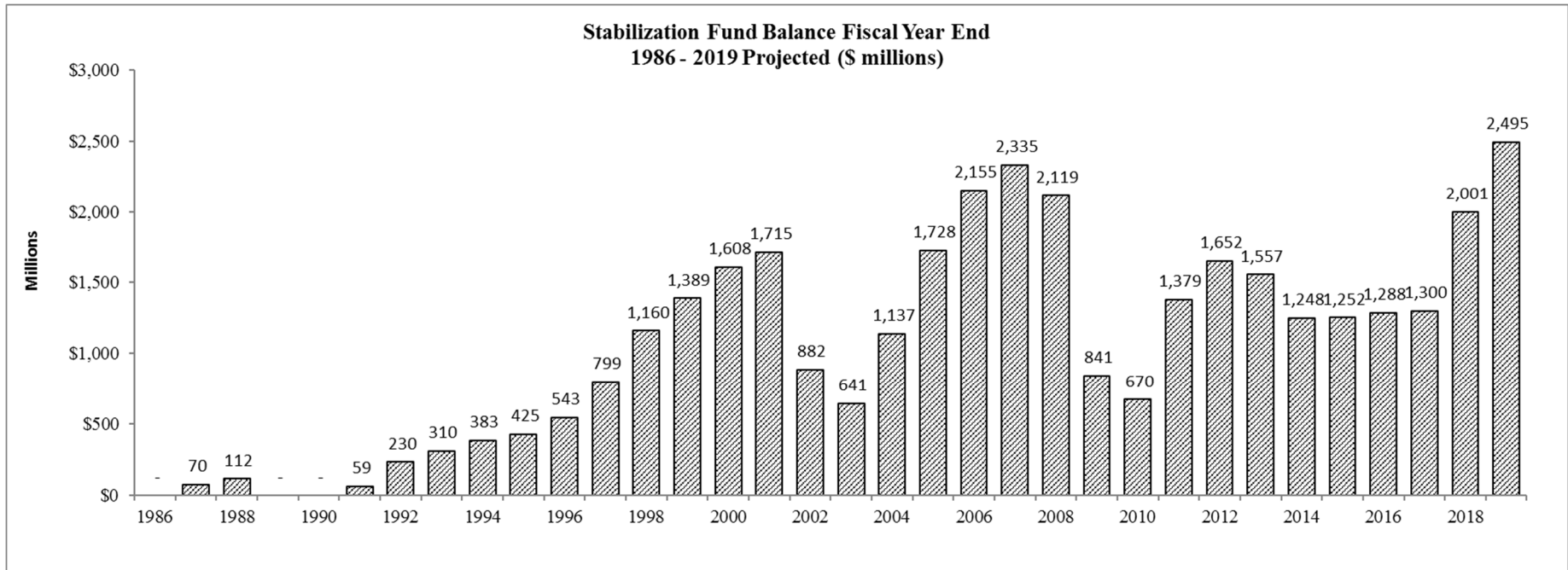
In fiscal 2018, the Comptroller transferred approximately \$514 million to the Stabilization Fund, with 5%, or approximately \$26 million of that total, transferred to each of the State Retiree Benefits Trust Fund and the Commonwealth's Pension Liability Fund, and the balance of \$463 million remaining in the Stabilization Fund. See "COMMONWEALTH REVENUES – State Taxes – *Capital Gains Component of the Income Tax.*"

State finance law requires the Comptroller to transfer 75% of the growth in unclaimed property net revenue relative to the prior year to the Stabilization Fund. During fiscal 2018, this resulted in a transfer of approximately \$13 million to the Stabilization Fund.

The allowable Stabilization Fund balance at fiscal year-end is 15% of total budgeted revenues for that year. If the Stabilization Fund balance exceeds the allowable limit, the excess amounts are to be transferred to the Tax Reduction Fund.

The following chart shows the Stabilization Fund balance from fiscal 1986 through fiscal 2018 (actual) and fiscal 2019 (estimated based on the fiscal 2019 budget, as approved by the Governor on July 26, 2018, as adjusted for projected tax revenue collections).

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SOURCE: Fiscal 1986-fiscal 2018, Office of the Comptroller; fiscal 2019 (projected), Executive Office for Administration and Finance.

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The following table shows the sources and uses of the Stabilization Fund during fiscal 2014 through fiscal 2018:

Stabilization Fund Sources and Uses (in thousands)

	Fiscal 2014	Fiscal 2015	Fiscal 2016	Fiscal 2017	Fiscal 2018
Beginning fund balances	\$1,556,657	\$1,248,435	\$1,252,429	\$1,291,514	\$1,300,678
Revenues and Other Sources					
Deposit of the remaining consolidated net surplus	-	123,507	-	-	209,287
Deposits made directly during fiscal year	-	20,000 (1)	27,100 (2)	-	13,450 (2)
Capital gains tax transfers in excess of threshold (3)	45,457	-	-	-	513,908
Deposits due to judgments and settlements in excess of \$10 million	414,310	-	-	-	-
Lottery transfer taxes	867	647	744	377	272
Investment income	7,259	4,646	11,241	8,787	15,094
Excess permissible tax revenue	-	-	-	-	-
Total Revenues and Other Sources	<u>467,893</u>	<u>148,800</u>	<u>39,085</u>	<u>9,164</u>	<u>752,011</u>
Total Expenditures and Other Uses					
	<u>776,115</u>	<u>144,806</u>	-	-	<u>51,390 (4)</u>
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	<u>(308,222)</u>	<u>3,994</u>	<u>39,085</u>	<u>9,164</u>	<u>700,621</u>
Ending fund balances	<u>\$1,248,435</u>	<u>\$1,252,429</u>	<u>\$1,291,514</u>	<u>\$1,300,678</u>	<u>\$2,001,299</u>
Allowable Stabilization Fund Balance	<u>\$5,320,973</u>	<u>\$5,735,471</u>	<u>\$6,047,764</u>	<u>\$6,175,099</u>	<u>\$6,572,883</u>

SOURCE: Office of the Comptroller.

- (1) Represents repayment of Massachusetts Gaming Commission start-up funds.
- (2) Represents transfer equal to 75% of the growth in abandoned property receipts from the prior fiscal year.
- (3) Threshold adjusted annually for U.S. gross domestic product growth.
- (4) Represents transfers of excess capital gains tax revenue to the State Pension Fund and OPEB Trust Fund per statute.

GAAP Basis

The Commonwealth's GAAP financial statements for the year ended June 30, 2018, attached as Exhibit C, are prepared in accordance with reporting standards first established by GASB Statements 34 and 35, as amended. See "COMMONWEALTH BUDGET AND FINANCIAL MANAGEMENT CONTROLS - Fiscal Control, Accounting and Reporting Practices of the Comptroller." The GAAP financial statements are presented on both a "fund perspective" (or short-term accrual) basis and a "government-wide perspective" basis, which includes debt, capital assets and accrual activity on a comprehensive statement of net position, similar to a balance sheet. All capital assets, including road and bridge infrastructure and all long-term liabilities, including outstanding debt and commitments of long-term assistance to municipalities and authorities, are part of the government-wide statements. The Commonwealth's statement of revenues, expenditures and changes in fund balances are presented as a statement of activities, similar to an income statement.

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The table below presents the transition from the Commonwealth's statutory basis budgetary fund balance to the "fund perspective" balance, as depicted in the fund financial statements, and then to the Commonwealth's "government-wide" financial position. Differences between statutory and the "fund perspective" GAAP basis can be summarized in five major adjustments. Those adjustments are for Medicaid (as well as the somewhat related liability for uncompensated care), taxes, projected amounts due to the Commonwealth in the next fiscal year under the master tobacco settlement agreement, claims and judgments, and amounts due to authorities. As evidenced in the trend line of fund balance (deficit) over time, however, these adjustments connect the GAAP basis measurement when viewed using a fund perspective under GAAP and the statutory basis measurement. While the difference in fund balances may vary in a given fiscal year, both balances generally trend in the same direction. To convert to a full accrual basis, further major adjustments are made for the net book value of the Commonwealth's capital assets, inclusive of infrastructure, the realizable value of long-term deferred revenues (largely from tax payment plans) and the amount of the Commonwealth's outstanding long-term debt, the Commonwealth's unfunded pension and OPEB liabilities, and other liabilities.

Governmental Funds-Statutory to GAAP-Fund Perspective and to Governmental Net Position

(in millions)

Governmental Funds-Statutory Basis, June 30, 2018	
Budgeted Fund Balance	\$2,386.7
Non-budgeted special revenue fund balance	2,068.7
Capital Projects Fund Balance	<u>265.3</u>
	\$4,720.7
Governmental Fund Balance-Statutory Basis, June 30, 2018	
Plus: Expendable Trust and similar fund statutory balances that are considered governmental funds for GAAP reporting purposes	717.5
Less: Massachusetts Department of Transportation Funds	<u>(1,269.0)</u>
	\$4,169.2
Adjusted Statutory Governmental Fund Balance	
Short term accruals, net of allowances and deferrals for increases/(decreases):	
Taxes, net of refunds and abatements	1,761.6
Tobacco settlement agreement receivable	139.6
Medicaid	(443.7)
Assessments and other receivables	285.5
Amounts due to authorities and municipalities, net	(586.1)
Claims, judgments and other risks	(12.5)
Amounts due to healthcare providers and insurers	(40.1)
Workers' compensation and group insurance	(166.8)
Other accruals, net	<u>328.1</u>
	\$1,265.6
Net increase to governmental funds balances	
Massachusetts School Building Authority fund balance	<u>1,403.4</u>
Total changes to governmental funds	\$2,669.0
Governmental fund balance (fund perspective)	6,838.2
Plus: Capital assets including infrastructure, net of accumulated depreciation	
Deferred revenue, net of other eliminations	4,783.7
Long-term receivables	370.8
Long term accruals:	28.0
Net pension liability	(36,724.3)
Net deferred (inflows)/outflows related to pensions	5,980.0
Net OPEB liability	(15,289.6)
Net deferred (inflows)/outflows of resources related to OPEB	(1,436.1)
Environmental remediation liability	(530.6)
Massachusetts School Building Authority debt and school construction payables	(7,052.1)
Long term debt, unamortized premiums and deferred losses on debt refundings	(29,799.7)
Compensated absences	(605.3)
Capital leases	(22.5)
Accrued interest on bonds	(416.8)
Other long term liabilities	<u>(278.4)</u>
Total governmental net position/(deficit) (government-wide perspective)	<u>(\$74,154.7)</u>

SOURCE: Office of the Comptroller

The deficit of \$74.155 billion in government-wide net position can be largely attributed to three factors: first, the Commonwealth's net (or unfunded) pension liability, which, starting in fiscal 2015, has been placed on the Commonwealth's books in accordance with GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. This Statement required, among other things, the Commonwealth to include the long-term net pension liability on the Government-wide Statement of Net Position. As of June 30, 2018 the Commonwealth reported a net pension liability of approximately \$36.724 billion. Second, in accordance with GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, the Commonwealth is required to include its net other postemployment (OPEB) liability on the Government-wide Statement of Net Position. As of June 30, 2018 the Commonwealth reported a net OPEB liability of approximately \$15.290 billion. Third, also contributing to the deficit was the Commonwealth's policy decision to finance the construction of assets owned by other governmental entities, particularly Commonwealth roads and bridges, which as a result of transportation reform completed during fiscal 2010 shifted these assets from the books of the Commonwealth to MassDOT, a component unit of the Commonwealth. At the end of fiscal 2018, MassDOT held \$25.240 billion in road, bridge and other transportation-related assets (excluding assets of the MBTA), net of related depreciation, the vast majority of which were formerly held by the Commonwealth. Those assets were financed by the Commonwealth, and the debt remains a long-term obligation of the Commonwealth. In addition, the Commonwealth has a net liability of \$7.052 billion in debt and grant obligations for the school building assistance program that finances construction of schools for the Commonwealth's cities and towns.

Change in Statement of Net Position

	(in thousands)		
	Governmental Activities	Business Type Activities	Government Wide
Total net position:			
Fiscal 2017, as previously reported	(<u>\$63,387,033</u>)	<u>\$6,082,464</u>	(<u>\$57,304,569</u>)
Restatement (1)	(<u>8,760,779</u>)	(<u>1,274,632</u>)	(<u>10,035,411</u>)
Fiscal 2017, as restated (1)	(<u>\$72,147,812</u>)	<u>\$4,807,832</u>	(<u>\$67,339,980</u>)
Fiscal 2018	(<u>74,154,734</u>)	<u>5,018,896</u>	(<u>69,135,838</u>)
Change in net position	(<u>\$2,006,922</u>)	<u>\$211,064</u>	(<u>\$1,795,858</u>)

SOURCE: Office of the Comptroller

(1) The fiscal 2017 ending net position has been restated due to the implementation of GASB Statement No. 75.

As of June 30, 2018, approximately \$1.545 billion in restricted net position was set aside for unemployment benefits and approximately \$940 million was restricted for debt retirement.

Revenues – GAAP Basis. The measurement of revenues for the budgeted operating funds on a statutory basis differs from governmental revenues on a GAAP basis in that certain revenues that are not included on a statutory basis are included on a GAAP basis, including revenue accruals for Medicaid and taxes. In addition, internal transfers are eliminated under GAAP on a government-wide perspective. The following table shows the distribution of major sources of revenue in fiscal 2018.

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Comparison of Fiscal 2018 Governmental Revenues (in millions)

	<u>Governmental Funds</u>	<u>GAAP Basis – Governmental</u>	
	Statutory Basis	Fund Perspective	Government-wide Perspective
Taxes	\$28,177	\$28,243	\$27,964
Federal Revenue	14,964	16,331	16,330
Departmental and Miscellaneous Revenue	<u>21,017</u>	<u>24,416</u>	<u>12,391</u>
Total	<u>\$64,158</u>	<u>\$68,990</u>	<u>\$56,685</u>

SOURCE: Office of the Comptroller

The following table provides financial results on a GAAP fund perspective basis for all governmental funds of the Commonwealth for fiscal 2014 through fiscal 2018.

Governmental Fund Operations – GAAP Basis – Fund Perspective (in millions)

	<u>Fiscal 2014</u>	<u>Fiscal 2015</u>	<u>Fiscal 2016</u>	<u>Fiscal 2017</u>	<u>Fiscal 2018</u>
Beginning fund balances	\$4,869.9	\$4,619.4	\$5,305.2	\$5,273.3	\$5,596.9
Revenues and Financing Sources	57,210.0	60,658.6	67,749.6	68,437.1	68,990.3
Expenditures and Financing Uses	57,460.5	59,972.8	67,781.5	68,113.5	67,749.0
Excess/(deficit)	<u>(250.5)</u>	<u>685.8</u>	<u>(31.9)</u>	<u>323.6</u>	<u>1,241.3</u>
Ending fund balances—GAAP fund perspective	<u>\$4,619.4</u>	<u>\$5,305.2</u>	<u>\$5,273.3</u>	<u>\$5,596.9</u>	<u>\$6,838.2</u>

SOURCE: Office of the Comptroller.

Financial Reports. The Commonwealth issues annual financial reports, including a report on the statutory basis of accounting (which is reviewed, but not audited) and GAAP basis audited financial statements. These financial statements are issued as two separate reports, the Statutory Basis Financial Report (SBFR) and the Comprehensive Annual Financial Report (CAFR). The SBFR is usually published by the Comptroller on or before October 31 and the CAFR is usually published by the Comptroller by the second Wednesday in January. The SBFR for the year ended June 30, 2018 and the CAFR for the year ended June 30, 2018 are attached hereto as Exhibits B and C, respectively. Copies of these financial reports are also available at the address provided under “CONTINUING DISCLOSURE.” The SBFR for fiscal 1997 through fiscal 2018 and the CAFR for fiscal 1995 through fiscal 2018 are also available on the web site of the Comptroller of the Commonwealth at <https://www.macomptroller.org/financial-reports>.

For each year beginning in fiscal 1990, the Commonwealth CAFRs, from which certain information contained in this Information Statement has been derived, have been awarded the Certificate of Achievement for Excellence in Financial Reporting by the Government Finance Officers Association of the United States and Canada (GFOA). The Certificate of Achievement is the highest form of recognition for excellence in state and local government financial reporting. Fiscal 2017 marked the 28th consecutive year that the Commonwealth has received this award. The fiscal 2018 CAFR has been submitted to the GFOA for review.

The Comptroller retains an independent certified public accounting firm to audit the Commonwealth’s financial statements and issue certain other reports required by the Uniform Guidance. As part of the Uniform Guidance, the independent auditors render a report on all programs involving federal funding for compliance with federal and state laws and regulations and assess the adequacy of internal control systems. For fiscal 1990 through

2018 the independent auditors' opinions on the CAFR were unqualified or unmodified, indicating that the Commonwealth's financial statements presented fairly, in all material respects, the financial position of the Commonwealth, in accordance with generally accepted accounting principles.

Discussion of Financial Condition

As the annual operating budget of the Commonwealth is adopted in accordance with the statutory basis of accounting, public and governmental discourse on the financial affairs of the Commonwealth has traditionally followed the statutory basis. Consequently, the financial information set forth in this document follows the statutory basis, except where otherwise noted. Since fiscal 1990, the Commonwealth has prepared separate financial reports on the statutory basis (reviewed) and on a GAAP basis (audited). See "COMMONWEALTH BUDGET AND FINANCIAL MANAGEMENT CONTROLS – Fiscal Control, Accounting and Reporting Practices of the Comptroller; *Financial Reports*." Without limiting the generality of the references to the SBFR for the year ended June 30, 2018 and the CAFR for the year ended June 30, 2018, attention is called in particular to the portion of the CAFR under the heading "Management's Discussion and Analysis."

Auditors' Report on Fiscal 2018 CAFR

The basic financial statements included in the CAFR of the Commonwealth for the year ended June 30, 2018 were audited by KPMG LLP (KPMG). The KPMG audit report dated January 18, 2019 on the general purpose financial statements included in the CAFR for the year ended June 30, 2018 contained an unmodified opinion. A copy of the audit report of KPMG dated January 18, 2019 has been filed with EMMA and is included within Exhibit C to this Information Statement. KPMG 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 any official statement of which this Information Statement may be a part.

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FISCAL 2019 AND FISCAL 2020

Fiscal 2019

On January 12, 2018, a fiscal 2019 consensus tax revenue estimate of \$27.594 billion was agreed upon by the Secretary of Administration and Finance and the chairs of the House and Senate Committees on Ways and Means. This estimate reflected a projection of 3.5% tax revenue growth over the then-projected fiscal 2018 tax revenues (as revised), and also assumed that the state income tax rate would decrease from 5.1% to 5.05% on January 1, 2019, in accordance with the statutory mechanism. After accounting for the statutorily required transfer for pensions and allocations to the MBTA, the MSBA and the Workforce Training Fund, the Secretary and Committee chairs agreed that \$22.982 billion would be the maximum amount of tax revenue available for the fiscal 2019 budget.

On January 24, 2018, the Governor filed his fiscal 2019 budget recommendation, providing for a total of \$40.904 billion in state spending, excluding \$452 million in projected transfers to the Medical Assistance Trust Fund, which represented an increase of 2.6% over projected fiscal 2018 spending. The budget proposal anticipated a deposit of \$96 million to the Commonwealth Stabilization Fund in fiscal 2019.

An interim budget of \$5 billion for the first month of fiscal 2019 was approved by the Governor on June 28, 2018. The interim budget was superseded by the fiscal 2019 budget when the latter was approved by the Governor on July 26, 2018.

The fiscal 2019 budget, as approved by the Governor on July 26, 2018, totaled approximately \$41.232 billion, after accounting for \$37.6 million in net line-item vetoes, and excluding transfers to the Medical Assistance Trust Fund, the pension liabilities trust fund, and other interfund transfers. The fiscal 2019 budget was approximately \$1.26 billion, or 3.2%, greater than fiscal 2018 estimated spending levels as of the time of the Governor's approval. The fiscal 2019 budget was based on a projection of \$28.392 billion in tax revenue, excluding one-time tax-related settlements and judgments in excess of \$10 million. The fiscal 2019 budget also projected a net deposit of \$368 million to the Stabilization Fund.

Subsequently, the Legislature passed overrides to the Governor's vetoes with an aggregate net budgetary impact of \$37.6 million.

On March 28, 2019, the Governor approved two supplemental budgets for fiscal 2019, including \$143.9 million in supplemental appropriations, at a net state cost of \$133.1 million. Major spending items included \$39 million for collective bargaining costs, \$30 million to offset federal reductions to the Low Income Heating Energy Assistance Program (LIHEAP), \$28.1 million for unanticipated costs of the Department of Correction, primarily driven by a contract for medical services, \$16.5 million for past costs of the Health Insurance Exchange (HIX) system, \$10 million for emergency assistance family shelter costs anticipated since the start of the year, and a variety of other smaller costs.

Current estimates indicate that the variance between revenues and spending in fiscal 2019 is less than 1%. The Executive Office for Administration and Finance will continue to monitor revenues and spending and implement measures as necessary to ensure that the Commonwealth's budget for fiscal 2019 will achieve statutory balance. See the "Fiscal 2019" column of the table entitled "Budgeted Operating Funds – Statutory Basis" in "SELECTED FINANCIAL DATA – Statutory Basis Distribution of Budgetary Revenues and Expenditures."

Fiscal 2020

On December 31, 2018, a fiscal 2020 consensus tax revenue estimate of \$29.299 billion was agreed upon by the Secretary of Administration and Finance and the chairs of the House and Senate Committees on Ways and Means.

The fiscal 2020 consensus tax revenue estimate reflects a forecast of 2.7% in tax revenue growth over projected fiscal 2019 tax revenues (as revised). The consensus revenue estimate for fiscal 2020 assumes that the state personal income tax rate will decrease from 5.05% to 5.00% on January 1, 2020, in accordance with the

statutory mechanism. After accounting for statutorily required transfers for pensions, the MBTA, the MSBA and the Workforce Training Fund, the Secretary and Committee chairs agreed that \$24.219 billion would be the maximum amount of tax revenue available for the fiscal 2020 budget.

On January 23, 2019, the Governor filed his fiscal 2020 budget recommendation, providing for a total of \$42.7 billion in state spending. Excluding \$481.3 million in projected transfers to the Medical Assistance Trust Fund, the budget as filed represented an increase of 1.5% over projected fiscal 2019 spending and anticipated a deposit of \$297 million to the Stabilization Fund in fiscal 2020.

The Governor's budget recommendation has been filed with the Legislature for consideration in accordance with the Commonwealth's annual budgeting process. The House of Representatives generally approves its version of the budget in late April, and the Senate generally approves its version in late May. The differences between the two versions are then reconciled by a legislative conference committee during the month of June, so that a final version can be enacted by the Legislature and sent to the Governor for his approval prior to the start of the new fiscal year on July 1. It is not unusual for the budget process to extend slightly into the next fiscal year, with final enactment of the budget occurring in early or mid-July. Interim budgets are typically enacted to provide funding after the end of the fiscal year until the full budget can be enacted and approved by the Governor.

Cash Flow

The State Treasurer is responsible for cash management and ensuring that all Commonwealth financial obligations are met on a timely basis. See "COMMONWEALTH BUDGET AND FINANCIAL MANAGEMENT CONTROLS – Cash Management Practices of State Treasurer." The Commonwealth does not engage in inter-fund borrowing, but pools its non-segregated (primarily non-Stabilization Fund) cash. Cash flow management incorporates the periodic use of short-term borrowing to meet cash flow needs for both capital and operating expenditures. All revenue anticipation notes, including those issued as commercial paper, must be repaid by the end of the fiscal year. The state currently has liquidity support for a \$400 million commercial paper program for general obligation notes. The Commonwealth has utilized the commercial paper program for additional liquidity, as necessary, since 2002.

The Commonwealth projects fiscal 2019 to end with a non-segregated cash balance of approximately \$3.031 billion. Fiscal 2020 is projected to end with a non-segregated cash balance of approximately \$2.421 billion.

The fiscal 2019 and fiscal 2020 cash flow statements released on March 18, 2019 are summarized in the table below. Quarterly cash flow statements, as submitted by the State Treasurer to the House and Senate Committees on Ways and Means, are posted on the cash management page of the State Treasurer's website at <https://www.mass.gov/lists/quarterly-cash-flow-letters>.

Commonwealth cash deposits are held in insured or collateralized bank accounts and with the Massachusetts Municipal Depository Trust (MMDT), the Commonwealth's investment pool for governmental entities. MMDT consists of two portfolios, professionally managed by Federated Investors Inc., the Cash Portfolio and the Short-Term Bond Fund. Cash Portfolio investments are carried at amortized cost, which approximates fair value. Short-Term Bond Fund investments are carried at fair value. General operating cash is invested in the Cash Portfolio, and moneys in the Stabilization Fund, which are not used by the Commonwealth for liquidity, are invested in both the Cash Portfolio and the Short-Term Bond Fund.

The Cash Portfolio invests in a diversified portfolio of high quality U. S. dollar-denominated money market instruments (eligible under GASB Statement No. 79) of domestic and foreign issuers, United States government securities and repurchase agreements. As of February 28, 2019, the Cash Portfolio holdings were made up of Asset Backed Commercial Paper (41.1%), Certificates of Deposit (22.5%), Financial Company Commercial Paper (15.7%), Non-Financial Company Commercial Paper (2.8%), Non-Negotiable Time Deposit (11.1%), Other Instrument (1.0%), Other Asset Backed Securities (0.5%), Tender Option Bond (0.9%), U.S. Government Agency Repurchase Agreement (4.1%), Variable Rate Demand Note (0.3%). As of February 28, 2019, the Cash Portfolio's monthly weighted average life was 70 days, and the monthly weighted average maturity was 31 days. The three objectives for the Cash Portfolio are safety, liquidity and yield. The Cash Portfolio maintains a stable net asset value of one dollar and is marked to market daily.

The Short Term Bond Fund invests in a diversified portfolio of investment grade debt securities. As of February 28, 2019, the Short Term Bond Fund holdings were made up of U. S. Treasury Securities (61.0%), Financial Institutions – Banking (4.8%), FHLMC MBS (2.2%), Technology (2.9%), Utility – Electric (3.1%), Consumer Non-Cyclical Pharmaceuticals (2.5%), FNMA MBS (2.5%), Consumer Non-Cyclical Food/Beverage (1.9%), Consumer Cyclical – Services (1.6%), Consumer Cyclical – Automotive (1.2%) and Other (16.3%). The Short-Term Bond Fund seeks to obtain the highest possible level of current income consistent with preservation of capital and liquidity. The portfolio is required to maintain an average credit rating of A-. The duration of the portfolio is managed to within +/- one-half year duration of the benchmark. The benchmark for the Short-Term Bond Fund is the Barclays Capital 1-to-5-year Government/Credit Index, which includes all medium and larger issues of United States government, investment-grade corporate and investment-grade international dollar-denominated bonds.

For cash flow needs for fiscal 2019, the State Treasurer issued \$1.5 billion in revenue anticipation notes (RANs) in August, 2018. As in previous years, the notes will be repaid in April, May and June, 2019. For fiscal 2020, the Treasury projects issuing RANs in August 2019 with repayment in April, May and June, 2020.

In May, 2018, the Governor announced the five-year capital investment plan for fiscal 2019 through fiscal 2023. The plan projects \$4.51 billion of spending in fiscal 2019 on capital projects, including \$2.34 billion of spending under the bond cap, \$1.093 billion of spending from other sources including special obligation bonds, anticipated savings or revenues generated by the projects, and other non-Commonwealth sources such as contributions from municipalities, and \$1.076 billion of spending supported by federal reimbursements and grants.

The following table provides General Fund ending cash balances by month for fiscal 2016 through fiscal 2020.

Month End General Fund Cash Balances (in millions)

	<u>Fiscal 2016</u>	<u>Fiscal 2017</u>	<u>Fiscal 2018</u>	<u>Fiscal 2019</u> (1)	<u>Fiscal 2020</u> (2)
July	\$1,380.2	\$1,885.9	\$1,307.3	\$2,269.5	\$2,040.4
August	551.4	2,414.1	2,304.1	3,143.8	1,766.3
September	1,951.6	2,670.8	2,328.6	4,125.0	2,613.9
October	1,421.0	2,437.6	2,147.2	3,645.3	1,943.5
November	787.7	2,146.4	1,841.5	2,592.1	1,289.2
December	1,029.8	1,766.5	1,897.8	2,816.3	1,670.4
January	1,487.5	1,835.7	2,582.3	3,276.0	2,313.7
February	862.0	1,432.7	2,165.8	2,550.0	1,615.6
March	1,280.0	1,332.0	1,775.8	2,439.7	1,534.8
April	2,044.2	2,074.6	2,897.4	3,098.9	2,625.3
May	2,276.6	1,647.1	2,666.2	2,334.7	1,730.8
June	2,397.8	2,058.0	3,607.9	3,031.0	2,441.2

SOURCE: Office of the Treasurer and Receiver-General.

(1) Fiscal 2019 ending balances for February through June are estimated.

(2) Fiscal 2020 ending balances are estimated.

The tables on the following pages provide cash flow detail for fiscal 2019 and fiscal 2020.

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Overview of Fiscal 2019 Non-Segregated Operating Cash Flow (in millions) (1)

	<u>Jul-18</u>	<u>Aug-18</u>	<u>Sep-18</u>	<u>Oct-18</u>	<u>Nov-18</u>	<u>Dec-18</u>	<u>Jan-19</u>	<u>Feb-19</u> (2)	<u>Mar-19</u> (2)	<u>Apr-19</u> (2)	<u>May-19</u> (2)	<u>Jun-19</u> (2)	Total FY 2019 (2)
Opening Non-Segregated Operating Cash Balance	\$3,607.9	\$2,269.5	\$3,143.8	\$4,125.0	\$3,645.3	\$2,592.1	\$2,816.3	\$3,276.0	\$2,550.0	\$2,439.7	\$3,098.9	\$2,334.7	\$3,607.9
Operating Activities:													
Budgetary Funds:													
<i>Transfer from/(to) Stabilization Fund</i>	(513.9)	0.0	0.0	0.0	(209.3)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(723.2)
Total Budgetary Revenue/Inflows	2,759.1	3,216.6	4,748.7	3,346.5	2,777.7	4,428.9	4,161.0	3,505.1	4,117.0	5,497.0	3,805.0	4,592.0	46,954.6
Total Budgetary Expenditures/Outflows	3,393.4	4,302.9	3,238.2	3,465.4	3,629.5	3,395.9	3,293.3	3,910.1	3,967.2	3,885.3	3,749.3	3,075.2	43,305.8
Net Budgetary Funds	(634.4)	(1,086.3)	1,510.5	(118.9)	(851.8)	1,032.9	867.8	(405.0)	149.8	1,611.7	55.7	1,516.8	3,648.8
Non Budgetary Funds (Non Budgetary, Higher Ed and Trust Funds):													
Total Non Budgetary Revenue/Inflows	683.7	1,719.7	889.1	905.7	1,050.3	799.5	844.7	1,007.3	1,007.7	872.6	1,014.7	894.6	11,689.5
Total Non Budgetary Expenditures/Outflows	1,240.2	1,187.5	1,540.8	1,246.9	1,275.2	1,557.7	1,305.7	1,306.9	1,264.9	1,184.9	1,356.9	1,191.1	15,658.7
Net Non Budgetary Funds	(556.6)	532.2	(651.7)	(341.2)	(224.9)	(758.2)	(460.9)	(299.6)	(257.2)	(312.4)	(342.2)	(296.6)	(3,969.2)
Net Undesignated Revenue/Inflows and Expenditures/Outflows	7.7	37.9	10.8	15.6	14.5	13.4	15.7	10.0	10.0	10.0	10.0	10.0	165.5
Net Operating Activities	(\$1,183.2)	(\$516.3)	\$869.6	(\$444.5)	(\$1,062.2)	\$288.1	\$422.6	(\$694.6)	(\$97.4)	\$1,309.3	(\$276.5)	\$1,230.2	(\$154.9)
Federal Grants:													
Total Federal Grants Revenue/Inflows	156.8	169.4	160.6	158.8	241.1	189.4	205.9	190.0	180.0	200.0	185.0	220.0	2,256.9
<u>Total Federal Grants Expenditures/Outflows</u>	208.8	212.0	125.7	176.8	219.0	225.2	201.7	178.5	204.5	193.0	188.5	219.0	2,352.7
Net Federal Grants	(\$52.0)	(\$42.7)	\$34.9	(\$18.1)	\$22.1	(\$35.7)	\$4.2	\$11.5	(\$24.5)	\$7.0	(\$3.5)	\$1.0	(\$95.7)
Capital Funds:													
Total Capital Revenue/Inflows	243.1	328.2	291.1	246.4	314.0	229.6	324.6	189.1	238.6	151.0	269.5	219.3	3,044.3
<u>Total Capital Expenditures/Outflows</u>	346.2	394.9	214.4	263.6	327.1	257.8	291.7	232.0	227.0	295.0	239.0	238.0	3,326.6
Net Capital Funds	(\$103.2)	(\$66.7)	\$76.7	(\$17.2)	(\$13.1)	(\$28.2)	\$32.9	(\$42.9)	\$11.6	(\$144.0)	\$30.5	(\$18.7)	(\$282.3)
Financing Activities:													
Cash Flow Financing Activities Inflows:													
<i>Commercial Paper</i>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<i>Revenue Anticipation Notes (RANS)</i>	0.0	1,500.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1,500.0
Total Cash Flow Financing Activities Inflows	0.0	1,500.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1,500.0
Cash Flow Financing Activities Outflows:													
<i>Commercial Paper – (Principal + Interest)</i>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<i>RANS – (Principal + Interest)</i>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	513.2	514.7	516.2	1,544.1
<u>Total Cash Flow Financing Activities Outflows</u>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	513.2	514.7	516.2	1,544.1
Net Financing Activities	\$0.0	\$1,500.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	(\$513.2)	(\$514.7)	(\$516.2)	(\$44.1)
Ending Non-Segregated Operating Cash Balance	\$2,269.5	\$3,143.8	\$4,125.0	\$3,645.3	\$2,592.1	\$2,816.3	\$3,276.0	\$2,550.0	\$2,439.7	\$3,098.9	\$2,334.7	\$3,031.0	\$3,031.0

SOURCE: Office of the Treasurer and Receiver-General.

(1) Totals may not add due to rounding.

(2) Figures are estimated.

Overview of Fiscal 2020 Non-Segregated Operating Cash Flow (in millions) (1)(2)

	<u>Jul-19</u>	<u>Aug-19</u>	<u>Sep-19</u>	<u>Oct-19</u>	<u>Nov-19</u>	<u>Dec-19</u>	<u>Jan-20</u>	<u>Feb-20</u>	<u>Mar-20</u>	<u>Apr-20</u>	<u>May-20</u>	<u>Jun-20</u>	<u>Total FY 2020</u>
Opening Non-Segregated Operating Cash Balance	\$3,031.0	\$2,040.4	\$1,766.3	\$2,613.9	\$1,943.5	\$1,289.2	\$1,670.4	\$2,313.7	\$1,615.6	\$1,534.8	\$2,625.3	\$1,730.8	\$3,031.0
Operating Activities:													
Budgetary Funds:													
<i>Transfer from/(to) Stabilization Fund</i>	0.0	0.0	(488.5)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(488.5)
Total Budgetary Revenue/Inflows	3,633.0	3,041.0	4,561.5	3,441.0	3,221.0	4,657.0	4,503.0	3,400.0	4,244.0	5,608.0	3,792.0	4,604.0	48,705.5
Total Budgetary Expenditures/Outflows	4,403.6	4,450.5	3,526.5	3,721.4	3,659.5	3,625.0	3,650.0	3,838.4	4,015.6	3,810.7	3,721.5	3,061.6	45,484.1
Net Budgetary Funds	(770.6)	(1,409.5)	1,035.0	(280.4)	(438.5)	1,032.0	853.0	(438.4)	228.4	1,797.3	70.5	1,542.4	3,221.4
Non Budgetary Funds (Non Budgetary, Higher Ed and Trust Funds):													
Total Non Budgetary Revenue/Inflows	901.4	883.9	1,283.0	891.3	986.8	920.6	1,002.3	846.6	879.6	903.1	1,140.3	1,025.1	11,664.0
Total Non Budgetary Expenditures/Outflows	1,187.8	1,174.8	1,526.9	1,302.8	1,224.8	1,534.9	1,234.8	1,200.8	1,230.9	1,186.8	1,565.7	1,311.8	15,683.0
Net Non Budgetary Funds	(286.5)	(290.9)	(243.9)	(411.6)	(238.0)	(614.2)	(232.5)	(354.2)	(351.2)	(283.7)	(425.4)	(286.6)	(4,018.9)
Net Undesignated Revenue/Inflows and Expenditures/Outflows	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	120.0
Net Operating Activities	(\$1,047.0)	(\$1,690.5)	\$801.1	(\$682.0)	(\$666.5)	\$427.8	\$630.5	(\$782.6)	(\$112.8)	\$1,523.6	(\$344.9)	\$1,265.8	(\$677.6)
Federal Grants:													
Total Federal Grants Revenue/Inflows	180.0	170.0	175.0	165.0	230.0	195.0	185.0	195.0	190.0	200.0	185.0	220.0	2,290.0
Total Federal Grants Expenditures/Outflows	208.5	209.5	126.5	176.5	216.7	221.6	189.2	177.6	193.0	188.1	204.6	195.4	2,307.1
Net Federal Grants	(\$28.5)	(\$39.5)	\$48.5	(\$11.5)	\$13.3	(\$26.6)	(\$4.2)	\$17.5	(\$2.9)	\$11.9	(\$19.6)	\$24.6	(\$17.1)
Capital Funds:													
Total Capital Revenue/Inflows	293.0	242.9	381.0	389.0	327.0	336.0	319.0	296.0	311.0	296.0	299.0	366.0	3,855.9
Total Capital Expenditures/Outflows	208.0	287.0	383.0	366.0	328.0	356.0	302.0	229.0	276.0	228.0	315.0	450.0	3,728.0
Net Capital Funds	\$85.0	(\$44.1)	(\$2.0)	\$23.0	(\$1.0)	(\$20.0)	\$17.0	\$67.0	\$35.0	\$68.0	(\$16.0)	(\$84.0)	127.9
Financing Activities:													
Cash Flow Financing Activities Inflows:													
<i>Commercial Paper</i>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<i>Revenue Anticipation Notes (RANS)</i>	0.0	1,500.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1,500.0
Total Cash Flow Financing Activities Inflows	0.0	1,500.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1,500.0
Cash Flow Financing Activities Outflows:													
<i>Commercial Paper – (Principal + Interest)</i>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<i>RANS – (Principal + Interest)</i>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	513.0	514.0	516.0	1,543.0
Total Cash Flow Financing Activities Outflows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	513.0	514.0	516.0	1,543.0
Net Financing Activities	\$0.0	\$1,500.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	(\$513.0)	(\$514.0)	(\$516.0)	(\$43.0)
Ending Non-Segregated Operating Cash Balance	\$2,040.4	\$1,766.3	\$2,613.9	\$1,943.5	\$1,289.2	\$1,670.4	\$2,313.7	\$1,615.6	\$1,534.8	\$2,625.3	\$1,730.8	\$2,421.2	\$2,421.2

SOURCE: Office of the Treasurer and Receiver-General.

(1) Totals may not add due to rounding.

(2) Figures are estimated.

STATE WORKFORCE

The following table sets forth information regarding the Commonwealth's full-time equivalent (FTE) workforce as of the end of the last five fiscal years.

	<u>June 2014</u>	<u>June 2015</u>	<u>June 2016 (2)</u>	<u>June 2017</u>	<u>June 2018</u>
Executive Office	70	75	75	74	77
Executive Departments					
Administration and Finance	2,872	2,979	2,593	2,274	2,214
Energy and Environmental Affairs	1,900	1,907	1,773	1,736	1,725
Health and Human Services	19,675	20,088	19,560	19,849	20,162
Board of Library Commissioners	10	11	-	-	-
Housing and Economic Development	702	699	673	640	748
Labor and Workforce Development	250	234	236	231	234
Executive Office of Education	715	582	569	507	523
Public Safety and Security	8,808	8,620	8,373	7,994	8,042
Elder Affairs	39	36	-	-	-
Technology Services and Security	-	-	-	333	354
Federal Grant, Trust and Capital Funded (3)	<u>9,317</u>	<u>9,472</u>	<u>8,847</u>	<u>8,139</u>	<u>8,133</u>
Subtotal under Governor's Authority	<u>44,358</u>	<u>44,703</u>	<u>42,699</u>	<u>41,777</u>	<u>42,212</u>
Judiciary	7,196	7,264	7,263	7,208	7,229
Higher Education	24,026	24,783	25,212	25,283	24,887
Other (4)	<u>10,910</u>	<u>11,010</u>	<u>11,040</u>	<u>11,092</u>	<u>11,048</u>
Total	<u>86,490</u>	<u>87,760</u>	<u>86,213</u>	<u>85,360</u>	<u>85,376</u>

SOURCE: Office of the Comptroller.

(1) This table has been revised from prior presentations to conform to the presentation in the Statutory Basis Financial Reports.

(2) Figures for June, 2016 and thereafter include the Board of Library Commissioners in Other and Elder Affairs in Health and Human Services.

(3) The Massachusetts Department of Transportation is included in Federal Grant, Trust, and Capital Funded.

(4) Other includes members of the Legislature and their staff, constitutional officers, other independently elected officials and other independent state agencies.

Unions and Labor Negotiations

Under Massachusetts law, all employees of the Commonwealth, with the exception of managerial and confidential employees and employees of the Legislature, have the right to bargain collectively with the Commonwealth through certified employee organizations recognized as exclusive bargaining representatives for appropriate bargaining units. The Human Resources Division of the Executive Office for Administration and Finance conducts the collective bargaining negotiations with all employees of the Commonwealth (except those noted below). Such negotiations may cover wages, hours and other terms and conditions of employment, but may not include the levels of pension and group insurance benefits. All labor agreements negotiated by the Human Resources Division are subject to approval by the Secretary of Administration and Finance and, once approved, are forwarded to the Legislature for funding approval. Labor contracts are often funded by supplemental appropriations or advance-funded through reserve accounts.

MassDOT, the Trial Court, the Lottery Commission, the Alcohol Beverage Control Commission, state sheriffs, the Registries of Deeds under the control of the Secretary of the Commonwealth, state universities and community colleges through the Board of Higher Education, the Personal Care Attendant Workforce Council and the Department of Early Education and Care (EEC) (for bargaining with family child care providers) negotiate directly with their respective employee representatives, but wage increases and other economic provisions contained in such agreements are subject to the review of the Governor and to funding approval by the Legislature. Also, if the Governor does not recommend the requested appropriation to fund contractual increases, he may refer the contracts back to the parties for further negotiation.

The University of Massachusetts submits 22 of its collective bargaining agreements for approval under the process described above, but also uses some of its retained revenue to fund other collective bargaining agreements.

Approximately 35,334 executive branch full-time-equivalent state employees are organized in 13 bargaining units, the employees of the Commonwealth's colleges and universities are organized in 47 bargaining units, and the employees of the judicial branch, MassDOT, the Lottery Commission, the Registries of Deeds, the state sheriffs, Personal Care Attendants at MassHealth, and family child care providers at the Department of Early Education and Care are organized in 67 bargaining units. Public employees of the Commonwealth do not have a legal right to strike or otherwise withhold services.

The following is a description of certain terms of the most recent agreements with the collective bargaining units within the responsibility of the Human Resources Division.

1. The contract with the National Association of Government Employees (NAGE), representing Units 1, 3 and 6, runs from July 1, 2017 through June 30, 2020, and provides salary increases of 1% (2% if fiscal 2018 revenues exceed \$27.072 billion) in 2017, 2% in 2018, and 2% in 2019, effective July 1 of each year. The total estimated incremental cost of the contract is \$65.7 million.

2. The contract with the American Federation of State, County and Municipal Employees, representing Unit 2, runs from July 1, 2017 through June 30, 2020, and provides a salary increase of 1% in July, 2017 (2% if fiscal 2018 revenues exceed \$27.072 billion). The agreement also provides semi-annual increases of 1% in January and July of calendar 2019 and 2020, respectively (equal to an annualized increase of 2% in the years of 2019 and 2020). The total estimated incremental cost of the contract is \$36.8 million.

3. The contract with the Massachusetts Correction Officers Federated Union, representing Unit 4, ran from July 1, 2015 through June 30, 2018 and provided annual increases of 2%, 3.75% and 3.75%, effective July 1, 2015, 2016 and 2017, respectively. The total estimated incremental cost of the contract was \$46.9 million. This contract has expired, and negotiations are ongoing.

4. The contract with the New England Police Benevolent Association (NEPBA), representing Unit 4A, runs from July 1, 2017 through June 30, 2020, and provides for salary increases of 1% (2% if fiscal 2018 revenues exceed \$27.072 billion) in 2017, 2% in 2018, and 2% in 2019, effective July 1 of each year. The total estimated incremental cost of the contract is \$0.9 million.

5. The contract with the Coalition of Public Safety, representing Unit 5, ran from July 1, 2015 through June 30, 2018, and provided annual increases of 2%, 3%, and 3%. The total estimated incremental cost of the contract was \$2.3 million. This contract has expired, and negotiations are ongoing.

6. The contract with the State Police Association of Massachusetts, representing Unit 5A, ran from January 1, 2015 through December 31, 2017, and provided annual increases of 2%, 3.75%, and 3.75%. The total estimated incremental cost of the contract was \$38.5 million. This contract has expired, and negotiations are ongoing.

7. The contract with the Massachusetts Nurses Association, representing Unit 7, runs from January 1, 2018 through December 31, 2020, and provides salary increases of 1% (2% if fiscal 2018 revenues exceed \$27.072 billion) in 2017, 2% in 2018, and 2% in 2019, effective July 1 of each year. The total estimated incremental cost of the contract is \$20.3 million.

8. The contract with the Service Employees International Union, representing Units 8 and 10, runs from January 1, 2017 through December 31, 2019, and provides a salary increase of 1% in January 2017 (2% if fiscal 2018 revenues exceed \$27.072 billion). The agreement also provides increases of 2% in January 2018 and 2019. The total estimated incremental cost of the contract is \$74.1 million.

9. The contract with the Massachusetts Organization of State Engineers and Scientists (MOSES), representing Unit 9, runs from July 1, 2017 through June 30, 2020, and provides salary increases of 1% (2% if fiscal 2018 revenues exceed \$27.072 billion) in 2017, 2% in 2018, and 2% in 2019, effective July 1 of each year. The total estimated incremental cost of the contract is \$9.9 million.

10. The contract with the International Association of Fire Fighters, representing Unit 11, runs from January 1, 2018 through December 31, 2020, and provides annual increases of 1% (2% if fiscal 2018 revenues

exceed \$27.072 billion) in 2018, 2% in 2019, and 2% in 2020, effective January 1 of each year. The total estimated incremental cost of the contract is \$0.3 million.

The following table sets forth information regarding the 13 bargaining units that are within the responsibility of the Human Resources Division.

Human Resources Division Bargaining Units (1)

<u>Contract Unit</u>	<u>Bargaining Union</u>	<u>Type of Employee</u>	<u>FTEs</u>	<u>Contract Expiration Dates</u>
1, 3, 6	National Association of Government Employees	Clerical, Skilled Trades, Administrative Professionals	9,613	6/30/20
2	Alliance/American Federation of State, County & Municipal Employees and Service Employees International Union	Institutional services	7,925	6/30/20
4	Massachusetts Correction Officers Federated Union	Corrections	3,470	6/30/18 (2)
4A	New England Police Benevolent Association	Corrections	81	6/30/20
5	Coalition of Public Safety	Law enforcement	182	6/30/18 (2)
5A	State Police Association of Massachusetts	State Police	2,122	12/31/17 (2)
7	Massachusetts Nurses Association	Health professionals	1,565	12/31/20
8, 10	Alliance/Service Employees International Union	Social workers, Secondary Education	8,561	12/31/19
9	Massachusetts Organization of State Engineers and Scientists	Engineers/scientists	1,750	6/30/20
11	International Association of Fire Fighters	Fire fighters	64	12/31/20
		Total	35,334	

SOURCE: Executive Office for Administration and Finance.

- (1) Numbers represent full-time equivalent filled positions (FTEs) in the standard workforce as of November 10, 2018 whose positions are established in accounts funded by all sources (the annual operating budget, capital projects funds, direct federal grants and expendable trusts and other non-appropriated funds).
- (2) This contract has expired, and negotiations are ongoing.

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PENSION AND OPEB FUNDING

Retirement Systems

Almost all non-federal public employees in the Commonwealth participate in defined-benefit pension plans administered pursuant to state law by 104 public retirement systems. The Commonwealth is responsible for the payment of pension benefits for Commonwealth employees (members of the state employees' retirement system) and for teachers of the cities, towns and regional school districts throughout the state (including members of the Massachusetts teachers' retirement system and teachers in the Boston public schools, who are members of the Boston Retirement System but whose pensions are also the responsibility of the Commonwealth). The Commonwealth is also responsible for cost-of-living adjustments (COLAs) granted by local systems from 1981 to 1996.

The members of the retirement system do not participate in the Social Security System. Employees of certain independent authorities and agencies, such as the Massachusetts Water Resources Authority, and of counties, cities and towns (other than teachers) are covered by 102 separate retirement systems and the Commonwealth is not responsible for making contributions towards the funding of these retirement systems. Pension benefits for state employees are administered by the State Retirement Board, and pension benefits for teachers are administered by the Massachusetts Teachers' Retirement Board. Investment of the assets of the state employees' and Massachusetts teachers' retirement systems is managed by the Pension Reserves Investment Management (PRIM) Board. In the case of all other retirement systems, the retirement board for the system administers pension benefits and manages investment of assets. Retirement board members are required to complete 18 hours of training and to file annual statements of financial interest with the Public Employee Retirement Administration Commission (PERAC). Many such retirement boards invest their assets with the PRIM Board, and the PRIM Board may take over the assets of local retirement systems that are less than 65% funded and have failed to come within 2% of the PRIM Board's performance over the previous 10-year period. With a very small number of exceptions, the members of these state and local retirement systems do not participate in the federal Social Security System.

The Massachusetts State Employees' Retirement System (MSERS) and the Massachusetts Teachers' Retirement System (MTRS) are the two largest plans of the public contributory retirement systems operated in the Commonwealth. Membership in MSERS and MTRS as of January 1, 2018, the date of the most recent combined valuation, is as follows:

Retirement Systems Membership

	<u>MSERS</u>	<u>MTRS</u>
Retirees and beneficiaries currently receiving benefits	63,194	66,078
Terminated employees entitled to benefits but not yet receiving them	<u>4,424</u>	<u>N/A</u>
Subtotal	67,618	66,078
Current Members	<u>87,822</u>	<u>93,119</u>
Total	155,440	159,197

SOURCE: Public Employee Retirement Administration Commission

The MSERS is a cost sharing, multiple-employer defined-benefit public employee retirement system. The MTRS is a defined-benefit public employee retirement system managed by the Commonwealth on behalf of municipal teachers and municipal teacher retirees. The Commonwealth is a non-employer contributor and is responsible for all contributions and future benefits of the MTRS. Members become vested after 10 years of creditable service. For members who joined the system prior to April 2, 2012 superannuation retirement allowance may be received upon the completion of 20 years of service or upon reaching the age of 55 with 10 years of service. Normal retirement for those employees who were system members before April 2, 2012 occurs at age 65; for certain hazardous duty and public safety positions, normal retirement is at age 55. Most members who joined the system after April 1, 2012 cannot retire prior to age 60.

The Commonwealth's retirement systems' funding policies have been statutorily established. The Legislature has the authority to amend these policies. The annuity portion of the MSERS and the MTRS retirement allowance is funded by employees, who contribute a percentage of their regular compensation. Costs of administering the plan are funded out of plan assets. The policies provide for uniform benefit and contribution requirements for all contributory public employee retirement systems. These requirements generally provide for superannuation retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation. For employees hired after April 1, 2012, retirement allowances are calculated on the basis of the last five years or any five consecutive years, whichever is greater in terms of compensation. Benefit payments are based upon a member's age, length of creditable service and group creditable service, and group classification.

Boston teachers are not included in the membership data shown above for the MTRS. Legislation approved in May, 2010 changed the methodology for the Commonwealth's funding of pension benefits paid to Boston teachers. Prior to this change, the Commonwealth reimbursed the City of Boston for pension benefits paid to Boston teachers as certified by the Boston Retirement System (BRS). Those costs were funded one fiscal year in arrears. The cost of pension benefits of the other participants of the BRS is the responsibility of the City of Boston. The BRS is a cost-sharing multiple-employer pension system that is not administered by the Commonwealth and is not part of the reporting entity of the Commonwealth for accounting purposes. The 2010 legislation clarified that the Commonwealth is responsible for all employer contributions and future benefit requirements for Boston teachers that are members of the BRS. The Commonwealth's actuarially determined contribution (or ADC, defined as a target or recommended contribution to a defined benefit pension plan for the reporting period, determined in conformity with Actuarial Standards of Practice) to the BRS for fiscal 2019 has been determined to be \$143.1 million.

Subject to legislative approval, annual increases in cost-of-living allowances are provided in an amount equal to the lesser of 3% or the previous year's percentage increase in the United States consumer price index on the first \$13,000 of benefits for members of the MSERS and MTRS. The Legislature approved the 3% increase in cost-of-living allowances for fiscal 2019. The Commonwealth pension funding schedule (discussed below) assumes that annual increases of 3% will be approved for its retirees.

The MSERS and the MTRS, in conjunction with the Commonwealth, are evaluating whether certain of the statutes or practices governing the systems may have been in conflict with the exclusive benefit rule of Section 401(a)(2) of the Internal Revenue Code or other federal tax law requirements relating to operation of tax-exempt pension plans. The activities being reviewed include (i) the statutorily directed funding of the budget for PERAC solely from the investment income accounts of MSERS and MTRS, (ii) the statutorily directed contributions made from the MSERS account in the PRIT Fund to a separate optional retirement plan available to certain employees of the Commonwealth's higher education system, (iii) the statutorily mandated reimbursements paid by the MSERS to local retirement systems for local cost-of-living allowances for certain participants of those systems, (iv) the deposit of reimbursement revenues received from local retirement systems to the Commonwealth's General Fund rather than to the MTRS and MSERS accounts in the PRIT Fund, and (v) the deposit of federal grant fringe payments to the General Fund rather than to the MTRS and MSERS accounts in the PRIT Fund. The Commonwealth, PERAC, MSERS and the MTRS have each engaged outside tax counsel to review these activities. On March 28, 2017, the Governor approved legislation to address prospectively certain aspects of the issues described above. Additional corrective legislation was approved as part of the Commonwealth's General Appropriations Act for fiscal 2018, approved on July 17, 2017. The Executive Office for Administration and Finance has submitted to the Internal Revenue Service for its consideration a request for a closing agreement in which the Commonwealth describes the activities listed above, explains the corrective actions already taken by legislation, and requests an affirmation that these activities do not adversely affect the tax qualification of the MSERS and MTRS in light of the corrections already made.

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Employee Contributions

The MSERS and MTRS are partially funded by employee contributions of regular compensation. The following tables indicate current employee contribution rates (figures are approximate):

Employee Contribution Rates

MTRS (1)			
Hire Date	% of Compensation (1)	Active Members	% of Total Active
Pre-1975	5%	100	0.1%
1975-1983	7	442	0.5
1984-June 30, 1996	8	6,018	6.5
July 1, 1996-Present	9	15,463	16.6
July 1, 2001-Present	11	71,096	76.3
Totals		93,119	100.0%

SOURCE: Public Employee Retirement Administration Commission. Membership data from Teachers' Retirement System January 1, 2018 Actuarial Valuation.

(1) Employees hired after January 1, 1979 (except those contributing 11%) contribute an additional 2% of any regular compensation in excess of \$30,000 annually. Legislation enacted in fiscal 2000 established an alternative superannuation retirement benefit program for teachers hired on or after July 1, 2001 (and others who opt in) with an 11% contribution requirement for a minimum of five years. The contribution rate for most employees hired after April 1, 2012 will be reduced to 8% after 30 years of creditable service.

MSERS (1)			
Hire Date	% of Compensation (1)	Active Members	% of Total Active
Pre-1975	5%	382	0.4%
1975-1983	7	2,956	3.4
1984-June 30, 1996	8	15,766	17.9
July 1, 1996-Present	9	67,942	77.4
State Police 1996-Present	12	776	0.9
Totals		87,822	100.0%

SOURCE: Public Employee Retirement Administration Commission. Membership data from State Retirement Board January 1, 2018 Actuarial Valuation.

(1) Employees hired after January 1, 1979 contribute an additional 2% of any regular compensation in excess of \$30,000 annually. The contribution rate for most employees hired after April 1, 2012 will be reduced to 6% after 30 years of creditable service.

Funding Schedule

The retirement systems were originally established as “pay-as-you-go” systems, meaning that amounts were appropriated each year to pay current benefits, and no provision was made to fund currently the future liabilities already incurred. In fiscal 1988, the Commonwealth began to address the unfunded liabilities of the two state systems by making appropriations to pension reserves. Under current law such unfunded liability is required to be amortized to zero by June 30, 2040. The law also requires that the Secretary of Administration and Finance file a proposed funding schedule with the legislature every three years identifying the appropriations or transfers required to amortize the unfunded liability to zero, to meet the normal cost of all future benefits for which the Commonwealth is obligated and to meet any other component of the Commonwealth’s pension liability. Previously designated amounts can be adjusted based on a new funding schedule so long as the adjustments represent an increase in the scheduled amounts for those years. The law requires the funding schedule submitted by the Secretary to be based on actuarial valuation reports and requires the Secretary to provide the actuarial, economic and demographic assumptions upon which the reports are based. The funding schedule is filed with the House Committee on Ways and Means and is deemed approved if no action is taken by the committee within 45 days.

The most recent funding schedule for payments into the Commonwealth’s Pension Liability Fund was filed by the Secretary of Administration and Finance on January 13, 2017. The assumptions underlying the funding schedule include valuation of assets and liabilities as of January 1, 2016, an annual rate of return on assets of 7.5%, and appropriation increases of 8.94% per year until the final amortization payment in fiscal 2036 (four years before the statutory requirement). The funding schedule also fully amortizes by fiscal 2027 the liabilities attributable to the employee retirement incentive program approved by the Governor on May 4, 2015.

Current Funding Schedule for Pension Obligations (in thousands)

<u>Fiscal Year</u>	<u>Payments</u>	<u>Fiscal Year</u>	<u>Payments</u>
2019	\$ 2,608,453	2029	\$ 6,138,577
2020	2,841,525	2030	6,687,075
2021	3,095,422	2031	7,284,583
2022	3,372,006	2032	7,935,479
2023	3,673,304	2033	8,644,535
2024	4,001,523	2034	9,416,947
2025	4,359,070	2035	10,258,375
2026	4,748,564	2036	11,174,988
2027	5,172,860	2037	1,370,935
2028	5,635,069		

SOURCE: Executive Office for Administration and Finance

Actuarial Valuations

The most recent valuation report for the Commonwealth's total pension obligation is dated September 21, 2018. In this report, the unfunded actuarial accrued liability for the Commonwealth's total pension obligation as of January 1, 2018, based on the plan provisions in effect at the time and on member data and asset information as of December 31, 2017, was approximately \$41.399 billion, including approximately \$14.208 billion for MSERS, \$24.596 billion for MTRS, \$2.463 billion for Boston teachers that are members of the BRS, and \$132.0 million for cost-of-living increases reimbursable to local systems. This valuation estimates the total actuarial accrued liability as of January 1, 2018 to be approximately \$96.317 billion (comprising \$40.457 billion for MSERS, \$51.653 billion for MTRS, \$4.075 billion for Boston teachers and \$132.0 million for cost-of-living increases reimbursable to local systems).

Differences each year between the actual experience of the plan and the experience projected by the actuarial assumptions are reflected by adjustments to the unfunded actuarial accrued liability. An experience difference which increases the unfunded actuarial accrued liability is an actuarial loss and one which decreases the unfunded actuarial accrued liability is an actuarial gain.

Total assets were valued on an actuarial basis at approximately \$54.918 billion based on a five-year average valuation method, which equaled 94.6% of the December 31, 2017 total asset market value. During 2017 there was an overall actuarial gain of \$1.26 billion. There was a non-investment related gain on actuarial liability of approximately \$93 million. There was a gain of approximately \$1.17 billion on the actuarial value of assets.

The January 1, 2019 valuation report will reflect a 7.25% investment return assumption, reduced from the 7.35% assumption used in the January 1, 2018 valuation. The investment return assumption had previously decreased several times, from 8.25% as of January 1, 2012 to 7.35% as of January 1, 2018. The change in the investment return assumption from 7.35% to 7.25% is expected to increase the total actuarial accrued liability by \$1.0 billion.

For the January 1, 2015 valuation, a fully generational mortality assumption was adopted that reflected expected future mortality improvements (increasing life expectancy). This assumption was adopted based on a review of retiree mortality in 2012, 2013 and 2014. PERAC performed an updated analysis of retiree mortality in 2015 and 2016 and, based on this review, the generational mortality assumption was adjusted in the January 1, 2017 valuation. PERAC maintained this assumption in the January 1, 2018 valuation for most retired members. There was a small adjustment to the mortality assumption for disability retirees of MSERS that increased the actuarial liability by \$9.0 million.

PERAC issued detailed experience analyses in 2014 for MSERS and MTRS. These experience studies encompassed the years 2006-2011 and reviewed salary increases and rates of retirement, disability, turnover and mortality. As detailed above, PERAC performed an analysis of mortality for retirees of MSERS and MTRS in 2015 and 2017.

The Actuarial Cost Method which is used to determine pension liabilities in the Commonwealth's valuations is known as the Entry Age Normal Cost Method. Under this method, the Normal Cost for each active

member on the valuation date is determined as the level percent of salary, which, if paid annually from the date the employee first became a retirement system member, would fully fund by retirement, death, disability or termination, the projected benefits which the member is expected to receive. The actuarial accrued liability for each member is determined as the present value as of the valuation date of all projected benefits which the member is expected to receive, minus the present value of future annual Normal Cost payments expected to be made to the fund. Since only active members have a Normal Cost, the actuarial accrued liability for inactive members, retirees and survivors is simply equal to the present value of all projected benefits. The unfunded actuarial accrued liability is the actuarial accrued liability less current assets.

The Normal Cost for a member will remain a level percent of salary for each year of membership, except for changes in provisions of the plan or the actuarial assumptions employed in projection of benefits and present value determinations. The Normal Cost for the entire system will also be changed by the addition of new members or the retirement, death, disability, or termination of members. The actuarial accrued liability for a member will increase each year to reflect the additional accrual of Normal Cost. It will also change if the plan provisions or actuarial assumptions change.

The actuarial value of assets is determined in accordance with the deferred recognition method, under which 20% of the gains or losses occurring in the prior year are recognized, 40% of those occurring two years prior are recognized, etc., so that 100% of gains and losses occurring five years ago are recognized. This has the effect of smoothing the short-term volatility of market values over a five-year period. The actuarial value of assets is adjusted, if necessary, in order to remain between 90% and 110% of market value. (In valuations prior to 1998, plan assets were determined at market value.) The actuarial value of assets as of January 1, 2018 was 94.6% of the market value. This figure was 101.7% as of January 1, 2017.

The following table shows, with respect to the Commonwealth's aggregate pension obligations, a 10-year comparison of the actuarial value of assets to the market values, the ratio of the actuarial value to market value, and the funded ratio based on actuarial value compared to the funded ratio based on the market value of assets:

Ten Year Comparison of Actuarial and Market Values of Pension Assets (in millions)

<u>Valuation Date (Jan. 1)</u>	<u>Actuarial Value of Assets (1)</u>	<u>Market Value of Assets</u>	<u>% of Actuarial Value to Market Value</u>	<u>Funded Ratio (Actuarial Value)</u>	<u>Funded Ratio (Market Value)</u>
2018	\$54,918	\$58,038	94.6%	57.0%	60.3%
2017	51,952	51,107	101.7	56.7	55.8
2016	49,535	48,943	101.2	56.7	56.0
2015	48,106	50,290	95.7	59.0	61.7
2014	45,894	48,351	94.9	61.2	64.5
2013	43,517	43,760	99.4	60.6	60.9
2012	43,942	39,947	110.0	65.1	59.1
2011	45,631	41,482	110.0	71.1	64.6
2010	41,589	37,809	110.0	67.5	61.4
2009	37,058	33,689	110.0	62.7	57.0

SOURCE: Public Employee Retirement Administration Commission.

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

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The following tables show, for each of the MSERS and the MTRS and for Commonwealth obligations in the aggregate (including Boston teachers and cost-of-living allowances as well as MSERS and MTRS), the historical funded status for the most recent ten years, based on actuarial values and market values of assets:

Historical Pension Funding Progress for the Last Ten Fiscal Years - Actuarial Value
(in thousands, except for percentages)

	<u>Actuarial Value of Plan Assets</u>	<u>Actuarial Accrued Liability</u>	<u>Unfunded Actuarial Accrued Liability (UAAL)</u>	<u>Funded Ratio</u>	<u>Annual Covered Payroll</u>	<u>UAAL as % of Covered Payroll</u>
<u>MSERS</u>						
Actuarial Valuation as of Jan. 1						
2018	\$26,248,250	\$40,456,611	\$14,208,361	64.9%	\$6,155,194	230.8%
2017	24,773,042	38,316,719	13,543,677	64.7	5,927,012	228.6
2016	23,465,963	36,966,278	13,500,315	63.5	5,792,288	233.1
2015	22,720,160	33,679,150	10,958,990	67.5	5,591,911	196.0
2014	21,581,133	30,679,600	9,098,467	70.3	5,344,510	170.2
2013	20,317,389	29,385,442	9,068,053	69.1	5,183,195	175.0
2012	20,507,604	27,784,731	7,277,127	73.8	4,922,388	185.7
2011	21,244,900	26,242,776	4,997,876	81.0	4,808,250	103.9
2010	19,019,062	24,862,421	5,843,359	76.5	4,711,563	124.0
2009	16,992,214	23,723,240	6,731,026	71.6	4,712,655	142.8
<u>MTRS</u>						
Actuarial Valuation as of Jan. 1						
2018	\$27,057,700	\$51,653,285	\$24,595,585	52.4%	\$6,829,012	360.2%
2017	25,638,136	49,193,503	23,555,367	52.1	6,583,871	357.8
2016	24,593,787	46,562,807	21,969,020	52.8	6,388,732	343.9
2015	23,946,759	44,115,769	20,169,010	54.3	6,204,274	325.1
2014	22,940,196	40,741,695	17,801,499	56.3	5,962,650	298.6
2013	21,787,470	39,135,218	17,347,748	55.7	5,783,294	300.0
2012	22,141,475	36,483,027	14,341,552	60.7	5,655,353	253.6
2011	23,117,952	34,890,991	11,773,039	66.3	5,558,311	211.8
2010	21,262,462	33,738,966	12,476,504	63.0	5,509,698	226.4
2009	18,927,731	32,543,782	13,616,051	58.2	5,389,895	252.6
<u>Aggregate Commonwealth Pension Obligations (1)</u>						
Actuarial Valuation as of Jan. 1						
2018	\$54,918,125	\$96,316,894	\$41,398,769	57.0%	\$13,531,845	305.9%
2017	51,952,206	91,573,998	39,621,792	56.7	13,059,709	303.4
2016	49,535,323	87,401,722	37,866,399	56.7	12,702,727	298.1
2015	48,105,862	81,535,003	33,429,141	59.0	12,302,162	271.7
2014	45,894,034	74,936,994	29,042,960	61.2	11,793,788	246.3
2013	43,517,498	71,865,832	28,348,334	60.6	11,408,407	248.5
2012	43,941,682	67,546,587	23,604,905	65.1	11,011,466	214.4
2011	45,630,507	64,219,135	18,588,628	71.1	10,811,975	171.9
2010	41,589,706	61,575,676	19,985,970	67.5	10,655,881	187.6
2009	37,057,703	59,142,155	22,084,452	62.7	10,537,212	209.6

SOURCE: Public Employee Retirement Administration Commission.

(1) Aggregate Commonwealth pension obligations include obligations with respect to MSERS, MTRS, Boston teachers, and local cost-of-living adjustments from 1981 to 1996.

Historical Pension Funding Progress for the Last Ten Fiscal Years - Market Value
(in thousands, except for percentages)

	<u>Market Value of Plan Assets</u>	<u>Actuarial Accrued Liability</u>	<u>Unfunded Actuarial Accrued Liability (UAAL)</u>	<u>Funded Ratio</u>	<u>Annual Covered Payroll</u>	<u>UAAL as % of Covered Payroll</u>
MSERS						
Actuarial Valuation as of Jan. 1						
2018	\$27,735,916	\$40,456,611	\$12,720,695	68.6%	\$6,155,194	206.7%
2017	24,366,420	38,316,719	13,950,299	63.6	5,927,012	235.4
2016	23,176,451	36,966,278	13,789,827	62.7	5,792,288	238.1
2015	23,739,487	33,679,150	9,939,663	70.5	5,591,911	177.8
2014	22,721,053	30,679,600	7,958,547	74.1	5,344,510	148.9
2013	20,405,004	29,385,442	8,980,438	69.4	5,183,195	173.3
2012	18,643,313	27,784,731	9,141,418	67.1	4,922,388	147.8
2011	19,313,545	26,242,776	6,929,231	73.6	4,808,250	144.1
2010	17,290,056	24,862,421	7,572,365	69.5	4,711,563	160.7
2009	15,447,467	23,723,240	8,275,773	65.1	4,712,655	175.6
2008	22,538,610	22,820,502	281,892	98.8	4,574,233	6.2
MTRS						
Actuarial Valuation as of Jan. 1						
2018	\$28,597,562	\$51,653,285	\$23,055,723	55.4%	\$6,829,012	337.6%
2017	25,225,451	49,193,503	23,968,052	51.3	6,583,871	364.0
2016	24,308,553	46,562,807	22,254,254	52.2	6,388,732	348.3
2015	25,046,692	44,115,769	19,069,077	56.8	6,204,274	307.4
2014	24,183,391	40,741,695	16,558,304	59.4	5,962,650	277.7
2013	21,934,211	39,135,218	17,201,007	56.0	5,783,294	297.4
2012	20,128,614	36,483,027	16,354,413	55.2	5,655,353	289.2
2011	21,016,320	34,890,991	13,874,671	60.2	5,558,311	249.6
2010	19,329,511	33,738,966	14,409,455	57.3	5,509,698	261.5
2009	17,207,028	32,543,782	15,336,754	52.9	5,389,895	284.5
2008	25,316,044	30,955,504	5,639,460	81.8	5,163,498	109.2
Aggregate Commonwealth Pension Obligations (1)						
Actuarial Valuation as of Jan. 1						
2018	\$58,037,680	\$96,316,894	\$38,279,214	60.3%	\$13,531,845	282.9%
2017	51,107,139	91,573,998	40,466,859	55.8	13,059,709	309.9
2016	48,943,080	87,401,722	38,458,642	56.0	12,702,727	302.8
2015	50,289,770	81,535,003	31,245,233	61.7	12,302,162	254.0
2014	48,350,920	74,936,994	26,586,074	64.5	11,793,788	225.4
2013	43,760,381	71,865,832	28,105,451	60.9	11,408,407	246.4
2012	39,946,984	67,546,587	27,599,603	59.1	11,011,466	250.6
2011	41,482,279	64,219,135	22,736,856	64.6	10,811,975	210.3
2010	37,808,823	61,575,676	23,766,853	61.4	10,655,881	223.0
2009	33,688,821	59,142,155	25,453,334	57.0	10,537,212	241.3
2008	49,234,569	56,636,710	7,402,141	86.9	10,156,252	72.9

SOURCE: Public Employee Retirement Administration Commission.

(1) Aggregate Commonwealth pension obligations include obligations with respect to MSERS, MTRS, Boston teachers, and local cost-of-living adjustments from 1981-1996.

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Annual Required Contributions

The following table sets forth the annual required contribution (ARC) by the Commonwealth for each of the fiscal years indicated and the actual contributions made. The ARC was determined annually through fiscal 2014, based on the most recent Commonwealth valuation, under Governmental Accounting Standards Board (GASB) Statement No. 27. GASB 27 is no longer applicable with the implementation of GASB 67/68, as described below, but the Commonwealth expects to continue calculating the ARC under GASB 27 principles for comparison. Actuarial valuations have been performed annually since January 1, 2000. As noted above, the Commonwealth also develops a revised funding schedule by statute at least every three years, and the Commonwealth made the full contribution required, under the then-current funding schedule, for each year displayed in the table. The decrease from fiscal 2016 to fiscal 2017 shown below in the percentage of the ARC funded reflects the assumptions and plan changes described in the January 1, 2016 valuation report that increased plan liabilities. Similarly, assumption changes made in the 2017 and 2018 valuations affect the percentage of the ARC funded in fiscal 2018 and fiscal 2019; if there had been no assumption changes in the 2018 valuation, the percentage of the ARC funded would have been 78%.

The calculation of the Commonwealth's ARC assumes amortization of the unfunded actuarial liability on a 4.0% annual increasing basis to fiscal 2040. (This is the minimum allowable funding schedule for local systems under state pension law.) The amount shown in the table below for contributions made in the current fiscal year is the amount required by the current funding schedule. The amounts shown for contributions made in fiscal 2016 and fiscal 2017 include the costs associated with the early retirement incentive program (ERIP).

Annual Required Contributions and Other Pension Contributions (in thousands, except for percentages)

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Annual required contribution (ARC) (1)	\$2,217,130	\$2,600,000	\$3,060,000	\$3,292,000	\$3,500,000
Contributions made	<u>\$1,793,000</u>	<u>\$2,001,093</u>	<u>\$2,198,093</u>	<u>\$2,394,000</u>	<u>\$2,608,000</u>
% of ARC funded for the fiscal year	75%	77%	72%	73%	75%
ARC as ratio of total government expenditures (2)	5.7%	6.4%	7.2%	7.6%	7.6%

SOURCE: Public Employee Retirement Administration Commission.

- (1) The ARC calculation for fiscal 2016 does not include costs associated with the ERIP because such costs had not yet been identified at the time the calculation was made.
- (2) Based on Total Budgeted Expenditures and Other Uses.

On June 25, 2012, GASB voted to approve two new standards that modify the accounting and financial reporting of the Commonwealth's pension obligations, GASB Statement No. 67, *Financial Reporting for Pension Plans*, which was effective for the Commonwealth's fiscal 2014 CAFR, and GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, which was effective for the Commonwealth's fiscal 2015 CAFR. GASB 67 established new standards for defined benefit pension plan accounting and reporting, while GASB 68 required changes to governments' reporting of and inclusion of pension assets and liabilities in their annual CAFRs. GASB 68 requires governments to report in their statements of net position (or balance sheet) a net pension liability, defined as the difference between the total pension liability (the present value of projected benefit payments to employees based on their past service) and the assets (mostly investments reported at fair value) set aside in a trust and restricted to paying benefits to current employees, retirees, and their beneficiaries. The new standard requires recognition in the financial statements of pension expense, unlike GASB 27. The rate used to discount projected benefit payments to their present value is based on a single rate that reflects (a) the long-term expected rate of return on plan investments as long as the plan net position is projected under specified conditions to be sufficient to pay pensions of current employees and retirees and the pension plan assets are expected to be invested using a strategy to achieve that return and (b) a yield or index rate on tax-exempt 20-year AA-or-higher rated municipal bonds to the extent that the conditions for use of the long-term expected rate of return are not met. Under the new standards, as noted above, the ARC calculation, and the requirement to recognize a GAAP liability to the extent that the ARC was not funded, have been eliminated.

The tables that follow show pension-related information for both the MTRS and the MSERS as required by GASB 67 and GASB 68 and as shown in the Commonwealth's fiscal 2018 CAFR. The MTRS and MSERS tables subtitled "Schedule of Changes in the Net Pension Liability and Related Ratios" show the beginning and ending liabilities and assets for the MTRS and MSERS, as well as both systems' unfunded pension liability, or net pension liability (NPL), with the NPL being the amount that the Commonwealth records on its Statement of Net Position as its unfunded pension liability. The table also shows the components of the change in the NPL between the beginning (July 1) and end (June 30) for fiscal years 2014 through 2018.

The tables subtitled "Pension Expense and Deferred Outflows/Inflows of Resources," "Deferred Outflows/Inflows of Resources," "Deferred Outflows/Inflows of Resources" and "Projected Recognition of Deferred Outflows/Inflows)" show pension expenses that, under GASB 68, are recognized in the fiscal 2018 CAFR as well as the inflows and outflows that under GASB 68 are recognized either in the fiscal 2018 CAFR or are deferred and projected to be recognized in future fiscal year CAFRs.

The methodology required by GASB 68 to calculate the Commonwealth's NPL and other pension-related measures (as reflected in the tables below) is in several respects different from the methodology used by PERAC in calculating the Commonwealth's unfunded pension liability in its annual actuarial valuation. The most important difference between the two methodologies is that GASB 68 requires the value of pension plan assets be recorded at market value as of June 30 of each fiscal year, meaning that investment gains and losses are recognized immediately, while the actuarial value of assets used by PERAC in calculating the Commonwealth's unfunded liability is measured using a five-year smoothing methodology, meaning that investment gains and losses are amortized over five years. GASB 68 also requires governments to defer certain amounts to the extent that actual experience differs from the assumptions used to calculate pension liabilities, actual investment returns differ from projected earnings, or assumption changes result in changes in pension liabilities. Therefore, the NPL information set out in the tables below based on GASB 68 requirements is not strictly comparable to the unfunded liability and other pension-related information in PERAC's annual actuarial valuations.

Under GASB 68, in order to provide adequate time for pension plans to distribute pension-related information to pension plan participants (which include state authorities, local school collaboratives and municipal governments) for use in their annual CAFRs, governments are permitted to use the prior year's NPL and other pension-related measures in the current year's CAFR. In conformance with GASB 68, the Commonwealth determined that for the fiscal 2018 CAFR it would use the pension valuation information as of June 30, 2017. The Commonwealth will use the June 30, 2018 pension information in its fiscal 2019 CAFR.

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GASB 67 Information for the Massachusetts Teachers' Retirement System
Schedule of Changes in the Net Pension Liability and Related Ratios

Fiscal Years 2018 through 2014
(in thousands, except for percentages)

	<u>Fiscal 2018</u>	<u>Fiscal 2017</u>	<u>Fiscal 2016</u>	<u>Fiscal 2015</u>	<u>Fiscal 2014</u>
Total pension liability (as of July 1)	\$50,024,000	\$47,300,000	\$45,918,711	\$41,435,000	\$39,931,000
Service cost	901,234	891,760	843,800	768,032	720,712
Interest	3,633,027	3,505,761	3,402,525	3,166,728	3,227,025
Differences between expected and actual experience	92,317	47,046	(74,025)	153,000	-
Changes of assumptions (1), (2), (3), (4)	845,000	1,176,000	-	3,080,000	108,000
Benefit payments, including refunds of member contributions	<u>(2,992,578)</u>	<u>(2,896,567)</u>	<u>(2,791,011)</u>	<u>(2,684,049)</u>	<u>(2,551,737)</u>
Net change in total pension liability	<u>2,479,000</u>	<u>2,724,000</u>	<u>1,381,289</u>	<u>4,483,711</u>	<u>1,504,000</u>
Total pension liability (as of June 30)	<u>\$52,503,000</u>	<u>\$50,024,000</u>	<u>\$47,300,000</u>	<u>\$45,918,711</u>	<u>\$41,435,000</u>
Plan fiduciary net position (as of July 1)	\$27,138,609	\$24,942,072	\$25,429,068	\$25,538,646	\$22,697,302
Contributions:					
Non-employer - Commonwealth	1,314,783	1,235,515	1,124,583	1,021,930	930,079
Plan members	755,688	730,212	699,422	669,941	653,328
Other additions	<u>231,734</u>	<u>223,746</u>	<u>202,796</u>	<u>190,925</u>	<u>178,998</u>
Total contributions	2,302,205	2,189,473	2,026,801	1,882,796	1,762,405
Net investment income	2,542,576	3,100,352	441,363	845,503	3,771,883
Benefit payments, including refunds of plan member contributions	(2,992,578)	(2,896,567)	(2,791,011)	(2,684,049)	(2,551,737)
Administrative expense	(19,528)	(24,053)	(24,220)	(23,444)	(20,499)
Other changes	<u>(179,573)</u>	<u>(172,668)</u>	<u>(139,929)</u>	<u>(130,384)</u>	<u>(120,708)</u>
Net change in plan fiduciary net position	<u>1,653,102</u>	<u>2,196,537</u>	<u>(486,996)</u>	<u>(109,578)</u>	<u>2,841,344</u>
Plan fiduciary net position (as of June 30)	<u>\$28,791,711</u>	<u>\$27,138,609</u>	<u>\$24,942,072</u>	<u>\$25,429,068</u>	<u>\$25,538,646</u>
Plan net pension liability/(asset) (as of June 30)	<u>\$23,711,289</u>	<u>\$22,885,391</u>	<u>\$22,357,928</u>	<u>\$20,489,643</u>	<u>\$15,896,354</u>
Plan fiduciary net position as a percentage of the total pension liability	54.8%	54.3%	52.7%	55.4%	61.6%
Covered employee payroll (5)	<u>\$6,829,012</u>	<u>\$6,583,871</u>	<u>\$6,388,732</u>	<u>\$6,204,274</u>	<u>\$5,962,650</u>
Net pension liability/(asset) as a percentage of covered employee payroll	347.2%	347.6%	350.0%	330.3%	266.6%

SOURCE: Office of the Comptroller

- (1) The changes in assumptions in fiscal 2015 were due to (i) a decrease in the investment rate of return (discount rate) from 8.0% to 7.75% in the January 1, 2015 actuarial valuation and (ii) improved future mortality.
- (2) The changes in assumptions in fiscal 2017 were due to improved future mortality.
- (3) Subsequent to the issuance of the fiscal 2015 CAFR, the Commonwealth further reduced its discount rate to 7.50% from 7.75%. Consequently, the Commonwealth has adjusted certain information as previously reported in the fiscal 2015 CAFR. This change resulted in an increase of approximately \$1.190 billion which affected the net pension liability as of and for the fiscal year ended June 30, 2015.
- (4) The changes in assumptions in fiscal 2018 were due to a decrease in the discount rate to 7.35% from 7.50%.
- (5) Reflects compensation in the January 1 actuarial valuation for each fiscal year.

GASB 68 Information for the Massachusetts Teachers' Retirement System

Pension Expense and Deferred Outflows/Inflows of Resources

(in thousands)

Pension Expense for Fiscal 2018 (1)

Service cost	\$ 891,760
Interest	3,505,761
Employee contributions	(730,212)
Projected earnings on plan investments	(1,818,901)
Recognized portion of difference between expected and actual experience	20,326
Recognized portion of difference in projected and actual earnings on investments	(157,251)
Recognized portion of plan benefit changes	-
Recognized portion of assumption changes	704,157
Transfers and reimbursements from other systems	(65,987)
Member make up, redeposit and payments from rollovers	(21,878)
Other reimbursements	(3,405)
Administrative expense	24,053
Other changes (net)	<u>40,192</u>
Pension expense	<u>\$2,388,615</u>

- (1) In conformance with GASB 68, pension valuation information as of June 30, 2017 is used in the fiscal 2018 CAFR. Pension valuation information as of June 30, 2018 will be used in the fiscal 2019 CAFR.

Deferred Outflows/(Inflows) of Resources

	<u>Year of Deferral</u>	<u>Deferred Outflows</u>	<u>Deferred (Inflows)</u>	<u>Original Amount</u>	<u>Amortization Period (years)</u>	<u>Amortization</u>
Difference between expected and actual experience	2015	\$78,968	-	\$153,000	6.2	\$24,677
	2016	-	(\$50,146)	(74,025)	6.2	(11,939)
	2017	39,458	-	47,046	6.2	7,588
Assumption changes	2014	37,180	-	108,000	6.1	17,705
	2015	1,589,678	-	3,080,000	6.2	496,774
	2017	986,322	-	1,176,000	6.2	189,678
Net difference between projected and actual earnings on plan investments	2014	-	(398,664)	(1,993,320)	5.0	(398,664)
	2015	430,409	-	1,076,024	5.0	215,205
	2016	847,497	-	1,412,495	5.0	282,499
	2017	-	(1,025,160)	(1,281,451)	5.0	(256,291)
Total		4,009,512	(1,473,970)	-		
Net		\$2,535,542	-	\$3,703,769		\$567,232

Projected Recognition of Deferred Outflows/(Inflows)

Deferred Inflows/(outflows) recognized in Future Pension Expense
(fiscal years ending June 30)

	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>
Difference between expected and actual experience	\$20,326	\$20,326	\$20,326	\$585	\$5,200	\$1,518
Assumption changes	704,157	704,157	688,221	289,032	189,677	37,935
Net difference between projected and actual earnings on plan investments	<u>(157,251)</u>	<u>241,414</u>	<u>26,209</u>	<u>(256,290)</u>	-	-
Total	<u>\$567,232</u>	<u>\$965,897</u>	<u>\$734,756</u>	<u>\$33,327</u>	<u>\$194,877</u>	<u>\$39,453</u>

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GASB 67 Information for the State Employees' Retirement System
Schedule of Changes in the Net Pension Liability and Related Ratios

Fiscal Year 2018 through 2014
(in thousands, except for percentages)

	<u>Fiscal 2018</u>	<u>Fiscal 2017</u>	<u>Fiscal 2016</u>	<u>Fiscal 2015</u>	<u>Fiscal 2014</u>
Total pension liability (as of July 1)	\$39,107,000	\$37,760,000	\$35,425,414	\$31,355,000	\$ 29,988,000
Service cost	856,200	855,440	813,975	700,012	631,634
Interest	2,852,239	2,813,374	2,638,929	2,411,551	2,405,204
Changes in benefit terms (1)	-	10,000	400,000	230,302	-
Differences between expected and actual experience	102,008	(428,232)	589,009	275,000	-
Changes of assumptions (2), (3), (4), (5)	622,000	304,000	-	2,330,000	102,000
Benefit payments, including refunds of member contributions	<u>(2,314,447)</u>	<u>(2,207,582)</u>	<u>(2,107,327)</u>	<u>(1,876,451)</u>	<u>(1,771,838)</u>
Net change in total pension liability	<u>2,118,000</u>	<u>1,347,000</u>	<u>2,334,586</u>	<u>4,070,414</u>	<u>1,367,000</u>
Total pension liability (as of June 30)	<u>\$41,225,000</u>	<u>\$39,107,000</u>	<u>\$37,760,000</u>	<u>\$35,425,414</u>	<u>\$ 31,355,000</u>
Plan fiduciary net position (as of July 1)	\$26,282,232	\$23,971,156	\$24,042,585	\$23,930,895	\$ 21,084,958
Contributions:					
Employers – Commonwealth and MassDOT	840,990	716,266	660,818	601,931	550,438
Non-employer contributions – Commonwealth	35,184	28,455	21,830	18,040	21,293
Employers and non-employers – other	9,564	7,999	16,642	15,808	6,048
ERIP funding contribution - Commonwealth	28,724	29,093	29,093	-	-
Plan members	600,705	604,772	591,948	549,493	501,106
Other additions	<u>118,124</u>	<u>232,548</u>	<u>397,077</u>	<u>92,503</u>	<u>68,967</u>
Total contributions	<u>1,633,291</u>	<u>1,619,133</u>	<u>1,717,408</u>	<u>1,277,775</u>	<u>1,147,897</u>
Net investment income	2,460,748	2,987,632	422,938	800,886	3,551,012
Benefit payments, including refunds of plan member contributions	<u>(2,314,447)</u>	<u>(2,207,582)</u>	<u>(2,107,327)</u>	<u>(1,876,451)</u>	<u>(1,771,838)</u>
Administrative expense	(16,369)	(30,030)	(20,624)	(15,966)	(12,705)
Other changes	<u>(50,434)</u>	<u>(58,077)</u>	<u>(83,824)</u>	<u>(74,554)</u>	<u>(68,429)</u>
Net change in plan fiduciary net position	<u>1,712,789</u>	<u>2,311,076</u>	<u>(71,429)</u>	<u>111,690</u>	<u>2,845,937</u>
Plan fiduciary net position (as of June 30)	<u>\$27,995,021</u>	<u>\$26,282,232</u>	<u>\$23,971,156</u>	<u>\$24,042,585</u>	<u>\$23,930,895</u>
Plan net pension liability/(asset) (as of June 30)	<u>\$13,229,979</u>	<u>\$12,284,768</u>	<u>\$13,788,844</u>	<u>\$11,382,829</u>	<u>\$7,424,105</u>
Plan fiduciary net position as a percentage of the total pension liability	67.9%	67.2%	63.5%	67.9%	
Covered employee payroll (6)	<u>\$6,155,194</u>	<u>\$5,927,012</u>	<u>\$5,792,288</u>	<u>\$5,591,911</u>	<u>\$5,344,510</u>
Net pension liability/(asset) as a percentage of covered employee payroll	214.9%	216.4%	238.1%	203.6%	

SOURCE: Office of the Comptroller

- (1) Fiscal 2015 change in benefit terms reflects costs associated with the retirement incentive program approved in May, 2015. Fiscal 2016 change in benefit terms reflect costs related to Optional Retirement Plan members transferring to the State Employees' Retirement System pursuant to Chapter 176 of the Acts of 2011. Fiscal 2017 change in benefit terms reflect retirement incentive program for certain employees of the highway division of the Massachusetts Department of Transportation.
- (2) The changes in assumptions in fiscal 2015 were due to (1) a decrease in the investment rate of return (discount rate) from 8.0% to 7.75% in the January 1, 2015 actuarial valuation and (2) improved future mortality.
- (3) Subsequent to the issuance of the fiscal 2015 CAFR, the Commonwealth further reduced its discount rate to 7.50% from 7.75%. Consequently, the Commonwealth has adjusted certain information as previously reported in the fiscal 2015 CAFR. This change resulted in an increase of approximately \$933 million which affected the net pension liability as of and for the fiscal year ended June 30, 2015.

- (4) The changes in assumptions in fiscal 2017 were due to improved future mortality.
(5) The changes in assumptions in fiscal 2018 were due to (i) a decrease in the discount rate to 7.35% from 7.50% in the January 1, 2018 actuarial valuation and (ii) a change in the mortality assumption for disabled members.
(6) Reflects compensation in the January 1 actuarial valuation for each fiscal year.

GASB 68 Information for the State Employees' Retirement System
Pension Expense and Deferred Outflows/Inflows of Resources
(in thousands)

Pension Expense for Fiscal 2018 (1)

Service cost	\$855,440
Interest	2,813,374
Employee contributions	(604,772)
Projected earnings on plan investments	(1,754,493)
Recognized portion of difference between expected and actual experience	79,773
Recognized portion of difference in projected and actual earnings on investments	(154,712)
Recognized portion of assumption change	498,478
Change in benefit terms	10,000
Transfers and reimbursements from other systems	(55,282)
Member make up, redeposit and payments from rollovers	(86,393)
COLA reimbursements	(27,759)
Other reimbursements	(63,114)
Administrative expense	30,030
Other expenses that do not reduce the total pension liability	<u>58,077</u>
Pension expense	<u>\$1,598,647</u>

(1) In conformance with GASB 68, pension valuation information as of June 30, 2017 is used in the fiscal 2018 CAFR. Pension valuation information as of June 30, 2018 will be used in the fiscal 2019 CAFR.

Deferred Outflows/(Inflows) of Resources

	<u>Year of Deferral</u>	<u>Deferred Outflows</u>	<u>Deferred Inflows</u>	<u>Original Amount</u>	<u>Amortization Period (years)</u>	<u>Amortization</u>
Difference between expected and actual experience	2015	\$125,000	-	\$275,000	5.5	\$50,000
	2016	370,858	-	589,009	5.4	109,075
	2017	-	(348,930)	(428,232)	5.4	(79,302)
Assumption changes	2014	27,817	-	102,000	5.5	18,546
	2015	1,059,092	-	2,330,000	5.5	423,636
	2017	247,704	-	304,000	5.4	56,296
Net difference between projected and actual earnings on plan investments	2014	-	(380,945)	(1,904,736)	5.0	(380,948)
	2015	407,872	-	1,019,683	5.0	203,937
	2016	806,778	-	1,344,630	5.0	268,926
	2017	-	(986,512)	(1,233,139)	<u>5.0</u>	<u>(246,627)</u>
Total		3,045,121	(1,716,387)	-		-
Net		\$1,328,734		\$2,398,215		\$423,539

Projected Recognition of Deferred Outflows/(Inflows)

Deferred Inflows/(outflows) recognized in Future Pension Expense
(fiscal years ending June 30)

	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
Difference between expected and actual experience	\$79,773	\$79,774	\$54,774	(\$35,672)	(\$31,722)
Assumption changes	498,478	489,205	268,114	56,296	22,519
Net difference between projected and actual earnings on plan investments	<u>(154,712)</u>	<u>226,235</u>	<u>22,298</u>	<u>(246,626)</u>	<u>-</u>
Total	<u>\$423,539</u>	<u>\$795,214</u>	<u>\$345,186</u>	<u>(\$226,002)</u>	<u>(\$9,203)</u>

Prospective Funded Status of the Pension System

The following tables project the funded status of the MSERS', the MTRS', the Boston teachers', and the Commonwealth's aggregate pension liabilities through fiscal 2023. Actuarial results reflect assumptions outlined in the January 1, 2018 actuarial valuation report, except that the investment return assumption used as of January 1, 2019 will be 7.25% and the fiscal 2019 assets are as of December 31, 2018. All projections are estimates and will vary based on actual investment returns and plan experience. The projections in this table assume that all assumptions will be realized exactly. The actuarially determined contributions reflect the funding schedule filed in 2017. Under this schedule, appropriations increase by 8.94% per year until fiscal 2036. The allocations to individual retirement systems for fiscal 2019 reflect the amounts identified in a memorandum dated April 23, 2018 from the Executive Director of PERAC to the Secretary of Administration and Finance. The allocations to individual retirement systems for fiscal 2019 and beyond are estimated. Actuarial figures other than the actuarially determined contribution reflect January 1 estimates of the fiscal year shown.

The actuarial value of assets on January 1, 2018 was 94.6% of the market value of assets. The actuarial value of assets on January 1, 2019 is 102.8% of the market value of assets. The actuarial value of assets on January 1, 2020 is assumed to be 102.0% of the market value of assets. The actuarial value of assets on January 1, 2021 is assumed to be 101.0% of the market value of assets. The actuarial value of assets on January 1, 2022 and 2023 is assumed to be 100.0% of the market value of assets. The actuarial value of assets is projected using the past history of PRIT Fund cash flows to estimate future cash flows.

The actuarial liability is projected from January 1, 2018 to January 1, 2019 using standard methodology. Projections beyond January 1, 2019 reflect slightly decreasing percentage increases to reflect the impact of pension reform legislation enacted in 2011 as well as employee contribution increases as a percentage of pay. Funding schedule information is based on the funding schedule filed by the Secretary of Administration and Finance on January 13, 2017.

For the purpose of calculating the actuarially determined contribution as a percentage of total budgeted operating funds expenditures, the Executive Office for Administration and Finance used the 4.5% compound annual growth rate of budgeted revenues from fiscal 2009 to estimated fiscal 2019. This does not represent an official forecast of the growth in Total Budgeted Expenditures and Other Uses by the Executive Office for Administration and Finance.

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Prospective Funded Status of the Pension System (in millions, except for percentages) (1)

<u>Fiscal Year</u>	<u>Actuarially Determined Contribution (ADC)</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability</u>	<u>Unfunded Actuarial Liability</u>	<u>Funded Ratio</u>	<u>ADC as a % of Total Budgeted Operating Funds Expenditures</u>
<u>MSERS</u>						
2018	\$910	\$26,248	\$40,457	\$14,209	64.9%	2.1%
2019	993	27,136	42,495	15,359	63.9	2.2
2020	1,082	27,935	44,237	16,303	63.1	2.2
2021	1,178	28,746	46,007	17,260	62.5	2.3
2022	1,284	29,614	47,847	18,233	61.9	2.4
2023	1,399	30,851	49,761	18,910	62.0	2.5
<u>MTRS</u>						
2018	\$1,303	\$27,058	\$51,653	\$24,595	52.4%	3.0%
2019	1,423	27,854	53,905	26,051	51.7	3.1
2020	1,550	28,554	55,684	27,130	51.3	3.2
2021	1,689	29,253	57,521	28,268	50.9	3.4
2022	1,840	30,003	59,362	29,359	50.5	3.5
2023	2,004	31,118	61,202	30,084	50.8	3.6
<u>Boston Teachers</u>						
2018	\$131	\$1,612	\$4,075	\$2,463	39.6%	0.3%
2019	143	1,670	4,238	2,568	39.4	0.3
2020	155	1,707	4,365	2,658	39.1	0.3
2021	169	1,743	4,496	2,753	38.8	0.3
2022	185	1,781	4,626	2,845	38.5	0.4
2023	201	1,841	4,756	2,915	38.7	0.4
<u>Aggregate Commonwealth Pension Obligations (2)</u>						
2018	\$2,394	\$54,918	\$96,317	\$41,399	57.0%	5.4%
2019	2,608	56,660	100,760	44,100	56.2	5.7
2020	2,842	58,195	104,398	46,203	55.7	5.9
2021	3,095	59,742	108,128	48,386	55.3	6.1
2022	3,372	61,398	111,931	50,532	54.9	6.4
2023	3,673	63,809	115,807	51,997	55.1	6.7

SOURCE: Executive Office for Administration and Finance and Public Employee Retirement Administration Commission.

- (1) Actuarial results reflect figures and assumption outlined in the January 1, 2018 Commonwealth Actuarial Valuation Report, except that the investment return assumption used as of January 1, 2019 will be 7.25% and fiscal 2019 assets are as of December 31, 2018.
- (2) Aggregate Commonwealth pension obligations include obligations with respect to MSERS, MTRS, Boston teachers, and local cost-of-living adjustments.

PRIT Fund Investments

The mission of the PRIM Board is to manage the PRIT Fund so as to ensure that pension assets are well invested so that current and future benefit obligations are adequately funded in a cost-effective manner. The PRIM Board therefore seeks to maximize the total return on investment, within acceptable levels of risk and cost for an approximately 60% funded public pension fund. Under current law and projections, by the year 2040 the PRIT Fund is expected to have grown, through annual payments in accordance with a legislatively approved funding schedule and through the total return of the fund, to an amount sufficient to meet the then existing pension obligations of the Commonwealth.

The PRIM Board recognizes that over the long-term, asset allocation is the single greatest contributor of return and risk to the PRIT Fund. The asset allocation plan adopted by the Board embodies its decisions about what proportions of the PRIT Fund are to be invested in global equity and fixed income securities, alternative investments such as real estate, private equity and portfolio completion strategies, and, where appropriate, the various sub-asset classes of each category. At reasonable intervals of not more than three to five years, the Board conducts a comprehensive review of its asset allocation plan and its underlying assumptions, including the Commonwealth's

current and projected pension assets and liabilities, long-term capital markets rate of return assumptions, and the Board’s risk tolerances. The comprehensive review identifies a reasonable time horizon and investment strategy for matching assets and liabilities, a fund-level total return target, and an optimal allocation among available asset classes and sub-asset classes. The Board examines the asset allocation plan annually and makes adjustments to the plan as may be appropriate given the PRIT Fund’s long-term nature and objectives. The target rate of return is 7.25%, which matches the expected long-term rate of return on assets to be assumed by PERAC as of the January 1, 2019 Actuarial Valuation Report. The PRIM Board does not determine this rate of return, but this rate of return is a key input into the PRIM Board’s asset allocation decisions.

The actual asset allocation mix invariably deviates from the PRIT Fund’s target allocations due to market movement, cash flows, and manager performance. Material deviations from the asset allocation targets can alter the expected return and risk of the PRIT Fund. The following table sets forth the actual PRIT Fund asset allocation for each of the most recent five fiscal years, as well as the current target ranges. The actual allocation figures are as of June 30 for each of the years indicated. The target ranges are those contained in the asset allocation plan, which was most recently approved on February 26, 2019.

PRIT Fund Asset Allocation

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>Target Ranges</u>
Global Equity	43.1%	42.7%	42.2%	45.7%	41.9%	34.0 – 44.0%
Core Fixed Income	13.9	13.7	13.9	12.0	12.8	12.0 – 18.0
Value-Added Fixed Income	8.5	8.3	8.4	8.1	8.0	5.0 – 11.0
Private Equity	11.1	11.3	11.1	10.6	10.8	10.0 – 16.0
Real Estate	8.9	10.0	10.4	9.1	9.0	7.0 – 13.0
Timber/Natural Resources	3.9	3.8	3.3	3.7	3.4	1.0 – 7.0
Portfolio Completion Strategies	9.6	9.3	9.8	9.5	13.4	8.0 – 14.0

SOURCE: Pension Reserves Investment Management Board.

The following table sets forth the investment rates of return for the assets in the PRIT Fund for the last 10 fiscal years:

PRIT Fund Rates of Return (Gross of Fees)

<u>Fiscal Year</u>	<u>Rate of Return</u>	<u>Fiscal Year</u>	<u>Rate of Return</u>
2018	9.97%	2013	12.69%
2017	13.20	2012	(0.08)
2016	2.29	2011	22.30
2015	3.86	2010	12.82
2014	17.53	2009	(23.87)
	3yr average		8.39%
	5yr average		9.22%
	10yr average		6.28%

SOURCE: Pension Reserves Investment Management Board.

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Other Post-Employment Benefit Obligations (OPEB)

In addition to providing pension benefits, the Commonwealth is statutorily required to provide certain health care and life insurance benefits (“other post-employment benefits” or “OPEB”) for retired employees of the Commonwealth, as well as retired employees of housing authorities, redevelopment authorities and certain other governmental agencies (offline agencies). Substantially all of the Commonwealth’s employees may become eligible for these benefits if they reach retirement age and eligibility while working for the Commonwealth. Eligible retirees are required to contribute a specified percentage of the health care/benefit costs. The Commonwealth is reimbursed for the cost of benefits to retirees of the eligible authorities and non-state agencies. (Although, as noted above, the Commonwealth is required to pay pensions to retired municipal teachers, the Commonwealth has no OPEB obligations with respect to retired municipal teachers.)

The GIC manages the Commonwealth’s other post-employment benefits for all state and certain agency employees and retirees. The GIC has representation on the Board of Trustees of the State Retiree Benefits Trust (SRBT). The SRBT is set up to pay for former state employees’ OPEB benefits and to invest state and certain municipalities funds that have been set aside to pay for OPEB benefits and the cost to administer those funds and can only be dissolved when all such health care and other non-pension benefits, current and future, have been paid or defeased.

The Commonwealth also oversees the management and administration of the Massachusetts Turnpike Authority Retiree Benefits Trust, which is restricted for OPEB benefits of the retirees of the former Massachusetts Turnpike Authority.

Employer and employee contribution rates are set by statute. The Commonwealth recognizes its share of the costs on an actuarial basis. As of June 30, 2018, Commonwealth participants contributed 10% to 25% of premium costs, depending on the date of hire and whether the participant is active, retiree or survivor status. See “COMMONWEALTH EXPENDITURES – Employee Benefits; *Group Insurance*.” According to the most recent actuarial valuation as of June 30, 2018, the GIC had 156,835 state enrollees as of January 1, 2018. As of that date, the Commonwealth was responsible for the OPEB liability of 129,046 of those enrollees.

In June, 2015 the GASB issued two new standards that change the accounting and financial reporting for the Commonwealth’s OPEB obligations, GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which was effective for fiscal 2017 and GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which was effective for fiscal 2018. Under GASB 74, OPEB plans are required to discount retiree health care liabilities, based on a blend of 30-year municipal bond rates and the expected return for assets in the trust, “blended,” or weighted, by the funding level of the OPEB trust relative to OPEB liabilities. In fiscal 2018, the rate of return for assets in the OPEB trust was assumed to be 7.35%, consistent with the rate used for the Commonwealth’s pension trust, while the relevant municipal bond rate was 3.87%, resulting in a 3.95% blended discount rate, weighted towards the lower municipal bond rate due to the relatively low funding level of the OPEB trust in relation to the Commonwealth’s OPEB liability. GASB 75 requires governments to report in their statements of net position (or balance sheet) a net OPEB liability, defined as the difference between the total OPEB liability (the present value of projected benefit payments to retirees for certain health care benefits based on past service) and the assets (mostly investments reported at fair value) set aside in a trust and restricted to paying benefits to retirees or their beneficiaries. The new standard also requires recognition in the statement of activities of net OPEB expense. The rate used to discount projected benefit payments to their present value is based on a single rate that reflects (a) the long-term expected rate of return on plan investments as long as the plan net position is projected under specified conditions to be sufficient to make projected benefit payments and the OPEB plan assets are expected to be invested using a strategy to achieve that return and (b) a yield or index rate on tax-exempt 20-year AA-or-higher rated general obligation municipal bonds to the extent that the conditions for use of the long-term expected rate of return are not met. This statement is similar to the requirements of GASB 68, *Accounting and Financial Reporting for Pensions*, which was first implemented in the fiscal 2015 CAFR.

Under GASB Statement No. 45, which governed how OPEB liabilities were discounted in the Commonwealth’s financial statements through fiscal 2017, the Commonwealth was required to discount retiree health care liabilities at the estimated long-term yield on investments that are expected to be used to finance the payment of benefits. Since the Commonwealth’s OPEB plan is not pre-funded, the discount rate was based on the portfolio of the general assets used to pay these benefits. Historical monthly yields for this portion of the portfolio

are derived from the rate of return of the Massachusetts Municipal Depository Trust (MMDT). While the calculations under GASB Statement No. 45 and GASB Statement No. 74 result in different discount rates, in the interest of consistency and clarity the same rate was used for both calculations in fiscal 2017, based on the GASB Statement No. 74 requirements.

The June 30, 2018 GASB 74 actuarial valuation was issued on January 2, 2019. According to the report, the Commonwealth's unfunded OPEB liability, assuming no pre-funding and using a discount rate of 3.95%, was approximately \$14.909 billion as of June 30, 2018. As noted above, the 3.95% discount rate was calculated in accordance with GASB 74 requirements.

The independent actuarial report covers only the Commonwealth's OPEB obligations for Commonwealth employees and their survivors. Municipalities and authorities of the Commonwealth, even if their health care coverage is administered by the Group Insurance Commission, perform their own valuations, as the Commonwealth acts only as an agent for the entities that participate in the GIC with respect to providing OPEB health insurance benefits and does not assume the risk or financial burden of their health care costs.

The State Retiree Benefits Trust Fund was created to consolidate the state's retiree funding efforts and better project future liabilities, and beginning in fiscal 2008, expenses for current state retirees' healthcare were paid from the fund. Also in fiscal 2008, the fund benefited from a one-time transfer of approximately \$329 million from the Health Care Security Trust. The fiscal 2012 budget included a requirement that, beginning in fiscal 2013, 10% of the annual tobacco payments be transferred to the State Retiree Benefits Trust Fund, with the amount deposited to the State Retiree Benefits Trust Fund to increase by 10% increments annually thereafter until 100% of all payments would be transferred to that Fund. Pursuant to this requirement, in May, 2013, tobacco settlement proceeds in the amount of \$25.3 million were transferred to the State Retiree Benefits Trust Fund.

The fiscal 2014 budget included a provision that funded the scheduled transfer to the State Retiree Benefits Trust Fund from unspent appropriations, to the extent that they were available, with any balance to be made up through a transfer of tobacco settlement proceeds. In fiscal 2014, pursuant to that provision, unspent appropriations in the amount of \$56.4 million were transferred to the State Retirees Benefits Trust Fund, and approximately \$15 million of tobacco proceeds were used to fund the balance of the transfer.

The fiscal 2015 budget contained a similar provision requiring the transfer of tobacco settlement funds, equal to approximately \$73.7 million, to be funded from unspent appropriations, to the extent that they were available, with any balance to be made up through a transfer of tobacco settlement proceeds. In fiscal 2015, pursuant to that provision, unspent appropriations in the amount of \$44 million were transferred to the State Retirees Benefits Trust Fund, and approximately \$29.7 million of tobacco proceeds were used to fund the balance of the transfer.

The fiscal 2016 budget contained a similar provision requiring that transfers be made equivalent to 30% of fiscal 2016 tobacco settlement proceeds (the same percentage required in fiscal 2015), or approximately \$77 million, to be funded from unspent appropriations, to the extent they were available, with any balance to be made up through a transfer of fiscal 2016 tax revenues exceeding \$100 million generated by a tax amnesty program that was also authorized in the fiscal 2016 budget. In fiscal 2016, pursuant to the budget, unexpended appropriations in the amount of \$77.3 million were transferred to the State Retirees Benefits Trust Fund.

A fiscal 2017 supplemental budget enacted by the Legislature required that transfers be made equivalent to 10% of fiscal 2017 tobacco settlement proceeds, or approximately \$25.4 million. That transfer was contingent on the availability of unexpended debt service appropriations, and if those were insufficient to fund the 10% transfer, the balance of the 10% will be funded by tobacco settlement revenues. The Governor returned that section of the Legislature's proposal with an amendment, proposing instead to require a 30% transfer, as in fiscal 2016, which would result in a transfer of approximately \$76 million. The Governor's proposal was not acted upon by the Legislature, and expired at the end of the legislative session. Accordingly, under the fiscal 2012 provision cited above, 50% of fiscal 2017 tobacco settlement proceeds, or approximately \$127 million, would have been required to be transferred to the State Retirees Benefits Trust Fund unless that provision was modified or waived by a legislative change. The Governor included a proposal in the February, 2017 supplemental budget to transfer the equivalent of 10% of fiscal 2017 tobacco settlement proceeds. That proposal was adopted by the Legislature, and approximately \$25.4 million was transferred to the State Retirees Benefits Trust Fund in fiscal 2017.

The fiscal 2018 budget enacted by the Legislature required that transfers be made equivalent to 10% of the fiscal 2018 tobacco proceeds, or approximately \$25.4 million. The transfer was contingent on the availability of unexpended appropriations, and if those are insufficient to fund the 10% transfer, the balance of the 10% was to be funded by tobacco settlement revenues. On October 23, 2018, the Governor approved legislation that increased the percentage transferred from 10% to 30%.

The fiscal 2019 budget enacted by the Legislature required that transfers be made equivalent to 10% of the fiscal 2019 tobacco proceeds, or approximately \$25.1 million. The transfer was contingent on the availability of unexpended appropriations, and if those are insufficient to fund the 10% transfer, the balance of the 10% was to be funded by tobacco settlement proceeds.

State finance law also provides for annual deposits in to the State Retiree Benefits Trust Fund in the amount of 5% of any capital gains tax revenues transferred to the Stabilization Fund in excess of the statutory capital gains threshold. This resulted in deposits to the State Retiree Benefits Trust Fund of \$23.4 million in fiscal 2013 and \$2.3 million in fiscal 2014. This requirement was suspended by the legislature for fiscal years 2015 and 2016, but reinstated for fiscal 2017. As the fiscal 2017 capital gains tax revenues did not exceed the statutory capital gains threshold, no deposits were made to the State Retiree Benefits Trust Fund in fiscal 2017. During fiscal 2018, approximately \$26 million was deposited to the State Retiree Benefits Trust Fund.

In fiscal 2018, pursuant to statutory requirements, and after having been certified to the Comptroller by the Department of Revenue, the Commonwealth transferred an amount equal to 5% of capital gains tax revenue, or \$26 million, to the State Retiree Benefits Trust Fund. In October, 2018, pursuant to the final supplemental budget for fiscal 2018, the Commonwealth transferred 30% of tobacco settlement proceeds for fiscal 2018, or \$73.0 million, to the State Retiree Benefits Trust Fund.

The plan net position as of June 30, 2018 was approximately \$1.187 billion.

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State Retiree Benefits Trust
(in thousands, except for percentages)

<u>Actuarial Valuation as of June 30 (1):</u>	<u>Plan Net Position</u>	<u>Total OPEB Liability</u>	<u>Net (Unfunded) OPEB Liability</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>Net OPEB liability as % of Covered Payroll</u>
2018	\$1,187,569	\$16,096,773	\$14,909,204	7.4%	\$6,155,914	242.2%
2017	996,407	18,480,936	17,484,529	5.4	5,927,012	295.0

<u>Actuarial Valuation as of January 1 (2):</u>	<u>Actuarial Value of Plan Assets</u>	<u>Actuarial Liability</u>	<u>Accrued Unfunded Liability (UAAL)</u>	<u>Actuarial Ratio Covered</u>	<u>Funded Payroll</u>	<u>Annual Covered Payroll as % of UAAL</u>
2017	\$817,400	\$20,263,500	\$19,446,100	4.0%	\$5,927,012	328.1%
2016	760,400	17,082,900	16,322,500	4.5	5,792,288	281.8
2015	610,000	16,502,800	15,892,800	3.7	5,591,911	284.2
2014	511,200	15,670,200	15,159,000	3.3	5,344,500	283.6
2013	406,700	15,784,100	15,377,400	2.6	5,183,195	296.7
2012	360,500	16,559,400	16,298,900	2.2	4,922,388	331.1
2011	350,500	16,568,600	16,218,100	2.1	4,808,250	337.3
2010	309,800	15,166,300	14,856,500	2.0	4,711,563	315.3
2009	273,500	15,305,100	15,031,600	1.8	4,712,655	319.0
2008	-	9,812,000	9,812,000	0.0	4,574,233	214.5

SOURCE: Office of the Comptroller

- (1) Amounts are as of June 30 and prepared in accordance with GASB Statement No. 74, effective as of fiscal 2017.
(2) Amounts are as of January 1 and prepared in accordance with GASB Statement No. 43, which was replaced by GASB Statement No. 74.

The tables that follow show OPEB information for the State Retirees' Benefit Trust as required by GASB Statements No. 74 and No. 75, and as shown in the CAFR for fiscal 2018.

The following table shows the beginning and ending liabilities and assets for the State Retirees' Benefits Trust, as well as unfunded OPEB liability, or net OPEB liability (NOL), with the NOL being the amount that the Commonwealth records on its Statement of Net Position as its unfunded OPEB liability. The table also shows the components of the change in the NOL between the beginning (July 1) and end (June 30) for fiscal 2017 and fiscal 2018.

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GASB 74 Information for the State Retirees' Benefit Trust
Schedule of Changes in Net OPEB Liability and Related Ratios
Fiscal Years 2018 and 2017
(in thousands, except for percentages)

	<u>Fiscal 2018</u>	<u>Fiscal 2017</u>
Total OPEB liability (as of July 1)	\$18,480,936	\$19,821,600
Service cost	792,100	950,800
Interest	691,600	591,900
Differences between expected and actual experience	218,900	(48,600)
Changes of assumptions (1), (2)	(3,643,000)	(2,393,700)
Benefit payments, including refunds of member contributions	<u>(443,763)</u>	<u>(441,064)</u>
Net change in total OPEB liability	<u>(2,384,163)</u>	<u>(1,340,664)</u>
Total OPEB liability, June 30	<u>\$16,096,773</u>	<u>\$18,480,936</u>
Plan fiduciary net position, July 1	\$996,407	\$866,043
Contributions:		
Employer	542,896	465,449
Other additions	<u>133</u>	<u>784</u>
Total contributions	<u>543,029</u>	<u>466,233</u>
Net investment income	<u>93,308</u>	<u>105,822</u>
Benefit payments, including refunds of plan member contributions	(443,763)	(441,064)
Administrative expense	(150)	(127)
Other changes	<u>(1,262)</u>	<u>(500)</u>
Net change in plan fiduciary net position	<u>191,162</u>	<u>130,364</u>
Plan fiduciary net position, June 30	<u>\$1,187,569</u>	<u>\$996,407</u>
Plan net OPEB liability - June 30	<u>\$14,909,204</u>	<u>\$17,484,529</u>
Plan fiduciary net position as a percentage of the total OPEB liability	7.4%	5.4%
Covered payroll (as of actuarial valuation date)	<u>\$6,155,194</u>	<u>\$5,927,012</u>
Net OPEB liability as a percentage of covered employee payroll	242.2%	295.0%

SOURCE: Office of the Comptroller

- (1) The change in assumptions in fiscal 2017 was due to an increase in the investment rate of return (discount rate) from 2.80% to 3.63%.
- (2) The change in assumptions in fiscal 2018 was due to (i) a change in base OPEB rates for medical services and prescriptions, (ii) a decrease in the in healthcare trend rate from 8.5% to 8.0%, (iii) a change in mortality for disabled members and (iv) an increase of the discount rate from 3.63% to 3.95%.

The following tables show OPEB expenses that, under GASB 75, are recognized in the fiscal 2018 CAFR, as well as the inflows and outflows that under GASB 75 are recognized either in the fiscal 2018 CAFR or are deferred and projected to be recognized in the CAFRs for future fiscal years. Under GASB 75, in order to provide adequate time for OPEB plans to distribute OPEB-related information to plan participants (which include state authorities) for use in their annual CAFRs, governments are permitted to use the prior year's NOL and other OPEB-related measures in the current year CAFR. In conformance with GASB 75, the Commonwealth determined that for the fiscal 2018 CAFR it would use the OPEB valuation information as of June 30, 2017. The Commonwealth will use OPEB information as of June 30, 2018 in its fiscal 2019 CAFR.

GASB 75 Information for the State Retirees' Benefit Trust
Schedule of Changes in Net OPEB Liability and Related Ratios
(in thousands)

OPEB Expense for Fiscal 2018 (1)

Service cost	\$950,800
Interest on the total OPEB liability	591,900
Projected earnings on plan investments	(65,900)
Recognized portion of difference between expected and actual experience	(8,400)
Recognized portion of difference in projected and actual earnings on investments	(8,000)
Recognized portion of assumption change	(413,400)
Administrative expense	100
Other expenses	<u>500</u>
 OPEB Expense	 <u>\$1,047,600</u>

SOURCE: Office of the Comptroller

(1) In conformance with GASB 75, OPEB valuation information as of June 30, 2017 is used in the fiscal 2018 CAFR. OPEB valuation information as of June 30, 2018 will be used in the fiscal 2019 CAFR.

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Deferred Outflows/(Inflows) of Resources
(in thousands)

	Year of <u>Deferral</u>	Deferred <u>Outflows</u>	Deferred <u>Inflows</u>	Original <u>Amount</u>	Amortization <u>Period (years)</u>	<u>Amortization</u>
Difference between expected and actual experience	2017	-	(\$ 40,200)	(\$ 48,600)	5.79	(\$ 8,400)
Assumption changes	2017	-	(1,980,300)	(2,393,700)	5.79	(413,420)
Net difference between projected and actual earnings on plan investments	<u>2017</u>	-	<u>(31,900)</u>	<u>(39,900)</u>	<u>5.00</u>	<u>(8,000)</u>
Total		<u>0</u>	<u>(\$2,052,400)</u>	<u>(\$2,482,200)</u>		<u>(\$429,820)</u>
Net		<u>(\$2,052,400)</u>		<u>(\$2,482,200)</u>		<u>(\$429,820)</u>

SOURCE: Office of the Comptroller

Projected Recognition of Deferred Outflows/(Inflows)
(in thousands)

	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
Difference between expected and actual experience	(\$413,420)	(\$413,420)	(\$413,420)	(\$413,420)	(\$326,602)
Assumption changes	(7,980)	(7,980)	(7,980)	(7,980)	-
Net difference between projected and actual earnings on plan investments	<u>(8,393)</u>	<u>(8,393)</u>	<u>(8,393)</u>	<u>(8,393)</u>	<u>(6,626)</u>
Total	<u>(\$429,793)</u>	<u>(\$429,793)</u>	<u>(\$429,793)</u>	<u>(\$429,793)</u>	<u>(\$333,228)</u>

SOURCE: Office of the Comptroller

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COMMONWEALTH CAPITAL INVESTMENT PLAN

The Executive Office for Administration and Finance annually updates its five-year capital investment plan on a rolling basis. The five-year plan coordinates capital expenditures by state agencies and authorities that are funded primarily by Commonwealth debt and federal reimbursements. The capital investment plan for fiscal 2019 through fiscal 2023 provides resources for various Commonwealth facilities and programs.

The Executive Office for Administration and Finance also sets an annual administrative limit on the amount of bond-funded capital expenditures. The purpose of the administrative limit, known as the “bond cap,” is to keep Commonwealth debt within affordable levels. In May, 2018, the Governor announced the five-year capital investment plan for fiscal 2019 through fiscal 2023 and an administrative bond cap of \$2.34 billion. This increase represents a 3.5% increase over fiscal 2018.

The following table shows the allocation of administrative bond cap spending by agency and the allocation of total capital spending from all sources of funding for fiscal 2019. The Commonwealth’s Capital Investment Plan for fiscal 2020 through fiscal 2024 is expected to be published before July 1, 2019.

Fiscal Year 2019 Capital Budget (in millions)

<u>Agency</u>	<u>Bond Cap</u>	<u>Project- Financed</u>	<u>Federal Funds</u>	<u>Other Funds</u>	<u>Total</u>
Administration and Finance	\$35.2	\$5.0	-	\$81.6	\$121.8
Capital Asset Management	568.6	41.4	\$ 2.6	12.9	625.5
Education	19.0	-	-	16.8	35.8
Energy and Environmental Affairs	225.8	-	36.9	66.6	329.2
Housing and Community Development	237.3	-	12.0	67.0	316.3
Housing and Economic Development	160.9	-	6.0	35.5	202.4
Technology Services and Security	116.6	36.8	104.5	37.4	295.3
Public Safety	23.7	0.2	-	5.0	28.9
MassDOT	<u>953.0</u>	<u>0.0</u>	<u>913.6</u>	<u>688.0</u>	<u>2,554.6</u>
Total (1)	\$2,340.0	\$83.4	\$1,075.6	\$1,010.6	\$4,509.6

SOURCE: Executive Office for Administration as of May 21, 2018.

(1) Totals may not add due to rounding.

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

- Administrative Bond Cap – Commonwealth general obligation borrowing to support the regular capital program.
- Project Financed – General obligation bonds, the debt service for which is supported by savings or revenue related to the project; for example, energy efficiency improvements to Commonwealth facilities, the capital costs for which are expected to be reimbursed through operating savings as a result of reduced energy consumption.
- Federal Funds – Federal reimbursements for capital expenditures.
- Other Funds:
 - Accelerated Bridge Program (ABP) – Commonwealth special obligation bonds secured by revenues credited to the Commonwealth Transportation Fund (CTF) or federal grant anticipation notes secured by federal highway reimbursements issued to fund capital improvements to structurally deficient bridges through the ABP.
 - Rail Enhancement Program (REP) – Commonwealth special obligation bonds to be secured by revenues credited to the CTF to finance certain transit infrastructure projects through the REP, previously referred to as Special Obligation Transit Bonds.

- Pay-As-You-Go – Funding from current revenue for capital projects, including toll revenue.
- Contributions made by third parties to capital projects being carried out by the Commonwealth, including the I-Cubed program, contributions from campuses for higher education projects, matching funds from cities and towns, and capital projects funded by assessments.

The administrative bond cap is reviewed and subject to revision annually. Actual capital spending is subject to variance from budget due to the nature of capital projects and programs comprising the plan. In addition, debt affordability analysis and the assumptions and methodology that inform the analysis are subject to periodic review and are updated annually. These and other factors are expected to affect the out-years of the current five-year plan.

The Commonwealth aggregates its capital expenditures into seven major categories based primarily on the agencies responsible for spending and carrying out capital projects: information technology, infrastructure and facilities, environment, housing, public safety, transportation and other. The following table sets forth capital spending in fiscal 2014 through fiscal 2018 according to these categories.

Commonwealth Historical Capital Spending (in millions) (1)

Investment Category:	<u>Fiscal 2014</u>	<u>Fiscal 2015</u>	<u>Fiscal 2016</u>	<u>Fiscal 2017</u>	<u>Fiscal 2018</u>
Information technology	\$190	\$207	\$169	\$154	\$185
Infrastructure/facilities	457	449	526	510	417
Environment	138	221	238	202	217
Housing	182	188	185	213	242
Public safety	22	26	18	17	18
Transportation	1,790	2,041	2,081	1,895	1,889
Other	<u>227</u>	<u>242</u>	<u>215</u>	<u>269</u>	<u>280</u>
Total	<u>\$3,006</u>	<u>\$3,374</u>	<u>\$3,432</u>	<u>\$3,260</u>	<u>\$3,248</u>

SOURCE: Office of the State Comptroller.

(1) Includes all spending funded by capital appropriations, including General Obligation, Special Obligation, project financed, and federal reimbursement spending.

Debt Affordability Policy

The Executive Office for Administration and Finance has established a debt affordability policy for the Commonwealth. Pursuant to the debt affordability policy, the Executive Office for Administration and Finance has set an annual borrowing limit at a level designed to keep debt service on the Commonwealth’s direct debt within 8% of budgeted revenues. The debt management policy also limits future annual growth in the bond cap for the regular capital program to not more than \$125 million.

For this purpose, debt service includes programs expected to be funded both within and outside of the bond cap, including principal and interest payments on all general obligation debt, special obligation bonds secured by a specified portion of the motor fuels excise tax, special obligation bonds issued to fund the Accelerated Bridge Program and the Rail Enhancement Program, general obligation contract assistance payment obligations, and budgetary contract assistant payment obligations on certain capital lease financings. This inclusive definition ensures that while some programs are expected to be funded outside of the bond cap, the related debt service costs of the programs should be fully accounted for under the debt affordability policy in setting the bond cap at appropriate levels.

For the purpose of the debt affordability analysis, budgeted revenue includes all Commonwealth taxes and other revenues available to pay Commonwealth operating expenses, including debt service, pensions and other budgetary obligations. It does not include off-budget revenues dedicated to the MBTA, the MSBA and the Massachusetts Convention Center Authority (MCCA).

The Capital Debt Affordability Committee is charged with reviewing on a continuing basis the amount and condition of the Commonwealth’s tax-supported debt, as well as the debt of certain state authorities. The Committee also is responsible for providing an estimate of the total amount of new Commonwealth debt that can prudently be authorized for the next fiscal year, taking into account certain criteria, to the Governor and Legislature on or before December 15 of each year. The Committee’s estimates are advisory and not binding on the Governor or the Legislature. The Legislature is responsible for authorizing Commonwealth debt. The Governor determines the total amount of capital spending for each fiscal year and the amount of new Commonwealth debt that he considers advisable to finance such spending. The Committee consists of seven voting members – the Secretary of Administration and Finance (who chairs the Committee) or his designee, the State Treasurer, the Comptroller, the Secretary of Transportation, one appointee of the Governor and two appointees of the State Treasurer, and eight legislative leaders who are non-voting members.

On December 14, 2018, the Capital Debt Affordability Committee submitted to the Governor and the Legislature the Committee’s estimate of the total amount of new Commonwealth debt that prudently may be authorized for fiscal 2020. The Committee determined that \$2.43 billion of general obligation debt may prudently be issued by the Commonwealth for fiscal 2020. This amount represents an increase of 3.8%, or \$90 million, in the bond cap over fiscal 2019.

The following table sets forth the results of a model (Affordability Model), developed in consultation with the Capital Debt Affordability Committee pursuant to statutory provisions, in connection with the Committee’s recommendation of the amount of new Commonwealth debt that prudently may be authorized for fiscal year 2020. The Affordability Model includes certain assumptions adopted by the Capital Debt Affordability Committee in the development of the model as part of its recommendation to the Governor and the Legislature on December 14, 2018. The Affordability Model projected total annual debt service payment obligations for the five-year capital investment plan period from fiscal 2019 through fiscal 2023, projected budgetary revenues, and the resulting projected debt service as a percentage of projected budgeted revenues within 8% as prescribed by the Debt Affordability Policy. The Affordability Model has not been updated to reflect current year-to-date projections of debt service and budgeted revenues and as a result may differ from other projections contained in this Information Statement.

Affordability Model of Capital Debt Affordability Committee (in millions)

	<u>Fiscal 2019 (3)</u>	<u>Fiscal 2020</u>	<u>Fiscal 2021</u>	<u>Fiscal 2022</u>	<u>Fiscal 2023</u>
Projected Debt Service (1)	\$2,753	\$2,967	\$3,013	\$3,145	\$3,103
Estimated Budgeted Revenues (2)	\$45,111	\$46,476	\$47,882	\$49,330	\$50,821
Debt Service as % of Net Budgeted Revenues	6.10%	6.38%	6.29%	6.38%	6.10%

SOURCE: Executive Office for Administration and Finance.

- (1) For purposes of the debt affordability analysis under state finance law, debt service includes projected principal and interest payable on all general obligation debt, special obligation debt, Accelerated Bridge Program and Rail Enhancement Program debt, general obligation contract assistance and budgetary contract assistance obligations as of December 14, 2018. Projections are for planning purposes only and assumptions are subject to change. Projections undertaken for purposes of the debt affordability analysis are intended to be conservative, provide a consistent model for comparative purposes, and do not account for actual borrowing or the State Treasurer’s active debt service management. Debt service projections for these purposes is expected to exceed actual debt service in the short term. For actual debt service obligations, see the “Debt Service” line in the “Budgeted Operating Funds – Statutory Basis” table under “SELECTED FINANCIAL DATA – Statutory Basis Distribution of Budgetary Revenues and Expenses.”
- (2) For purposes of the debt affordability analysis, budgeted revenues include all Commonwealth taxes and other revenues available to pay Commonwealth operating expenses, including debt service, pensions and other budgetary obligations. Budgeted revenues do not include off-budget revenues dedicated to the MBTA, the MSBA and the MCCA.
- (3) Projected as of December, 2018 and not intended to reflect fiscal 2019 actual results.

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LONG-TERM LIABILITIES

General Authority to Borrow

Under its constitution, the Commonwealth may borrow money (a) for defense or in anticipation of receipts from taxes or other sources, any such loan to be paid out of the revenue of the year in which the loan is made, or (b) by a two-thirds vote of the members of each house of the Legislature present and voting thereon. The constitution further provides that borrowed money shall not be expended for any other purpose than that for which it was borrowed or for the reduction or discharge of the principal of the loan. In addition, the Commonwealth may give, loan or pledge its credit by a two-thirds vote of the members of each house of the Legislature present and voting thereon, but such credit may not in any manner be given or loaned to or in aid of any individual, or of any private association, or of any corporation which is privately owned or managed.

The Commonwealth has waived its sovereign immunity and consented to be sued on contractual obligations, which includes bonds and notes issued by it 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 legislative appropriation. Enforcement of a claim for payment of principal of or interest on bonds and notes of the Commonwealth may also be subject to the provisions of federal or Commonwealth 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 states.

Commonwealth Debt. The State Treasurer is statutorily responsible for the borrowing needs of the Commonwealth, including short-term cash flow needs and long-term borrowing needs for the capital budget. Borrowing is accomplished through the sale of short-term notes and long-term bonds. The Commonwealth is authorized to issue three types of direct debt – general obligation debt, special obligation debt and federal grant anticipation notes. General obligation debt is secured by a pledge of the full faith and credit of the Commonwealth. See “General Obligation Debt” below. Special obligation debt may be secured either with a pledge of receipts credited to the Commonwealth Transportation Fund (formerly the Highway Fund) or with a pledge of receipts credited to the Convention Center Fund. See “Special Obligation Debt” below. Federal grant anticipation notes are secured by a pledge of federal highway construction reimbursements. See “Federal Grant Anticipation Notes” below.

Other Long-Term Liabilities. The Commonwealth is also authorized to pledge its credit in aid of and provide contractual support for certain independent authorities and political subdivisions within the Commonwealth. These Commonwealth liabilities are classified as general obligation contract assistance liabilities or contingent liabilities. In addition, the Commonwealth is authorized to pledge its credit in support of scheduled, periodic payments to be made by the Commonwealth under interest rate swaps and other hedging agreements related to bonds or notes of the Commonwealth.

General obligation contract assistance liabilities arise from statutory requirements for (i) payments by the Commonwealth to the Massachusetts Clean Water Trust, MassDOT and the Massachusetts Development Finance Agency that are used by such entities to pay a portion of the debt service on certain of their outstanding bonds and (ii) payments from the Social Innovation Financing Trust Fund on “pay for success” contracts, as described below. Such liabilities constitute a pledge of the Commonwealth’s credit for which a two-thirds vote of the Legislature is required. See “General Obligation Contract Assistance Liabilities” below.

Contingent liabilities relate to debt obligations of certain independent authorities and agencies of the Commonwealth that are expected to be paid without Commonwealth assistance, but for which the Commonwealth has some kind of liability if expected payment sources do not materialize. These liabilities consist of guaranties and similar obligations with respect to which the Commonwealth’s credit has been or may be pledged, as in the case of certain debt obligations of the MBTA (pre-2000), the Woods Hole, Martha’s Vineyard and Nantucket Steamship Authority, and the higher education building authorities. The Commonwealth has certain statutorily contemplated payment obligations with respect to which the Commonwealth’s credit has not been pledged, as in the case of the Commonwealth’s obligation to fund debt service, solely from moneys otherwise appropriated for the affected institution, owed by certain community colleges and state universities on bonds issued by the former Massachusetts Health and Educational Facilities Authority (now the Massachusetts Development Finance Agency) and the Massachusetts State College Building Authority. See “Contingent Liabilities” below.

Statutory Limit on Direct Debt. Since December, 1989, state finance law has included a limit on the amount of outstanding “direct” bonds of the Commonwealth. For fiscal 2012, the debt limit was \$18.944 billion under the statute in place during fiscal 2012. In August, 2012, state finance law was amended, effective January 1, 2013, to specify that the debt limit be calculated for fiscal years starting in fiscal 2013 using a fiscal 2012 base value of \$17,070,000,000 and increasing the limit for each subsequent fiscal year to 105% of the previous fiscal year’s limit. Based on this calculation, the statutory limit on “direct” bonds during fiscal 2019 is \$24,019,204,215. Prior to June 10, 2013, this limit was calculated using a statutory definition that differed from GAAP in that the principal amount of outstanding bonds included the amount of any premium and was measured net of any discount, costs of issuance and other financing costs (“net proceeds”). On June 10, 2013, state finance law was amended, effective January 1, 2013, to change the statutory definition of outstanding debt from net proceeds to principal outstanding, a change that brings the outstanding debt definition in conformance with GAAP.

The debt limit law provides that bonds to be refunded from the proceeds of Commonwealth refunding bonds are to be excluded from outstanding “direct” bonds upon the issuance of the refunding bonds. Pursuant to special legislation enacted over the years, certain outstanding Commonwealth debt obligations are not counted in computing the amount of bonds subject to the limit, including Commonwealth refunding/restructuring bonds issued in September and October, 1991, federal grant anticipation notes, bonds issued to pay operating notes issued by the MBTA or to reimburse the Commonwealth for advances to the MBTA, bonds payable from the Central Artery and Statewide Road and Bridge Infrastructure Fund, bonds issued to finance the MSBA and bonds issued to finance the Commonwealth’s Accelerated Bridge Program. On August 10, 2016, the Governor approved legislation that exempts from the statutory debt limit bonds that are issued to finance the Commonwealth’s rail enhancement program.

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

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Calculation of the Debt Limit
(in thousands)

	<u>Fiscal 2015</u>	<u>Fiscal 2016</u>	<u>Fiscal 2017</u>	<u>Fiscal 2018</u>	<u>Fiscal 2019 (4)</u>
Total principal balance	\$23,826,301	\$25,079,591	\$26,445,665	\$27,360,819	\$27,441,856
Less: principal of direct debt excluded from the statutory debt limit:					
Special obligation debt (1)	(829,340)	(768,365)	(703,690)	(657,340)	(632,865)
Accelerated bridge program	(1,495,150)	(1,535,890)	(1,642,730)	(1,680,555)	(1,680,555)
Rail enhancement program (2)	-	-	(644,540)	(1,131,105)	(1,131,105)
Federal grant anticipation notes (1)	(699,855)	(657,040)	(738,010)	(748,445)	(736,200)
Assumed county debt	-	-	-	-	-
MBTA forward funding	(207)	(207)	(207)	(207)	(207)
Transportation Infrastructure Fund	(1,197,127)	(1,150,296)	(1,110,195)	(1,092,519)	(1,078,171)
School Building Assistance (SBA)	(689,446)	(652,197)	(632,348)	(598,985)	(574,902)
Outstanding direct debt, principal (3)	<u>\$18,915,176</u>	<u>\$20,315,596</u>	<u>\$20,973,945</u>	<u>\$21,451,664</u>	<u>\$21,607,851</u>
Statutory Debt Limit	<u>\$19,760,659</u>	<u>\$20,748,692</u>	<u>\$21,786,126</u>	<u>\$22,875,433</u>	<u>\$24,019,204</u>

SOURCE: Office of the Comptroller.

- (1) Includes federal grant anticipation notes issued as crossover refunding bonds. The refunding escrows funded by these bonds and related premiums are used to pay interest on the refunding bonds until the refunded bonds are callable and then to redeem the refunded bonds. Interest on the refunded bonds prior to redemption continues to be paid from pledged revenues as before.
- (2) Exempt from the debt limit, effective August 10, 2016.
- (3) Includes accretion of capital appreciation bonds.
- (4) Amounts are as of February 28, 2019 and are unaudited.

General Obligation Debt

As of February 28, 2019, the Commonwealth had approximately \$22.9 billion in general obligation bonds outstanding, of which \$20.1 billion, or approximately 88% was fixed rate debt and \$2.8 billion, or 12%, was variable rate debt. The Commonwealth's outstanding general obligation variable rate debt consists of several variable rate structures. These structures include floating rate notes in various interest rate modes, direct purchase agreements in various interest rate modes, multi-modal bonds currently in the Term Mode, and variable rate demand bonds. Variable rate demand bonds, which account for \$483.0 million of outstanding general obligation debt as of February 28, 2019, are supported by liquidity facilities that require the bonds to be tendered by a specified date if the facility is not replaced or the bonds are not otherwise refinanced. See "Liquidity Facilities." For the purpose of reporting general obligation debt outstanding and variable rate debt outstanding, future compounded interest on the Commonwealth's variable rate College Opportunity Bonds, as discussed in greater detail below, is included as debt outstanding. Additionally, any outstanding commercial paper, bond anticipation notes, or revenue anticipation notes, as more fully described below, are not reported in general obligation debt outstanding calculations.

Of all Commonwealth variable rate debt outstanding, the interest rates on \$1.1 billion, or approximately 5% of total general obligation debt, have been synthetically fixed by means of floating-to-fixed interest rate swap agreements. These agreements are used as hedges to mitigate the risk associated with variable rate bonds.

Under state finance law, scheduled, periodic payments to be made by the Commonwealth pursuant to swap agreements in existence on August 1, 2008 or entered into after such date constitute general obligations of the Commonwealth to which its full faith and credit are pledged. The remaining variable rate debt of \$1.5 billion or approximately 8% of the total outstanding general obligation debt, is unhedged and, accordingly, floats with interest rates re-set on a periodic basis.

The Commonwealth implemented a multi-year asset/liability management strategy. The intent of the asset/liability strategy is to better balance the Commonwealth's interest rate exposure between its cash assets and

debt liabilities by increasing the portion of its outstanding debt issued as unhedged, floating rate bonds. The Commonwealth intends to monitor and evaluate this balance.

As of February 28, 2019, the Commonwealth had outstanding approximately \$150.9 million (\$80.0 million principal and including a discount equal to \$70.9 million) of variable rate “U. Plan” bonds, sold in conjunction with a college savings program administered by the Massachusetts Educational Financing Authority (MEFA), which bear deferred interest at a rate equal to the percentage change in the consumer price index plus 2%, together with current interest at the rate of 0.5%. This debt is held directly by MEFA and has no secondary market.

The Commonwealth is authorized to issue short-term general obligation debt as revenue anticipation notes or bond anticipation notes. Fixed-rate revenue anticipation notes (RANs) are issued by the State Treasurer annually in anticipation of revenue receipts for the same fiscal year. Revenue anticipation notes must be repaid no later than the close of the fiscal year in which they are issued. Bond anticipation notes may be issued by the State Treasurer in anticipation of the issuance of bonds, including, in some circumstances special obligation bonds. See “Special Obligation Debt” below. As of February 28, 2019, there were \$1.5 billion of RANs outstanding in three series with maturities ranging from April 25, 2019 through June 20, 2019. In addition, as of February 28, 2019, the Commonwealth had liquidity support for a \$400 million commercial paper program which is available for cash flow purposes. As of February 28, 2019, there was no commercial paper outstanding.

Special Obligation Debt

Commonwealth Transportation Fund. Section 20 of Chapter 29 of the General Laws, as amended, authorizes the Commonwealth to issue special obligation bonds secured by all or a portion of revenues accounted to the Commonwealth Transportation Fund (formerly the Highway Fund). Revenues which are accounted to the Commonwealth Transportation Fund are primarily derived from taxes and fees relating to the operation or use of motor vehicles in the Commonwealth, including the motor fuels excise tax and registry of motor vehicles fees. In addition, a portion of the Commonwealth’s receipts from the sales tax is dedicated to the Commonwealth Transportation Fund (see “COMMONWEALTH REVENUES – State Taxes; *Sales and Use Tax*”), as is the underground storage tank petroleum cleanup fee to the extent it exceeds \$30 million, and state finance law currently provides for a series of substantial transfers from the General Fund to the Commonwealth Transportation Fund through fiscal 2020; none of the sales tax receipts or General Fund transfers has been pledged to secure Commonwealth special obligation bonds.

Between 1992 and 2005, the Commonwealth issued special obligation bonds secured by a lien on a specified portion of the motor fuels excise tax. As of February 28, 2019, the Commonwealth had outstanding approximately \$105.2 million of such special obligation bonds secured by a pledge of 6.86¢ of the 24¢ motor fuels excise tax. In December, 2010, the trust agreement securing such bonds was closed to further issuance of additional debt, with the exception of refunding bonds.

The Commonwealth is also authorized to issue approximately \$1.876 billion of special obligation bonds secured by a pledge of all or a portion of revenues accounted to the Commonwealth Transportation Fund (CTF Bonds) to fund a portion of the Accelerated Bridge Program (ABP). Additionally, in April, 2014, the Commonwealth was authorized to issue up to \$6.7 billion in general obligation debt, special obligation debt, or a combination of both, for the purpose of funding capital expenditures of MassDOT, for the benefit of the MBTA and for other Rail Enhancement Program (REP) projects. As of February 28, 2019, the Commonwealth had outstanding approximately \$2.8 billion of CTF Bonds, which are secured by a pledge of registry fees and a specified portion of the motor fuels excise tax, \$1.7 billion of which have been issued in support of the ABP and \$1.1 billion of which have been issued in support of the REP.

Convention Center Fund. Chapter 152 of the Acts of 1997, as amended, authorized \$694.4 million of special obligation bonds to be issued for the purposes of building a new convention center in Boston (\$609.4 million), the Springfield Civic Center (\$66 million), and the Worcester Convention Center (\$19 million). The bonds are payable from moneys credited to the Convention Center Fund created by such legislation, which include certain hotel tax receipts from hotels in Boston, Cambridge, Springfield and Worcester, a surcharge on car rentals in Boston, a parking surcharge at all three facilities, a surcharge on sightseeing tours and cruises in Boston and sales tax receipts from certain hotels and other retail establishments in Boston, Cambridge and Springfield. The legislation requires a capital reserve fund to be maintained at a level equal to maximum annual debt service and provides that if the fund falls below its required balance, the 2.75% convention center financing fee in Boston is to

be increased (though the overall hotel tax in Boston, including the fee, cannot exceed 14%). In June, 2004, the Commonwealth issued \$686.7 million of special obligation bonds secured solely by the pledge of receipts of tax revenues within the special districts surrounding the centers and other special revenues connected to such facilities, and in June, 2005, the Commonwealth issued \$527.6 million of special obligation refunding bonds, which advance refunded, in part, the 2004 issue. Of the 2004 and 2005 special obligation bonds secured solely by the pledge of receipts of tax revenues in the Convention Center Fund, approximately \$527.6 million remained outstanding as of February 28, 2019.

On July 29, 2014, the Governor approved legislation authorizing the Commonwealth to issue an additional \$1.1 billion in special obligation bonds to finance an expansion of the convention center in Boston, to finance costs of issuance and fund a debt service reserve fund. Such bonds would be secured by and payable from the Convention Center Fund, with the State Treasurer and Secretary of Administration and Finance having the authority to pledge additional state hotel/motel room occupancy excises to the new bonds. The expansion project is currently on hold.

Federal Grant Anticipation Notes

The Commonwealth is also authorized to issue \$1.1 billion of grant anticipation notes (“GANs”) secured by future federal funds to fund a portion of the ABP. Such notes are secured by a back-up pledge of net amounts in the Commonwealth Transportation Fund after application of such amounts in accordance with the trust agreement securing the CTF Bonds and previously issued bonds secured by motor fuels excise taxes. The Commonwealth expects to pay interest on the notes supporting the ABP from state appropriations. As of February 28, 2019, \$699.0 million of GANs was outstanding.

Build America Bonds

The Commonwealth has issued bonds in the form of Build America Bonds (BABs) and as Recovery Zone Economic Development Bonds (RZEDBs). BABs and RZEDBs were authorized under the federal American Recovery and Reinvestment Act of 2009 (ARRA). Pursuant to ARRA, the Commonwealth is entitled to receive cash subsidy payments from the federal government equal to 35% of the debt service payable on the BABs and 45% of the debt service payable on the RZEDBs, provided, in both cases, that the Commonwealth makes certain required filings in accordance with applicable federal rules. Such interest subsidy payments are treated under federal law as overpayments of tax and, accordingly, are subject to offset against certain amounts that may be owed by the Commonwealth to the federal government or its agencies. In federal fiscal year 2016, such payments were subject to a sequestration reduction of 6.8%, with the Bipartisan Budget Act of 2015, approved by the President on November 2, 2015, extending the sequestration provisions through federal fiscal year 2025. For federal fiscal years 2017 and 2018, such payments were subject to a 6.9% and 6.6%, respectively, reduction, and for federal fiscal year 2019 there will be a 6.2% reduction. Such interest subsidy payments could become subject to a much larger sequestration reduction, and potentially be eliminated altogether, under the Statutory Pay-As-You-Go (PAYGO) Act of 2010, which is designed to limit federal deficit spending. Since the enactment of the PAYGO Act, the U. S. Congress has consistently acted to prevent its implementation, but there can be no assurance that it will continue to do so.

Beginning in fiscal 2012, federal interest subsidy payments received by the Commonwealth are required to be deposited in a Build America Bonds Subsidy Trust Fund and used, without further legislative appropriation, to pay debt service on the related BABs and RZEDBs. The Commonwealth is obligated to make payments of principal and interest on the BABs and RZEDBs whether or not it receives interest subsidy payments. As of February 28, 2019, \$2.1 billion of the Commonwealth’s outstanding general obligation debt was comprised of BABs, \$419.8 million of the outstanding CTF Bonds were comprised of BABs, \$156.4 million of the outstanding CTF Bonds consisted of RZEDBs and \$52.8 million of the outstanding GANs consisted of BABs.

The following table shows long-term debt of the Commonwealth issued and retired from fiscal 2014 through fiscal 2018, exclusive of unamortized bond premiums.

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

	<u>Fiscal 2014 (4)</u>	<u>Fiscal 2015</u>	<u>Fiscal 2016</u>	<u>Fiscal 2017</u>	<u>Fiscal 2018</u>
Beginning Balance as of July 1	\$21,513,039	\$22,419,852	\$23,826,301	\$25,079,591	\$26,445,665
Debt Issued	<u>2,359,899</u>	<u>2,918,817</u>	<u>2,766,419</u>	<u>2,877,265</u>	<u>2,391,763</u>
Subtotal	<u>23,672,983</u>	<u>25,338,669</u>	<u>26,592,720</u>	<u>27,956,856</u>	<u>28,837,428</u>
Debt retired or defeased, exclusive of refunded debt	(1,434,511)	(1,486,243)	(1,446,444)	(1,389,581)	(1,389,419)
Refunding debt issued, net of refunded debt (3)	<u>(18,575)</u>	<u>(26,125)</u>	<u>(66,685)</u>	<u>(121,610)</u>	<u>(87,190)</u>
Ending Balance June 30 (2)	<u>\$22,419,852</u>	<u>\$23,826,301</u>	<u>\$25,079,591</u>	<u>\$26,445,665</u>	<u>\$27,360,819</u>

SOURCE: Office of the Comptroller.

- (1) Including accretion of capital appreciation bonds.
- (2) Includes federal grant anticipation notes issued as crossover refunding bonds. The refunding escrows funded by these bonds and related premiums are used to pay interest on the refunding bonds until the refunded bonds are callable and then to redeem the refunded bonds. Interest on the refunded bonds prior to redemption continues to be paid from pledged revenues as before.
- (3) Amounts may be negative due to defeasances of debt of authorities from the issuance of Commonwealth debt as afforded under General Laws.
- (4) In accordance with GAAP, includes \$200 million in principal related to commercial paper bond anticipation notes (BANs) which were retired subsequent to year-end upon the issuance of long-term general obligation bonds on July 11, 2014.

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

Outstanding Long Term Commonwealth Debt (in thousands)

	<u>Fiscal 2014 (1)</u>	<u>Fiscal 2015</u>	<u>Fiscal 2016</u>	<u>Fiscal 2017</u>	<u>Fiscal 2018</u>
General Obligation Debt	\$19,596,662	\$20,801,956	\$21,668,296	\$22,716,695	\$23,143,374
Special Obligation Debt	2,292,255	2,324,490	2,754,255	2,990,960	3,469,000
Federal Grant Anticipation Notes	<u>530,935</u>	<u>699,855</u>	<u>657,040</u>	<u>738,010</u>	<u>748,445</u>
TOTAL	<u>\$22,419,852</u>	<u>\$23,826,301</u>	<u>\$25,079,591</u>	<u>\$26,445,665</u>	<u>\$27,360,819</u>

SOURCE: Office of the Comptroller.

- (1) In accordance with GAAP, includes \$200 million in principal related to commercial paper bond anticipation notes (BANs) which were retired subsequent to year-end upon the issuance of long-term general obligation bonds on July 11, 2014.

Debt Service Requirements

The following table sets forth, as of February 28, 2019, the annual fiscal year debt service requirements on outstanding Commonwealth general obligation bonds, special obligation bonds and federal GANs. For variable-rate bonds with respect to which the Commonwealth is a fixed-rate payor under an associated interest rate swap agreement, the debt service schedule assumes payment of the fixed rate due under such agreement. For other variable-rate bonds, the schedule assumes a 5% interest rate.

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Debt Service Requirements on Commonwealth Bonds as of February 28, 2019 through Maturity (in thousands)

Period Ending	<u>General Obligation Bonds</u>						<u>Federal Highway Grant Anticipation Notes</u>				
	Principal	Gross Interest	CABs	Build America Bond Subsidies	Net Interest	Debt Service	Principal	Gross Interest	Build America Bond Subsidies	Net Interest	Debt Service
6/30/2019	\$ 235,560	\$ 283,072	\$ -	(\$6,380)	\$276,692	\$ 512,252	\$ 37,055	\$ 18,265	(\$ 441)	\$ 17,825	\$ 54,880
6/30/2020	1,289,529	1,023,744	4,410	(36,300)	987,444	2,281,383	66,015	34,447	(782)	33,665	99,680
6/30/2021	1,294,378	962,559	4,265	(35,014)	927,545	2,226,189	78,485	31,191	(577)	30,614	109,099
6/30/2022	1,219,755	902,920	4,436	(32,698)	870,221	2,094,413	82,375	27,302	(357)	26,945	109,320
6/30/2023	1,069,933	847,759	4,532	(31,412)	816,347	1,890,812	86,470	23,205	(122)	23,083	109,553
6/30/2024	1,086,660	794,396	4,606	(31,412)	762,984	1,854,250	89,510	19,290	-	19,290	108,800
6/30/2025	1,092,190	743,179	4,563	(31,177)	712,002	1,808,754	93,985	14,815	-	14,815	108,800
6/30/2026	967,744	695,193	4,683	(30,776)	664,417	1,636,844	98,685	10,115	-	10,115	108,800
6/30/2027	878,704	651,153	4,963	(30,203)	620,951	1,504,617	103,620	5,181	-	5,181	108,801
6/30/2028	793,938	611,503	5,248	(28,953)	582,550	1,381,735	-	-	-	-	-
6/30/2029	900,541	574,743	4,865	(26,687)	548,056	1,453,461	-	-	-	-	-
6/30/2030	922,741	534,306	4,619	(22,892)	511,414	1,438,773	-	-	-	-	-
6/30/2031	915,783	486,102	4,391	(16,808)	469,294	1,389,468	-	-	-	-	-
6/30/2032	828,646	449,710	4,185	(14,776)	434,934	1,267,764	-	-	-	-	-
6/30/2033	663,689	415,870	3,259	(12,440)	403,430	1,070,377	-	-	-	-	-
6/30/2034	620,573	386,144	2,605	(11,068)	375,076	998,254	-	-	-	-	-
6/30/2035	627,991	359,116	2,005	(9,647)	349,468	979,465	-	-	-	-	-
6/30/2036	661,506	330,533	1,404	(8,177)	322,356	985,266	-	-	-	-	-
6/30/2037	706,171	299,074	994	(6,654)	292,420	999,584	-	-	-	-	-
6/30/2038	685,918	266,742	645	(5,077)	261,664	948,227	-	-	-	-	-
6/30/2039	726,365	234,675	210	(3,445)	231,230	957,804	-	-	-	-	-
6/30/2040	667,500	202,729	-	(1,609)	201,120	868,620	-	-	-	-	-
6/30/2041	671,630	173,341	-	-	173,341	844,971	-	-	-	-	-
6/30/2042	735,140	145,099	-	-	145,099	880,239	-	-	-	-	-
6/30/2043	772,630	114,809	-	-	114,809	887,439	-	-	-	-	-
6/30/2044	700,225	81,950	-	-	81,950	782,175	-	-	-	-	-
6/30/2045	549,985	57,710	-	-	57,710	607,695	-	-	-	-	-
6/30/2046	520,820	34,556	-	-	34,556	555,376	-	-	-	-	-
6/30/2047	282,500	14,220	-	-	14,220	296,720	-	-	-	-	-
6/30/2048	71,500	4,675	-	-	4,675	76,175	-	-	-	-	-
6/30/2049	30,000	1,255	-	-	1,255	31,255	-	-	-	-	-
Totals (1)	\$23,190,244	\$12,682,833	\$70,887	(\$433,606)	\$12,249,228	\$35,510,359	\$736,200	\$183,811	(\$2,278)	\$181,533	\$917,733

SOURCE: Office of the Comptroller.

(1) Totals may not add due to rounding.

Special Obligation Revenue Bonds
(Convention Center)

Special Obligation Revenue Bonds
(CTF- Accelerated Bridge Program)

Period Ending	Principal	Interest	Debt Service	Principal	Gross Interest	Build America Bond Subsidies	Net Interest	Debt Service
6/30/2019	\$ -	\$ -	\$ -	\$ 15,350	\$ 41,234	(\$ 6,157)	\$ 35,077	\$ 50,427
6/30/2020	23,380	28,842	52,222	16,855	81,731	(12,314)	69,417	86,272
6/30/2021	24,610	27,673	52,283	18,220	80,889	(12,314)	68,574	86,794
6/30/2022	25,970	26,380	52,350	21,760	79,978	(12,314)	67,663	89,423
6/30/2023	27,440	24,952	52,392	30,245	78,922	(12,314)	66,607	96,852
6/30/2024	28,990	23,443	52,433	39,870	77,421	(12,314)	65,107	104,977
6/30/2025	30,625	21,848	52,473	51,720	75,430	(11,937)	63,493	115,213
6/30/2026	32,360	20,164	52,524	54,340	72,806	(11,529)	61,276	115,616
6/30/2027	34,190	18,384	52,574	56,420	69,947	(11,065)	58,882	115,302
6/30/2028	36,125	16,504	52,629	51,520	66,970	(10,575)	56,394	107,914
6/30/2029	38,170	14,517	52,687	54,670	64,276	(10,058)	54,218	108,888
6/30/2030	40,330	12,418	52,748	54,600	61,643	(9,512)	52,131	106,731
6/30/2031	42,610	10,199	52,809	60,350	58,868	(8,935)	49,932	110,282
6/30/2032	45,020	7,856	52,876	63,445	55,625	(8,316)	47,309	110,754
6/30/2033	47,565	5,380	52,945	66,715	52,214	(7,661)	44,552	111,267
6/30/2034	50,250	2,764	53,014	70,000	48,798	(6,970)	41,828	111,828
6/30/2035	-	-	-	70,055	45,280	(6,239)	39,042	109,097
6/30/2036	-	-	-	73,595	41,756	(5,466)	36,289	109,884
6/30/2037	-	-	-	81,615	38,048	(4,650)	33,398	115,013
6/30/2038	-	-	-	81,180	33,979	(3,718)	30,261	111,441
6/30/2039	-	-	-	85,455	29,926	(2,546)	27,380	112,835
6/30/2040	-	-	-	89,835	25,534	(1,308)	24,225	114,060
6/30/2041	-	-	-	94,505	20,901	-	20,901	115,406
6/30/2042	-	-	-	99,385	16,911	-	16,911	116,296
6/30/2043	-	-	-	103,165	12,912	-	12,912	116,077
6/30/2044	-	-	-	109,415	8,135	-	8,135	117,550
6/30/2045	-	-	-	9,600	2,724	-	2,724	12,324
6/30/2046	-	-	-	56,670	2,304	-	2,304	58,974
Totals (1)	\$527,635	\$261,324	\$788,959	\$1,680,555	\$1,345,159	(\$188,214)	\$1,156,944	\$2,837,499

SOURCE: Office of the Comptroller.
(1) Totals may not add due to rounding.

Special Obligation Revenue Bonds
(Gas Tax)

Special Obligation Revenue Bonds
(CTF – Rail Enhancement Program)

Period Ending	Principal	Interest	Debt Service	Principal	Interest	Debt Service
6/30/2019	\$ 24,300	\$ 2,759	\$ 27,059	\$ 26,495	\$ 26,329	\$ 52,824
6/30/2020	25,640	4,182	29,822	29,045	51,451	80,496
6/30/2021	26,905	2,916	29,821	29,910	50,064	79,974
6/30/2022	28,385	1,436	29,821	28,760	48,586	77,346
6/30/2023	-	-	-	26,610	47,229	73,839
6/30/2024	-	-	-	19,785	45,927	65,712
6/30/2025	-	-	-	10,810	44,996	55,806
6/30/2026	-	-	-	11,295	44,468	55,763
6/30/2027	-	-	-	12,565	43,916	56,481
6/30/2028	-	-	-	21,010	43,288	64,298
6/30/2029	-	-	-	21,495	42,286	63,781
6/30/2030	-	-	-	25,205	41,211	66,416
6/30/2031	-	-	-	23,265	40,108	63,373
6/30/2032	-	-	-	24,500	38,944	63,444
6/30/2033	-	-	-	25,785	37,719	63,504
6/30/2034	-	-	-	27,120	36,430	63,550
6/30/2035	-	-	-	31,850	35,074	66,924
6/30/2036	-	-	-	33,145	33,667	66,812
6/30/2037	-	-	-	30,390	32,010	62,400
6/30/2038	-	-	-	36,300	30,490	66,790
6/30/2039	-	-	-	37,740	28,683	66,423
6/30/2040	-	-	-	39,485	26,799	66,284
6/30/2041	-	-	-	41,255	24,828	66,083
6/30/2042	-	-	-	42,330	22,865	65,195
6/30/2043	-	-	-	44,480	20,936	65,416
6/30/2044	-	-	-	45,040	18,904	63,944
6/30/2045	-	-	-	152,270	16,895	169,165
6/30/2046	-	-	-	112,165	10,353	122,518
6/30/2047	-	-	-	59,100	5,650	64,750
6/30/2048	-	-	-	61,900	2,845	64,745
Totals (1)	\$105,230	\$11,292	\$116,522	\$1,131,105	\$992,951	\$2,124,056

SOURCE: Office of the Comptroller.
(1) Totals may not add due to rounding.

Interest Rate Swaps

The Commonwealth has entered into interest rate swap agreements for the sole purpose of hedging changes in the interest rates on a portion of its outstanding variable rate bonds, predicated on the assumption that the interest on such bonds, combined with the cost of the associated interest rate swaps, would produce lower aggregate interest costs than fixed-rate bonds. As of February 28, 2019, approximately \$1.1 billion of the Commonwealth's outstanding variable-rate debt was synthetically fixed via floating-to-fixed interest rate swap hedge agreements. Included in this figure is \$54.0 million in synthetically fixed debt associated with special obligation issues as shown in the table below.

Under the terms of these floating-to-fixed rate hedge agreements, the counterparties to the swaps are obligated to pay the Commonwealth an amount equal or approximately equal to the variable-rate payment on the related bonds or a payment based on a market index, and the Commonwealth is obligated to pay the counterparties a stipulated fixed rate. The floating rate received by the Commonwealth from swap counterparties is used to offset the variable rate paid to bondholders. Only the net difference in interest payments is actually exchanged with the counterparty. The net payments made or received on these agreements are reported as part of interest expense in the Commonwealth's basic financial statements. In all cases, the Commonwealth remains responsible for making interest payments to the variable-rate bondholders.

The intended effect of these agreements is essentially to fix the Commonwealth's interest rate obligations with respect to its variable-rate bonds in order to hedge or mitigate the Commonwealth's exposure to changes in interest rates on these bonds. For example, during a period when interest rates rise, the Commonwealth would receive higher payments from swap counterparties that would be used to offset higher payments to bondholders of the outstanding variable rate bonds. During a period when interest rates decline, the reduction in interest payments to bondholders would offset the higher payments made to swap counterparties. In both scenarios, the net obligation of the Commonwealth is essentially fixed through the life of the swap and bonds. This allows the Commonwealth to finance its capital budget using floating rate bonds, which, combined with interest rate swaps, are assumed to be less costly than fixed-rate bonds, while hedging the risk of rising interest rates on those bonds to provide long-term budget certainty. As of June 30, 2017, all of the Commonwealth's interest rate swaps were floating-to-fixed rate agreements and were deemed effective hedges, as provided for in GASB Statement No. 53.

The bonds and related swap agreements have final maturities ranging from 2020 to 2033. The total notional value of approximately \$1.1 billion effectively matches the par amount of the related variable-rate bonds. Under the swap agreements, the Commonwealth pays the relevant counterparties fixed rates ranging from 3.780% to 5.059% and receives variable-rate payments equal to or approximately equal to the amount of variable rate payments the Commonwealth pays on the related variable-rate refunding bonds or a payment based on a market index.

All of the Commonwealth's counterparties are required to post collateral in certain circumstances. The Commonwealth is not required to post collateral under any of its existing swap agreements.

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The following table describes the interest rate swap agreements, all of which are floating-to-fixed rate hedges that the Commonwealth has entered into in connection with certain of its outstanding variable rate bond issues as of February 28, 2019.

Associated Bond Issue	Outstanding Notional Amount (thousands)	Bond Floating Rate	Swap Fixed Rate Paid (Range)	Swap Variable Rate Received	Effective Date	Termination Date	Fair value as of 2/28/2019	Counterparty
<i>General Obligation Bonds:</i>								
Series 2001B & C Refunding	195,840	VRDB	4.150%	Cost of Funds	2/20/2001	1/1/2021	(6,790,482)	Morgan Stanley Capital Services
Series 2018A Refunding	118,505	SIFMA	3.875%-3.903%	SIFMA	3/15/2005	2/1/2023	(8,864,320)	Wells Fargo Bank
Series 2006C (refunding)	96,095	CPI	3.78%-3.85%	CPI-based formula	1/1/2007	11/1/2020	(1,514,707)	Wells Fargo Bank
Series 2007A (refunding)	31,665	LIBOR	3.936%	67% 3-Month LIBOR + 0.46%	10/8/2008	11/1/2020	(848,462)	Wells Fargo Bank
Series 2007A (refunding)	348,380	LIBOR	3.936%-4.083%	67% 3-Month LIBOR + 0.46-0.55%	10/8/2008	11/1/2025	(29,490,808)	Bank of NY Mellon
Series 2006B, Series 2016C	<u>\$281,605</u>	VRDB	4.515%	67% 3-Month LIBOR	4/2/2009	6/15/2033	<u>(55,383,788)</u>	Barclays Bank PLC
Subtotal	<u>\$1,072,090</u>						<u>(\$102,892,568)</u>	
<i>Special Obligation Dedicated Tax Revenue Bonds</i>								
Series 2005A (Gas Tax)	<u>54,025</u>	CPI	4.937%-5.059%	CPI	1/12/2005	6/1/2022	<u>(2,055,605)</u>	Merrill Lynch Capital Services
Subtotal	<u>\$54,025</u>						<u>(\$2,055,605)</u>	
Total	<u>\$1,126,115</u>						<u>(\$104,948,172)</u>	

SOURCE: Office of the Treasurer and Receiver General.

Liquidity Facilities

Some of the Commonwealth's outstanding variable rate debt consists of variable rate demand bonds whose interest rates re-set daily or weekly through a remarketing process. Because these bonds offer a "put" or tender feature, they are supported by standby bond purchase agreements with commercial banks which require the applicable bank to purchase any bonds that are tendered and not successfully remarketed. The following table describes the liquidity facilities that the Commonwealth had with respect to such bonds as of February 28, 2019.

<u>Variable Rate Bonds</u>	<u>Outstanding Principal Amount (in thousands)</u>	<u>Liquidity Provider</u>	<u>Termination Date</u>
2000 Series A	\$200,000	Citibank	10/12/2021
2000 Series B	75,590	TD Bank	4/19/2023
2001 Series C (Refunding)	97,920	Barclays Bank	1/01/2021
2006 Series A	109,445	Barclays Bank	8/03/2020

SOURCE: Office of the Treasurer and Receiver General.

The Commonwealth also has liquidity support for two series of commercial paper totaling \$200 million.

<u>Commercial Paper Series</u>	<u>Available Principal Amount (in thousands)</u>	<u>Liquidity Provider</u>	<u>Termination Date</u>
Series I (tax-exempt) and Series K (taxable)	\$200,000	TD Bank	4/18/2023

SOURCE: Office of the Treasurer and Receiver General.

One or both of Series I and Series K may be outstanding as long as the total amount outstanding does not exceed \$200 million. As of February 28, 2019, no commercial paper was outstanding.

In addition, on February 8, 2019, the Commonwealth entered into a Note Purchase Agreement with RBC Capital Markets, LLC that provides for the issuance from time to time of up to \$200 million of general obligation bond or revenue anticipation notes. The agreement has a five-year term. Any notes, if issued, will be purchased by Royal Bank of Canada pursuant to a Noteholder Agreement. As of February 28, 2019, no notes were outstanding.

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Direct Purchase Agreements

Certain of the Commonwealth's variable rate bonds have been directly purchased by commercial banking institutions. The following table lists those series of variable rate bonds subject to direct purchase agreements as of February 28, 2019.

<u>Direct Purchase Bonds</u>	<u>Outstanding Principal Amount (in thousands)</u>	<u>Mandatory Tender Date</u>
2001 Series B (Refunding) ⁽¹⁾	\$ 97,920	1/01/2021
2006 Series B	146,250	5/31/2019
2016 Series B	100,000	4/01/2021
2016 Series C	200,000	4/01/2021
2018 Series A (Refunding) ⁽¹⁾	120,365	2/01/2021

SOURCE: Office of the Treasurer and Receiver General.

(1) Dates provided represent hard maturities rather than mandatory tenders.

General Obligation Contract Assistance Liabilities

Massachusetts Department of Transportation, as successor to the Massachusetts Turnpike Authority. On February 19, 1999, the Commonwealth and the Massachusetts Turnpike Authority entered into a contract which provides for the Commonwealth to make annual operating assistance payments to MassDOT, as successor to the Turnpike Authority, which are capped at \$25 million annually and extend until June 30, 2050, which is the end of the 40th fiscal year following the transfer of certain facilities associated with the Commonwealth's Central Artery/Ted Williams Tunnel Project (CA/T) to MassDOT. On June 30, 2009, the Commonwealth and the Turnpike Authority entered into a contract for financial assistance which provides for the payment by the Commonwealth to MassDOT, as successor to the Turnpike Authority, of \$100 million per fiscal year, commencing July 1, 2009 until June 30, 2039. Payments under both contracts constitute a general obligation pledge of the Commonwealth for which the full faith and credit of the Commonwealth are pledged.

Massachusetts Clean Water Trust. The Massachusetts Clean Water Trust (the Trust) manages the Commonwealth's state revolving fund program under the federal Clean Water Act and the federal Safe Drinking Water Act. The Trust is authorized to apply for and accept federal grants and associated Commonwealth matching grants to capitalize the revolving funds and to issue debt obligations to make loans to local governmental units and others to finance eligible water pollution abatement and drinking water projects. Under state law, loans made by the Trust are required to provide for subsidies or other financial assistance to reduce the debt service expense on the loans. Currently, most new loans made by the Trust bear interest at 2%. Other loans made by the Trust may bear interest at lower rates, including a zero rate of interest, and a portion of the principal of certain loans has also been subsidized by the Trust. To provide for a portion of the subsidy on most of its loans, the Trust receives contract assistance payments from the Commonwealth. Under the Trust's enabling act, the aggregate annual contract assistance payment for the Trust's programs may not exceed \$138 million. The Commonwealth's agreement to provide contract assistance constitutes a general obligation of the Commonwealth for which its full faith and credit are pledged, and the Commonwealth's contract assistance payments are pledged as security for repayment of the Trust's debt obligations. As of February 28, 2019, the Trust had approximately \$2.6 billion of bonds outstanding. Approximately 6.49% of the Trust's aggregate debt service is covered by Commonwealth contract assistance. Prior to August, 2014, the Trust was known as the Massachusetts Water Pollution Abatement Trust.

Massachusetts Development Finance Agency. Under the infrastructure investment incentive act (sections 5 to 12 of Chapter 293 of the Acts of 2006, as amended to date), known as "I-Cubed," up to \$600 million of public infrastructure improvements to support significant new private developments may be financed by bonds issued by the Massachusetts Development Finance Agency (MassDevelopment) that are secured by and payable from contract assistance from the Commonwealth. The obligation of the Commonwealth to pay contract assistance is a general obligation of the Commonwealth. Until a related new private development is completed and occupied, the developer's property is assessed by the municipality in which the development is located in amounts equal to the

debt service cost on the bonds and is applied to reimburse the Commonwealth for such cost. After each phase of the private development is completed and occupied, the municipality is required to reimburse the Commonwealth for any portion of the debt service cost on the bonds that is not covered by new state tax revenues generated from the related private development. The municipality's reimbursement obligation is secured by a general obligation pledge of the municipality, a local aid intercept and a reserve fund which must be funded in an amount equal to or greater than two years of debt service on the bonds. The obligation of the municipality ends when the Commonwealth has collected revenues sufficient to pay principal and interest payments to date, or in some cases to the next redemption date, plus all remaining principal payments due. Pursuant to this program, MassDevelopment has issued I-Cubed bonds to finance and refinance infrastructure projects associated with the Fan Pier development in Boston, the Assembly Row project in Somerville, the Chestnut Hill Square project in Newton, the Boston Landing project in Boston, the Van Ness project in Boston, the University Station project in Westwood, and the North Point project in Cambridge. As of February 28, 2019, total "I-Cubed" bonds were outstanding in the amount of approximately \$128.2 million.

Legislation approved by the Governor on August 8, 2008 included an authorization to finance up to \$43 million of the costs of a parkway at the former South Weymouth naval air base to support the development of the former base. Similar to the I-Cubed program financing model, the bonds issued by MassDevelopment to finance the parkway are secured by and payable from a general obligation pledge of contract assistance from the Commonwealth. As of February 28, 2019, approximately \$23.4 million of such bonds were outstanding.

Social Innovation Financing Trust Fund. Legislation approved in 2012 established a Social Innovation Financing Trust Fund for the purpose of funding contracts to improve outcomes and lower costs for contracted government services, referred to as "pay for success contracts." The legislation authorized the Secretary of Administration and Finance to enter into pay for success contracts in which a substantial portion of Commonwealth payments, from amounts appropriated by the Legislature to the Trust Fund, would be conditioned on the achievement of specified performance outcomes. The Commonwealth's obligation to make such payments is a general obligation for which the Commonwealth's full faith and credit are pledged. The first such contract was entered into in January, 2014 (and amended in November, 2016), to help young men leaving the juvenile justice system or on probation avoid re-offending. The contract obligates the Commonwealth to make up to \$28 million in success payments, in the aggregate, through fiscal 2020. The Commonwealth entered into a second such contract in December, 2014, to address chronic individual homelessness through permanent stable, supportive housing. The contract obligates the Commonwealth to make up to \$6 million in success payments, in the aggregate, through fiscal 2021. The Commonwealth entered into a third such contract in June, 2016, to assist individuals in Adult Basic Education (ABE) or English for Speakers of Other Languages (ESOL) programs transition to employment, higher wage jobs, and higher education. The contract obligates the Commonwealth to make up to \$15 million in success payments, in the aggregate, through fiscal 2023. The Commonwealth entered into a fourth such contract in July, 2018 to support unemployed or underemployed veterans with post-traumatic stress disorder in attaining competitive and compatible employment. The contract obligates the Commonwealth to make up to \$1.5 million in success payments, in the aggregate, through fiscal 2023.

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The following table sets forth the Commonwealth's general obligation contract assistance requirements for all of fiscal 2019 and each fiscal year thereafter pursuant to contracts with the Massachusetts Clean Water Trust, MassDOT (as successor to the Turnpike Authority), and MassDevelopment (including the I-Cubed Program and the South Weymouth naval air base contract assistance requirements) and contracts associated with the Social Innovation Financing Trust Fund.

General Obligation Contract Assistance Requirements
(in thousands)

<u>Fiscal Year</u>	<u>Massachusetts Clean Water Trust</u>	<u>Massachusetts Department of Transportation</u>	<u>Massachusetts Development Finance Agency</u>	<u>Social Innovation Financing Trust Fund (3)</u>	<u>Total</u>
2019	\$73,384	\$125,000	\$9,838	\$9,100	\$207,322
2020	63,384	125,000	9,838	23,650	202,412
2021	36,079	125,000	9,844	5,335	175,358
2022	26,584	125,000	9,843	800	161,827
2023	26,660	125,000	9,838	50	161,548
2024	18,301	125,000	9,837	-	153,138
2025	14,038	125,000	9,845	-	148,883
2026	11,573	125,000	9,840	-	146,413
2027 through 2050	<u>66,643 (1)</u>	<u>1,900,000 (2)</u>	<u>178,342</u>	<u>-</u>	<u>2,144,985</u>
Total (4)	<u>\$336,646</u>	<u>\$2,900,000</u>	<u>\$257,065</u>	<u>\$38,935</u>	<u>\$3,501,886</u>

SOURCES: Massachusetts Clean Water Trust column – Office of the Treasurer and Receiver-General; MassDOT, MassDevelopment and Social Innovation Financing Trust Fund columns - Executive Office for Administration and Finance.

- (1) Current contract assistance payments end in fiscal 2049.
- (2) Represents \$25 million per year for fiscal years 2027 to 2050, inclusive, and \$100 million per year for fiscal years 2027 to 2039, inclusive.
- (3) Projected payment schedule. The actual amount and timing of payments will be based on the achievement of specified performance outcomes.
- (4) Totals may not add due to rounding.

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Long-Term Operating Leases and Capital Leases

In addition to Commonwealth-owned buildings and facilities, the Commonwealth leases additional space from private parties. In certain circumstances, the Commonwealth has acquired certain types of capital assets under long-term capital leases; typically, these arrangements relate to computer and telecommunications equipment and to motor vehicles. Minimum future rental expenditure commitments of the Commonwealth under operating leases and long-term principal and interest obligations related to leases in effect as of June 30, 2018 are set forth in the table below.

Long-Term Leases (in thousands)

<u>Fiscal Year</u>	<u>Leases (1)</u>
2019	\$191,354
2020	127,289
2021	93,324
2022	75,358
2023	61,900
2024	53,761
2025	42,606
2026	28,489
2027	22,232
2028 through 2050	<u>202,419</u>
Total	<u>\$898,732</u>

SOURCES: Office of the Comptroller

(1) Includes operating and capital leases. Leases with the institutions of higher education that are supported by tuition and fees are not included.

Contingent Liabilities

Massachusetts Bay Transportation Authority. The MBTA issues its own bonds and notes. Prior to July 1, 2000, the Commonwealth supported MBTA bonds, notes and other obligations through guaranties of the debt service on its bonds and notes, contract assistance generally equal to 90% of the debt service on outstanding MBTA bonds and payment of the MBTA’s net cost of service (current expenses, including debt service, minus current income). Beginning July 1, 2000, the Commonwealth’s annual obligation to support the MBTA for operating costs and debt service is limited to a portion of the revenues raised by the Commonwealth’s sales tax, but the Commonwealth remains contingently liable for the payment of MBTA bonds and notes issued prior to July 1, 2000 and for MBTA payment obligations related to leases, reimbursement obligations, interest exchange agreements and other financing obligations entered into prior to July 1, 2000. The Commonwealth’s obligation to pay such prior bonds is a general obligation for which its full faith and credit have been pledged. As of February 28, 2019, the MBTA had approximately \$179.5 million of such prior bonds outstanding. Such bonds are currently scheduled to mature annually through fiscal 2030.

Massachusetts Development Finance Agency. Under legislation approved in 2010 and amended in 2011, MassDevelopment is authorized to issue bonds for the benefit of nonprofit community hospitals and nonprofit community health centers. Such bonds are to be secured by capital reserve funds funded at the time of bond issuance in an amount equal to the maximum annual debt service on the bonds. The legislation provides that MassDevelopment is to notify the Governor if any such capital reserve fund needs to be replenished, and that the Legislature is to appropriate the amount necessary to restore the fund to its required level. The legislation contains no limit on the amount of such bonds that may be issued. Any project to be financed by such bonds must be approved by the Secretary of Health and Human Services, and any loan to a community hospital or community health center (and the issuance and terms of the related bonds) must be approved by the Secretary of Administration and Finance. If any such institution defaults on a loan, any moneys in the custody of the Commonwealth that are payable to the institution may be withheld by the Commonwealth and used to pay debt service or to replenish the applicable capital reserve fund. If, following a Commonwealth transfer to replenish a capital reserve fund, the applicable institution fails to reimburse the Commonwealth within six months, the Commonwealth may withhold funds payable to the institution, and all contracts issued by the Group Insurance Commission, the Commonwealth Health Insurance Connector Authority and MassHealth to a third party for the purposes of providing health care

insurance paid for by the Commonwealth are to provide that the third party is to withhold payments to the institution and transfer the withheld amounts to the Commonwealth. No bonds have ever been issued pursuant to this legislation.

Woods Hole, Martha’s Vineyard and Nantucket Steamship Authority. The Steamship Authority operates passenger and vehicle ferries to Martha’s Vineyard and Nantucket. The Steamship Authority issues its own bonds and notes. Commonwealth support of the bonds and notes of the Steamship Authority includes a Commonwealth guaranty pursuant to statutory provisions requiring the Commonwealth to provide the Steamship Authority with funds sufficient to meet the principal of and interest on their bonds and notes as they mature to the extent that funds sufficient for this purpose are not otherwise available to the Steamship Authority and the Commonwealth’s payment, under applicable statutory provisions, of the net cost of service of the Steamship Authority (current expenses, including debt service, minus current income). The Steamship Authority is currently self-supporting, requiring no net cost of service or contract assistance payments. As of February 28, 2019, the Steamship Authority had approximately \$80.6 million of bonds outstanding. The Commonwealth’s obligations to the Steamship Authority are general obligations for which its full faith and credit have been pledged.

University of Massachusetts Building Authority. This authority, created to assist the University of Massachusetts, is permitted by its enabling act to have outstanding up to \$200 million in Commonwealth-guaranteed debt. The Commonwealth’s guaranty of principal and interest is a general obligation of the Commonwealth for which its full faith and credit are pledged. In addition to such guaranty, certain revenues of the Building Authority, including dormitory rental income and student fees, are pledged to pay the Building Authority’s bonds. As of February 28, 2019, the Building Authority had approximately \$112.1 million of Commonwealth-guaranteed debt outstanding.

Authorized and Unissued Debt

General obligation bonds of the Commonwealth are authorized to correspond with capital appropriations. See “COMMONWEALTH BUDGET AND FINANCIAL MANAGEMENT CONTROLS – Capital Investment Process and Controls.” Over the last decade, the Commonwealth has typically had a large amount of authorized and unissued debt. However, the Commonwealth’s actual expenditures for capital projects in a given year relate more to the capital needs which the Commonwealth determines it can afford to finance in such year than to the total amount of authorized and unissued debt. The table below presents authorized and unissued debt at year end:

Authorized and Unissued Debt (in thousands)

<u>Fiscal Year</u>	<u>Authorized and Unissued Debt</u>
2014	\$26,255,768
2015	29,071,339
2016	26,145,997
2017	22,716,302
2018	20,860,482

SOURCE: Office of the Comptroller.

Authorized and unissued debt is measured in accordance with the statutory basis of accounting, which is different from GAAP. Only the net proceeds of bonds issued (exclusive of underwriters’ discount, costs of issuance and other financing costs) are deducted from the amount of authorized and unissued debt. Therefore, the change in authorized and unissued debt at the end of any fiscal year is not intended to correlate to the change in the principal amount of debt outstanding as measured and reported in conformity with GAAP.

The Legislature has enacted various bond authorizations to fund the Commonwealth’s capital investment plan. See “COMMONWEALTH CAPITAL INVESTMENT PLAN.” Capital spending and subsequent debt issuance is constrained by the debt affordability policy and the statutory debt limit, and will be published annually in the five-year capital investment plan.

LEGAL MATTERS

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

Programs and Services

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

Rosie D., et al. v. The Governor, United States District Court, Massachusetts. In a memorandum of decision dated January 26, 2006, the District Court ruled in favor of a class of Medicaid-recipient children that the Commonwealth failed to provide to children with serious emotional disturbances the home- and community-based mental health services required under the Early and Periodic Screening, Diagnosis and Treatment ("EPSDT") provisions of the Medicaid Act. In February 2007, the District Court adopted the defendants' proposed remedial plan, with some modifications, and, in July 2007, entered judgment in accordance with that plan, as modified. The court's remedial order obliges MassHealth to take the following steps, largely at the Commonwealth's expense: (1) require pediatric providers to offer standardized behavioral health pediatric screenings; (2) require behavioral health specialists to utilize a standardized behavioral health assessment tool; (3) seek federal approval for certain new or enhanced behavioral health services; (4) implement the enhanced behavioral health services; and (5) develop information technology systems as needed to support data collection to evaluate compliance. The Commonwealth did not appeal from that judgment; instead, MassHealth has implemented all required program changes.

At a hearing on September 27, 2018, the District Court entertained motions from the parties regarding: the status of the Commonwealth's compliance with the judgment; the possible termination of court monitoring and reporting provisions; the legal significance, if any, of certain voluntary "disengagement criteria"; and the modification of the judgment to include monitoring of outpatient therapy. On December 21, 2018, the court extended the monitoring period through June 30, 2019, pending decisions on the motions. On February 7, 2019, the court denied in part and granted in part the defendants' motion regarding substantial compliance and to terminate court monitoring. The court found MassHealth to be in substantial compliance with the EPSDT notification and screening requirements, and terminated monitoring with respect to those requirements of the judgment. The court denied defendants' motion to terminate monitoring as to any other aspect of the judgment, however, based on the court's determination that the waitlists for one of the enhanced behavioral health services implemented under the judgment violated the terms of the judgment and the Medicaid Act's "reasonable promptness" requirement. The court did not decide the merits of the defendants' asserted substantial compliance with other provisions of the judgment. On March 13, 2019, the court denied the plaintiffs' pending motions regarding disengagement criteria and modification of the judgment to include outpatient therapy, without prejudice. That same day, the federal judge who had presided over this case since its inception transferred the case to Judge Richard Stearns. There are no status reports scheduled at this time. The defendants are considering whether to pursue an appeal of adverse 2019 court rulings. MassHealth estimates that its implementation of program changes in compliance with the court's remedial orders will continue to increase its costs, including administrative costs, prospectively by over \$20 million annually.

Hutchinson et al v. Patrick et al, United States District Court, Massachusetts. This is a class action, commenced in 2007, brought by two organizations and five individuals with brain injuries who are residents of various nursing facilities. Plaintiffs claim that they and a class of between 2,000 and 4,000 brain-injured individuals are entitled to, among other things, placement in community settings. Plaintiffs asserted claims under the Americans with Disabilities Act, the Rehabilitation Act and the Medicaid Act; they sought declaratory and injunctive relief. After the court certified a class in October 2007, the parties engaged in an intensive period of settlement negotiations. In May, 2008, the parties entered into a settlement agreement which was subsequently amended in July, 2013 (Agreement). Under the terms of the Agreement, the defendants will use the Massachusetts Money

Follows the Person Demonstration Project and various waiver programs to provide community residential and non-residential supports in an integrated setting to Massachusetts Medicaid-eligible persons with an acquired brain injury who are in nursing and long-term rehabilitation facilities (Class Members in Facilities). Over the six-year term of the Agreement, the defendants will add between 905 and 1,174 waiver slots for Class Members in Facilities. The exact number of slots to be added will depend on the level of demand for waiver services. The cost of implementing these programs was originally projected to be approximately \$386 million, phased in over six years, with approximately half of that amount expected to be reimbursed by the federal government. Year six of the Agreement began on July 1, 2018. The fiscal 2019 appropriation for funding of the Agreement is approximately \$100 million. In fiscal 2020, after the terms of the Agreement have been fully implemented, the estimated annualized cost to maintain slots added under the Agreement will be approximately \$112 million (gross) or \$56 million (net) state cost.

Medicaid Audits and Regulatory Reviews

In re: Centers for Medicare and Medicaid Services regulations (Uncompensated Care Pool/Health Safety Net Trust Fund). The federal Health Care Financing Administration (now the Centers for Medicare and Medicaid Services (CMS)) asserted in June, 2000 that the portion of the Medicaid program funded by the Commonwealth's Health Safety Net Trust Fund (formerly the Uncompensated Care Pool) might violate federal regulations regarding permissible taxes on health care providers. Since 1993, MassHealth has sought federal waivers for the Commonwealth's assessment on acute care hospitals and surcharge payers, respectively, which fund the Uncompensated Care Pool and its successor, the Health Safety Net Trust Fund. The Commonwealth believes that the assessments are within the federal law pertaining to health care-related taxes. In 2017, a change in state law was made to the hospital assessment making a federal waiver for the hospital assessment unnecessary. Under federal regulations, if the Commonwealth were ultimately determined to have imposed an impermissible health care-related tax, the federal government could seek retroactive repayment of federal Medicaid reimbursements. By the end of Health Safety Net fiscal year 2019, the Commonwealth will have collected an estimated \$7.080 billion in acute hospital assessments since 1990 and an estimated \$3.188 billion in surcharge payments since 1998.

In re: Centers for Medicare and Medicaid Services: Disallowance Number MA/2018/001/MAP (1115(a) Demonstration Claiming Authority for Primary Care Payment Reform Initiative). On November 20, 2018, CMS issued to the Commonwealth a notice of disallowance in the amount of \$70.9 million in federal financial participation (FFP) for expenditures between March 31, 2014 and December 31, 2016 related to MassHealth's Primary Care Payment Reform Initiative (PCPRI). PCPRI was a payment model that bundled services payments to discourage billing based on fee for services, rewarded providers for achieving quality goals by providing certain quality incentive payments, and rewarded providers by sharing savings and losses with them. In its disallowance letter, CMS asserts that EOHHS lacked explicit authority under its 1115 Demonstration Project to make payments that deviated from those that were described (or could be approved) under the Medicaid State Plan because PCPRI was not mentioned by name in the 1115 Demonstration Project, because there was no specific expenditure authority to support these payments, and because CMS never approved the PCPRI contracts. EOHHS maintains that it has authority under the 1115 Demonstration Project to make enhanced primary care clinician payments consistent with the PCPRI program and that no additional authority was necessary to make the payments. EOHHS acknowledges that CMS never approved the PCPRI contracts, but contends that MassHealth sent CMS the contracts in March, 2014 and CMS failed to act on them, either by approving or denying them. EOHHS responded to the disallowance letter by requesting reconsideration, which CMS denied on March 15, 2019. EOHHS has 60 days to submit an appeal to the federal Health and Human Services Department Appeals Board (DAB). EOHHS, with the assistance of outside counsel, is pursuing this matter further with the DAB.

Taxes

Comcast of Massachusetts I, Inc. v. Commissioner of Revenue, Appeals Court. On November 10, 2017, the Appellate Tax Board (the Board) issued a 209-page Findings of Fact and Report in favor of the Commissioner of Revenue (the Commissioner) in 10 consolidated corporate excise cases relative to the tax years 2002 through 2008. The Board had previously issued its Decision for the Commissioner on June 7, 2016. The taxpayers are Comcast of Massachusetts I and a number of its affiliates (the Taxpayers). The Taxpayers' claim arose principally from abatement applications filed by Comcast of Massachusetts I seeking a re-computation of the sales factor of various members of the combined group based on the cost of performance rule; the Taxpayers claimed unsuccessfully that certain revenues originally sourced to Massachusetts should have been sourced to Pennsylvania, where they claimed

to have incurred their greatest costs of performance. The Board also ruled with respect to additional issues raised, that:

- The Taxpayers and certain other members of the Comcast of Massachusetts I group could not deduct so-called intercompany interest expense paid to other members of the Comcast group because the Taxpayers “failed to prove that the claimed interest expenses qualified as true indebtedness.”
- The Taxpayers “failed to meet their burden of proof in establishing their rights to abatements based upon ... federal changes.”
- Interest expenses related to dividend income that was allocable to Pennsylvania, were equally allocable to Pennsylvania, and not apportionable to Massachusetts.
- Reimbursement from affiliates at cost did not constitute sales for sales factor purposes.
- For the year 2004, although the Commissioner committed a processing error in treating \$764,786 due for non-income measure purposes as an overpayment of taxes which the Commissioner credited to subsequent tax periods, the tax represented a tax lawfully due and could not be abated.

The Board requested that the parties calculate and resolve any numerical consequences pertaining to respective concessions made at trial. Following this recalculation, the parties reached an agreement regarding the numerical consequences and, as a result, the Commissioner issued a refund in the amount of \$47,932,447. The parties filed with the Board a pleading setting forth the dollar value of each concession. With respect to claims not resolved via concessions, the Taxpayers filed a Notice of Appeal with the Board on January 8, 2018 and docketed their appeal with the Appeals Court. After filing all appellate briefs, the parties participated in oral arguments before the Appeals Court on March 12, 2019 and are now awaiting the court’s decision. Should the Taxpayers fully prevail, the current value of refunds they would claim is \$93 million.

Comcast Corporation & Subsidiaries v. Commissioner of Revenue, Appellate Tax Board. The taxpayers are appealing the Commissioner’s refusal to abate corporate excise tax for the years 2009 through 2011. The sole issue in this case is the computation of the sales factor of various members of the combined group based on the costs of performance rule under G.L. c. 63, section 38(f). The Commissioner filed his answer on June 2, 2017. Because this case presents the same legal issue as the other Comcast case summarized above, the parties requested that this case be stayed until resolution of the other Comcast case on appeal. On October 1, 2018, however, the taxpayers filed a new petition with the Board, appealing the Commissioner’s refusal to abate corporate excise tax for the years 2012 through 2014. As in the previous petition, the sole issue is the computation of the sales factor of the various members of the combined group based on the cost of performance rule under G.L. c. 63, § 38(f). Should the taxpayers fully prevail, the current value of refunds they would claim is \$70 million.

Northeastern University, et al. v. Commissioner of Revenue (Supreme Judicial Court, Appeals Court, Suffolk Superior Court) and related Brownfields Credits Claims. The plaintiffs in a Superior Court case, three Massachusetts institutions of higher education, alleged that the Commissioner wrongfully denied their requests for Brownfields Tax Credits. Legislation in 2006 made not-for-profit institutions eligible, for the first time, to claim tax credits for work those institutions performed to remediate an environmentally contaminated site. (Because not-for-profits do not typically pay corporate excise taxes, against which such a credit may be applied, the legislation also made it possible, for the first time, for taxpayers granted such a credit to “sell” that credit to individuals or corporations who do incur tax liability, so that the buyer can make use of the credit. The law specifies that any unused portion of a credit, as reduced from year to year, can be carried over and applied to a tax liability for any subsequent year, not to exceed five years.) The sole issue in the *Northeastern University* litigation, filed in August, 2014, was whether the nonprofit institutions of higher education may receive a Brownfields Tax Credit for site remediation achieved prior to the taxable year commencing on or after June 24, 2006 (*i.e.*, the effective date of the legislative amendment). The Commissioner denied the plaintiffs’ applications for the credit because the site remediation had been achieved prior to the taxable year commencing on or after June 24, 2006. The plaintiffs prevailed in the Superior Court and, if all other application conditions are met, they will be entitled to tax credits in the cumulative amount of \$19 million. The Commonwealth appealed the adverse Superior Court judgment. On

December 28, 2017, the Appeals Court, in an unpublished decision, affirmed the Superior Court's judgment. The Commonwealth filed an application for further appellate review with the Supreme Judicial Court (SJC), which the SJC denied on May 4, 2018. The Department is confirming that all other application criteria are met, and if so, will issue tax certificates.

In the category of Brownfields Credits claims not yet docketed at the Appellate Tax Board (subcategories of pending and unasserted claims), which principally raise legal issues distinct from the *Northeastern University* claims, the Department of Revenue estimates a total of \$85.5 million worth of potential revenue loss, with three of the individual credit amount claims exceeding \$10 million.

Film Credits Claims. Under the provisions of General Laws chapter 63, § 38X, personal income tax and corporate excise tax credits and sales tax exemptions are available to qualifying taxpayers in the motion picture industry (commonly referred to as "Film Credits"). The Department of Revenue carefully examines and sometimes declines preliminary approval of applications from various taxpayers for Film Credits, against taxable income, in amounts that often exceed \$1 million. Currently the Department of Revenue estimates a total potential revenue loss of \$44.6 million, with one of the individual credit amount claims exceeding \$10 million.

Other Revenues

Commonwealth of Massachusetts v. Philip Morris Inc., RJ Reynolds Tobacco Company, Lorillard Tobacco Company, et al., Supreme Judicial Court, Middlesex Superior Court (a/k/a the Tobacco Master Settlement Agreement, Nonparticipating Manufacturer ("NPM") Adjustment Disputes)

These matters arise under the Tobacco Master Settlement Agreement ("MSA"), entered into in 1998, that settled litigation and claims by Massachusetts and 51 other states or dependencies (collectively the "States") against the major tobacco manufacturers. Under the MSA, yearly payments made by the Original Participating Manufacturers ("OPMs") and Subsequent Participating Manufacturers (collectively the Participating Manufacturers or "PMs") are subject to a number of adjustments. One such adjustment is the Non-Participating Manufacturer ("NPM") Adjustment, which can be triggered if the PMs suffer a specified market share loss as compared to their market share during the base year 1997. Under the MSA, a nationally recognized economic firm selected jointly by the States and the PMs must make a determination that "the disadvantages experienced" by the PMs as a result of complying with the MSA were "a significant factor contributing to the Market Share Loss" for a given year. Even if such a determination is made, the States can still avoid the NPM adjustment if it is determined that the States "diligently enforced" their individual NPM Escrow Statutes.

(a) (2004 NPM Adjustment) The PMs seek to reduce, by approximately \$1.1 billion, the MSA payments they made to the States for 2004 sales and so they deposited a portion of this amount into a disputed payment account pending a resolution of this claim. A determination has been made that the PMs suffered a market share loss and that the disadvantages experienced by the PMs as a result of complying with the MSA were a significant factor contributing to the market share loss. The PMs and the States are arbitrating the 2004 NPM Adjustment. In June, 2017, however, the PMs decided not to contest the Commonwealth's diligence in 2004. Accordingly, the Commonwealth no longer has any risk of loss concerning the 2004 NPM Adjustment.

(b) (2005 NPM Adjustment) In the same manner as described above, the PMs seek to reduce, by approximately \$753 million, the MSA payments they made to the States for 2005 sales. A determination has been made that the PMs suffered a market share loss and that the disadvantages experienced by the PMs as a result of complying with the MSA were a significant factor contributing to the market share loss. The PMs notified the States of their intent to arbitrate the issue of whether each state diligently enforced its NPM Escrow Statute during 2005 following the conclusion of the 2003 NPM Adjustment Arbitration proceedings. If the Commonwealth does not prevail, future MSA payments to Massachusetts would be reduced by an amount yet to be determined, between \$30 million, plus interest, up to but not exceeding the full amount of the state's MSA payment for 2005 sales, depending upon the outcome of similar NPM proceedings against other states.

(c) (2006 NPM Adjustment) In the same manner as described above, the PMs seek to reduce, by approximately \$704 million, the MSA payments they made to the States for 2006 sales. A determination has been made that the PMs suffered a market share loss and that the disadvantages experienced by the PMs as a result of

complying with the MSA were a significant factor contributing to the market share loss. The PMs notified the States of their intent to arbitrate the issue of whether each state diligently enforced its NPM Escrow Statute during 2006 following the conclusion of the 2003 NPM Adjustment Arbitration proceedings. If the Commonwealth does not prevail, future MSA payments to Massachusetts would be reduced by an amount yet to be determined, between \$7 million, plus interest, up to but not exceeding the full amount of the state's MSA payment for 2006 sales, depending upon the outcome of similar NPM proceedings against other states.

(d) (2007 NPM Adjustment) In the same manner as described above, the PMs seek to reduce, by approximately \$791 million, the MSA payments they made to the States for 2007 sales. A determination has been made that the PMs suffered a market share loss and that the disadvantages experienced by the PMs as a result of complying with the MSA were a significant factor contributing to the market share loss. The PMs notified the States of their intent to arbitrate the issue of whether each state diligently enforced its NPM Escrow Statute during 2007 following the conclusion of the 2003 NPM Adjustment Arbitration proceedings. If the Commonwealth does not prevail, future MSA payments to Massachusetts would be reduced by an amount yet to be determined, between \$8.8 million, plus interest, up to but not exceeding the full amount of the state's MSA payment for 2007 sales, depending upon the outcome of similar NPM proceedings against other states.

(e) (2008 NPM Adjustment) In the same manner as described above, the PMs seek to reduce, by approximately \$888 million, the MSA payments they made to the States for 2008 sales. A determination has been made that the PMs suffered a market share loss and that the disadvantages experienced by the PMs as a result of complying with the MSA were a significant factor contributing to the market share loss. The PMs notified the States of their intent to arbitrate the issue of whether each state diligently enforced its NPM Escrow Statute during 2008 following the conclusion of the 2003 NPM Adjustment Arbitration proceedings. If the Commonwealth does not prevail, future MSA payments to Massachusetts would be reduced by an amount yet to be determined, between \$900,000, plus interest, up to but not exceeding the full amount of the state's MSA payment for 2008 sales, depending upon the outcome of similar NPM proceedings against other states.

(f) (2009 NPM Adjustment) In the same manner as described above, the PMs seek to reduce, by approximately \$859 million, the MSA payments they made to the States for 2009 sales. A determination has been made that the PMs suffered a market share loss and that the disadvantages experienced by the PMs as a result of complying with the MSA were a significant factor contributing to the market share loss. The PMs have not yet notified the States of their intent to arbitrate the issue of whether each state diligently enforced its NPM Escrow Statute during 2009. If the matter is arbitrated and the Commonwealth does not prevail, future MSA payments to Massachusetts would be reduced by an amount yet to be determined, between \$1.3 million, plus interest, up to but not exceeding the full amount of the state's MSA payment for 2009 sales, depending upon the outcome of similar NPM proceedings against other states.

(g) (2010 NPM Adjustment) In the same manner as described above, the PMs seek to reduce, by approximately \$873 million, the MSA payments they made to the States for 2010 sales. A determination has been made that the PMs suffered a market share loss and that the disadvantages experienced by the PMs as a result of complying with the MSA were a significant factor contributing to the market share loss. The PMs have not yet notified the States of their intent to arbitrate the issue of whether each state diligently enforced its NPM Escrow Statute during 2010. If the matter is arbitrated and the Commonwealth does not prevail, future MSA payments to Massachusetts would be reduced by an amount yet to be determined, between \$500,000, plus interest, up to but not exceeding the full amount of the state's MSA payment for 2010 sales, depending upon the outcome of similar NPM proceedings against other states.

(h) (2011 NPM Adjustment) In the same manner as described above, the PMs seek to reduce, by approximately \$728 million, the MSA payments they made to the States for 2011 sales. A determination has been made that the PMs suffered a market share loss and that the disadvantages experienced by the PMs as a result of complying with the MSA were a significant factor contributing to the market share loss. The PMs have not yet notified the States of their intent to arbitrate the issue of whether each state diligently enforced its NPM Escrow Statute during 2011. If the matter is arbitrated and the Commonwealth does not prevail, future MSA payments to Massachusetts would be reduced by an amount yet to be determined, between \$500,000, plus interest, up to but not exceeding the full amount of the state's MSA payment for 2011 sales, depending upon the outcome of similar NPM proceedings against other states.

(i) (2012 NPM Adjustment) In the same manner as described above, the PMs seek to reduce by approximately \$797 million, the MSA payments they made to the States for 2012 sales. A determination has been made that the PMs suffered a market share loss and that the disadvantages experienced by the PMs as a result of complying with the MSA were a significant factor contributing to the market share loss. The PMs have not yet notified the States of their intent to arbitrate the issue of whether each state diligently enforced its NPM Escrow Statute during 2012. If the matter is arbitrated and the Commonwealth does not prevail, future MSA payments to Massachusetts would be reduced by an amount yet to be determined, between \$300,000, plus interest, up to but not exceeding the full amount of the state's MSA payment for 2012 sales, depending upon the outcome of similar NPM proceedings against other states.

(j) (2013 NPM Adjustment) In the same manner as described above, the PMs seek to reduce by approximately \$823 million, the MSA payments they made to the States for 2013 sales. A determination has been made that the PMs suffered a market share loss and that the disadvantages experienced by the PMs as a result of complying with the MSA were a significant factor contributing to the market share loss. The PMs have not yet notified the States of their intent to arbitrate the issue of whether each state diligently enforced its NPM Escrow Statute during 2013. If the matter is arbitrated and the Commonwealth does not prevail, future MSA payments to Massachusetts would be reduced by an amount yet to be determined, between \$500,000, plus interest, up to but not exceeding the full amount of the state's MSA payment for 2013 sales, depending upon the outcome of similar NPM proceedings against other states.

(k) (2014 NPM Adjustment) In the same manner as described above, the PMs seek to reduce by approximately \$838 million, the MSA payments they made to the States for 2014 sales. This amount is subject to revision until a Final Calculation in March, 2019. A determination has been made that the PMs suffered a market share loss and that the disadvantages experienced by the PMs as a result of complying with the MSA were a significant factor contributing to the market share loss. The PMs have not yet notified the States of their intent to arbitrate the issue of whether each state diligently enforced its NPM Escrow Statute during 2014. The largest PMs have not yet had an opportunity to designate funds related to 2014 sales as disputed and place the funds in escrow. Until they have had such an opportunity and Final Calculations are received in March, 2019, the Commonwealth's potential exposure (for loss of anticipated revenue) cannot be determined.

(l) (2015 NPM Adjustment) In the same manner as described above, the PMs seek to reduce by approximately \$910 million, the MSA payments they made to the States for 2015 sales. This amount is subject to revision until a Final Calculation in March, 2020. A determination has been made that the PMs suffered a market share loss and that the disadvantages experienced by the PMs as a result of complying with the MSA were a significant factor contributing to the market share loss. The PMs have not yet notified the States of their intent to arbitrate the issue of whether each state diligently enforced its NPM Escrow Statute during 2015. The largest PMs have not yet had an opportunity to designate funds related to 2015 sales as disputed and place the funds in escrow. Until they have had such an opportunity and Final Calculations are received in March, 2020, the Commonwealth's potential exposure cannot be determined.

(m) (2016 NPM Adjustment) In the same manner as described above, the PMs seek to reduce by approximately \$900 million, the MSA payments they made to the States for 2016 sales. This amount is subject to revision until a Final Calculation in March, 2021. A determination has been made that the PMs suffered a market share loss and that the disadvantages experienced by the PMs as a result of complying with the MSA were a significant factor contributing to the market share loss. The PMs have not yet notified the States of their intent to arbitrate the issue of whether each state diligently enforced its NPM Escrow Statute during 2015. The largest PMs have not yet had an opportunity to designate funds related to 2016 sales as disputed and place the funds in escrow. Until they have had such an opportunity and Final Calculations are received in March, 2021, the Commonwealth's potential exposure cannot be determined.

(n) (2017 NPM Adjustment) In the same manner as described above, the PMs seek to reduce by approximately \$896 million, the MSA payments they made to the States for 2017 sales. This amount is subject to revision until a Final Calculation in March 2022. A determination has been made that the PMs suffered a market share loss and that the disadvantages experienced by the PMs as a result of complying with the MSA were a significant factor contributing to the market share loss. The PMs have not yet notified the States of their intent to

arbitrate the issue of whether each state diligently enforced its NPM Escrow Statute during 2017. The largest PMs have not yet had an opportunity to designate funds related to 2017 sales as disputed and place the funds in escrow. Until they have had such an opportunity and Final Calculations are received in March 2022, the Commonwealth's potential exposure cannot be determined.

Environment

In re Massachusetts Military Reservation (pre-litigation). The Commonwealth, through the Executive Office of Energy and Environmental Affairs, the Department of Environmental Protection and the Attorney General's office, were engaged in discussions with federal Natural Resource Trustees, including the United States Army and Air Force, the Department of the Interior and the National Oceanic and Atmospheric Administration, and private contractors regarding natural resource damages at the Massachusetts Military Reservation on Cape Cod. Federal Trustees and private contractors claim that the Commonwealth and others are liable for natural resource damages due to widespread contamination primarily from past military activities at the Reservation and are responsible for response actions and related clean-up activities. The assessment process for natural resource damages is set out in federal regulations and has not been completed. While no recent comprehensive estimate of natural resource damages and response actions is available, it is expected that the damages and response actions may cost at least tens of millions of dollars. In 2013, the state and federal trustees reopened preliminary discussions per a Trustee Council resolution on a potential settlement framework.

Other

McHugh et al v. Commonwealth et al., Appeals Court. Four Massachusetts Department of Environmental Protection (DEP) contract employees filed a purported class action suit against the Commonwealth, DEP, and DEP's Commissioner, alleging that Commonwealth entities (including but not limited to DEP) have been hiring and employing contract employees as long-term replacements for full-time state employees and not providing them employment benefits. Plaintiffs purported to bring suit on behalf of approximately 3,330 to 7,600 similarly situated individuals. In November, 2018, Suffolk Superior Court granted the state defendants' motion to dismiss, but plaintiffs promptly filed a notice of appeal. Similar claims have also been asserted in the Superior Court on behalf of a group of contractors, allegedly exceeding 80 in number, employed by entities within the Health and Human Services secretariat. *Draper v. Commonwealth of Massachusetts, et al.*, civil action no. 1884CV02627. In both cases, the Commonwealth maintains it is immune from suit under the various employment and benefits-related laws cited by the plaintiffs and the plaintiffs have otherwise failed to assert viable claims. In early February, 2019, the *McHugh* plaintiffs filed an Application for Direct Appellate Review with the Supreme Judicial Court, which defendants have opposed. The current deadline for the *McHugh* plaintiffs to file their principal brief and record appendix with the Appeals Court is early April, 2019.

Drug Testing Laboratory Disputes. In 2012 and 2013, charges were brought against two chemists, working in two separate Commonwealth drug testing laboratories, alleging malfeasance by such chemists in the handling and testing of laboratory samples and/or the adulteration or theft of seized drugs used as evidence in criminal cases. As a result of the subsequent convictions of these two chemists, and following judicial review, more than 21,000 criminal cases potentially affected by altered drug evidence from one of the laboratories were vacated or dismissed, with only a few hundred potentially affected criminal cases remaining open for re-prosecution. Pursuant to a court order, indigent defendants in the cases that remain who wish to pursue vacatur or a new trial will be assigned counsel, at state expense. The number of criminal cases potentially affected by altered drug evidence from the second laboratory has not yet been established, but is expected to exceed 10,000. To date, more than 8,000 convictions have been identified for dismissal. In actions relating to the second laboratory, a court found that, in addition to the chemist's malfeasance, two former prosecutors "tampered with the fair administration of justice" and perpetrated "a fraud upon the court" by deliberately concealing documents relevant to the chemist's actions, with implications for many more drug tests conducted by this second testing laboratory. Notwithstanding the court also finding that, with the exception of the identified chemist's work, the second laboratory was "free from any deficiency in analytical procedure, was kept in an orderly fashion, and that work flowed through the lab smoothly," the Supreme Judicial Court expanded the Commonwealth's potential liability, ordering, in relevant part, that all convictions based on evidence tested at the second laboratory on or after January 1, 2009 must be vacated and dismissed, regardless of the chemist who signed the drug certificate, as well as all methamphetamine convictions where the drugs were tested at

the second laboratory during the convicted chemist's tenure. *See Committee for Public Counsel Services, et al. v. Attorney General of Massachusetts, et al.*, SJC-12471 (Oct. 11, 2018).

There are a number of ongoing civil actions, in both state and federal court, relating to the rights of those criminal defendants potentially affected by the malfeasance of the two chemists and the attorney misconduct described above, and more are expected. *See, e.g., Penate v. Kaczmarek et al.*, United States District Court for the District of Massachusetts, in which the plaintiff alleges civil rights violations under 42 U.S.C. § 1983 and seeks approximately \$5.7 million in compensatory and punitive damages, interest, costs, and attorneys' fees. In *Penate*, on January 24, 2019, the court dismissed claims against three Department of Public Health (DPH) defendants and two attorneys, but denied motions to dismiss filed by two former DPH employees and a now-inactive attorney. Certain parties are pursuing an interlocutory appeal in the First Circuit Court of Appeals but, at this time, the District Court proceedings are not stayed. The potential claims of other criminal defendants against the Commonwealth and other officials are likely to range from: restitution for the fees and costs imposed on and incurred by the criminal defendants, including for uncompensated labor; erroneous conviction; negligence of the Commonwealth in supervising the laboratories and their employees; and potential civil rights violations under federal law.

To date, plaintiffs have sought, and may in the future seek, compensatory as well as punitive damages, interest, costs and attorneys' fees. In addition, in *Nelson v. Colorado*, 137 S. Ct. 1239 (2017), the United States Supreme Court declared that when a criminal conviction is invalidated by a reviewing court and no retrial will occur, a state is obliged to refund fees, court costs, and any restitution exacted from a defendant upon, and as a consequence of, the conviction. Based on this Supreme Court decision, a purported class action has been filed on behalf of the criminal defendants whose convictions were vacated as the result of the potentially tainted drug tests in the two laboratories, seeking "refund of all Case-Related Payments, payment for all Uncompensated Labor, and return of all Forfeited Property." *Foster, et al. v. Commonwealth, et al.*, United States District Court for the District of Massachusetts. On January 30, 2019, the court allowed a Joint Motion to Stay Proceedings until May 10, 2019, to permit the parties to pursue settlement negotiations. Additionally, in two similar state court cases, the Supreme Judicial Court, following the *Nelson* holding, ruled that defendants have due process rights to the refund of fees, fines and restitution paid by a defendant as a consequence of a later invalidated conviction when it is determined that the case will not or cannot be retried. *See Commonwealth v. Martinez*, SJC-12479; *see also Commonwealth v. Green*, SJC-12480.

Given the tens of thousands of criminal cases potentially affected by the two laboratories, there likely will be continuing significant, but as yet undetermined, costs to the Commonwealth in remedying the alleged malfeasance, including: vendor costs for information gathering and administration of exaction refunds; costs to investigate and defend the civil complaints alleging state liability in both state and federal courts, as described above; and the costs of settlements and judgments arising from the potential civil actions described above. Net appropriations (minus cuts and reversions) from fiscal 2013 to the present to rectify the consequences of the drug testing lab-related misconduct total approximately \$23.4 million, including a \$1.9 million appropriation for fiscal 2019. Based on the court decisions to date and depending on the outcomes of the additional cases filed to date and cases that may be filed in the future, the Commonwealth could be required to budget for millions of dollars' worth of refundable exactions, settlements, and administrative expenses.

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 usually becomes available on or around 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, 9th Floor, Boston, Massachusetts 02108. The financial statements are also available at the Comptroller's web site located at <http://www.macomptroller.org> by clicking on "Financial Reports" on the Comptroller's homepage.

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

On behalf of the Commonwealth, the State Treasurer will provide to the MSRB, through EMMA, no later than 270 days after the end of each fiscal year of the Commonwealth, certain financial information and operating data relating to such fiscal year, as provided in Rule 15c2-12, as amended, adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, together with audited financial statements of the Commonwealth for such fiscal year. Except as noted below, the Commonwealth has not failed in the last five years to comply with its continuing disclosure undertakings with respect to any of its debt.

The Commonwealth failed to file an event notice in October, 2013 when the Moody's rating on outstanding junior-lien GANs was upgraded from Aa2 to Aa1. The Commonwealth also failed to file event notices in March, 2014 when the Standard & Poor's rating on certain insured special obligation bonds payable from the Convention Center Fund was upgraded from A to AA-, in June 2017 when such rating was lowered to A, and in December, 2017 when the insurer asked that the rating be withdrawn. The Commonwealth has filed notices of all such rating changes with respect to the bonds that are currently outstanding.

The fiscal 2013 annual financial information filed by the Commonwealth pursuant to its continuing disclosure undertakings related to its grant anticipation note program contained incorrect information concerning the amounts of CTF pledged funds. An amended filing has been posted with EMMA.

The fiscal 2014 annual financial information was filed by the Commonwealth on March 27, 2015 pursuant to its continuing disclosure undertakings with respect to its general obligation bonds; however, there was a failure to link the filing to certain CUSIP numbers for Commonwealth general obligation bonds issued from October 29, 2014 through December 31, 2014. In addition, certain annual financial information was not properly linked to certain Commonwealth contract assistance bonds and certain CTF Bonds. Corrective filings have since been posted on EMMA.

In the course of substituting liquidity facilities in connection with certain Commonwealth general obligation variable rate demand bonds, supplements to the respective official statements for such bonds were posted in a timely manner to EMMA setting forth detailed information regarding the substituted liquidity facilities; however, separate event notices were not posted at the time. Event notices of the liquidity substitutions have since been posted.

In the course of reviewing its event notice filings, the Commonwealth discovered that bond call notices were not posted in a timely manner to EMMA in connection with certain advance refunding transactions and that a notice of defeasance was not timely posted to EMMA until approximately three and a half months after the defeasance occurred. The Commonwealth has posted such notices with respect to all Commonwealth bonds that have been advance refunded, where the funds to redeem or pay the bonds remain held in escrow.

The State Treasurer also regularly files information with EMMA beyond the documents required by the Commonwealth's continuing disclosure undertakings, including updated Information Statements. In addition, information of interest to investors may be posted on the Commonwealth's investor website at www.massbondholder.com, on twitter at twitter.com/BuyMassBonds and on the Commonwealth's "Mass. Investor Disclosure" mobile app.

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MISCELLANEOUS

Any provisions of the constitution of the Commonwealth, of general and special laws and of other documents set forth or referred to in this Information 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 Information 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, changes in federal programs that could increase or transfer financial or other obligations to the Commonwealth, litigation, arbitration, force majeure events and various other factors that are beyond the control of the Commonwealth and its various agencies and authorities. Because of the inability to predict all factors that may affect future decisions, actions, events or financial circumstances, what actually happens may be different from what is set forth in such forward-looking statements. Forward-looking statements are indicated by use of such words as “may,” “will,” “should,” “intends,” “expects,” “believes,” “anticipates,” “estimates” and others.

All estimates and assumptions in this Information 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 Information 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.

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 Information Statement are subject to change without notice. Neither the delivery of this Information Statement nor any sale made pursuant to any official statement of which this Information Statement is 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 Information Statement, except as expressly stated.

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AVAILABILITY OF OTHER FINANCIAL INFORMATION

Questions regarding this Information Statement or requests for additional information concerning the Commonwealth should be directed to Susan E. Perez, Deputy Treasurer, Office of the Treasurer and Receiver-General, One Center Plaza, Suite 430, Boston, Massachusetts 02108, telephone (617) 367-3900, or to Mark Attia, Director of Debt Management, Executive Office for Administration and Finance, State House, Room 373, Boston, Massachusetts 02133, telephone (617) 727-2040. Questions regarding legal matters relating to this Information Statement should be directed to Poonam Patidar, Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., One Financial Center, Boston, Massachusetts 02111, telephone (617) 348-3038.

THE COMMONWEALTH OF MASSACHUSETTS

By /s/ Deborah B. Goldberg
Deborah B. Goldberg
Treasurer and Receiver-General

By /s/ Michael J. Heffernan
Michael J. Heffernan
Secretary of Administration and Finance

April 10, 2019

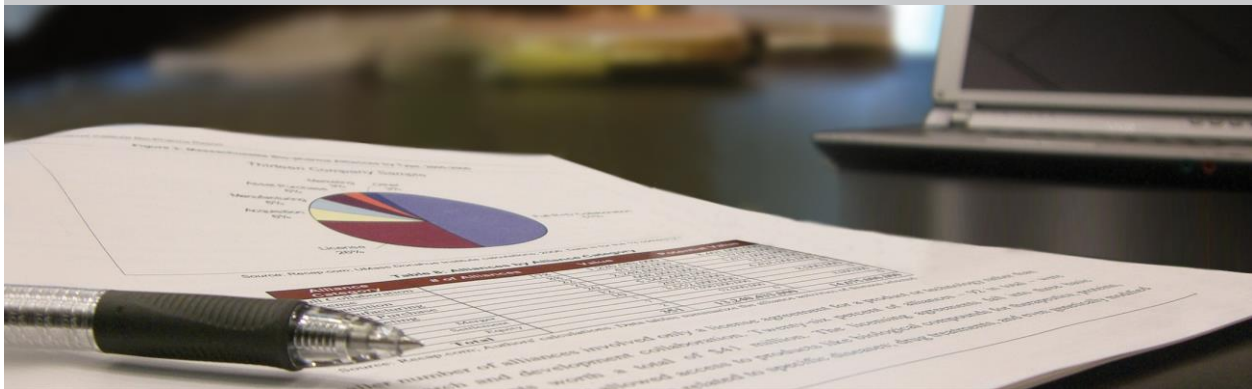
Exhibit A

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Massachusetts Economic Due Diligence

Quarterly Report for the Massachusetts State Treasurer's Office of Debt Management

Second Quarter, FY2019



UMASS DONAHUE INSTITUTE
Economic & Public
Policy Research

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The information in this section was prepared by the Massachusetts State Data Center (MassSDC) at the University of Massachusetts Donahue Institute Economic and Public Policy Research group. It 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 economic and demographic 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. **Information in the text, tables, charts, and graphs is current as of January 9th, 2019.** There was a delay in the BEA’s release of state and national GDP due to the partial federal government shutdown. Dollars reflect 2017 inflation-adjusted dollars. Sources of information are indicated in the text or immediately following the charts and tables, and also in the *Sources* section on the last page of the Exhibit A section. Although the Commonwealth considers the sources to be reliable, it makes no independent verification of the information presented herein and therefore does not warrant its accuracy.

Statistical Overview

Population (p. A-2)

Massachusetts United States

Estimated Percent Change in Population, July 1, 2010 - July 1, 2017	4.5%	5.3%
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Personal Income, Consumer Prices, and Poverty (p. A-8)

Per Capita Personal Income, 2017	\$67,630	\$51,640
Average Annual Pay, All Industries, 2017	\$69,929	\$55,390
Percent Change in CPI-U*, 2016-2017	2.5%	2.1%
Percent Change in CPI-U*, November 2017 - November 2018	3.2%	2.2%
Poverty Rate, 2017	10.5%	13.4%
Average Weekly Earnings, Manufacturing Production Workers: 2017	\$991	\$876
Percent Change from previous year	2.6%	0.2%

Employment (p. A-18)

Percent Change in Nonfarm Payroll Employment, October 2017 - October 2018 (not seasonally adjusted)	1.8%	1.7%
Unemployment Rate, 2017	3.7%	4.4%
Unemployment Rate, October 2018 (not seasonally adjusted)	2.9%	3.5%

Education (p. A-24)

Expenditure Per Pupil K-12 Public, 2016	\$15,925	\$12,012
Percent of Adults with a Bachelor’s Degree or Higher, 2017	43.4%	32.0%

Economic Base and Performance (p. A-30)

Percent Change in Gross Domestic Product, 2015-2016	2.6%	2.2%
Percent Change in International Exports, 2016-2017	4.2%	4.3%
Percent Change in Housing Permits Authorized, 2016-2017	8.8%	6.2%

*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 25 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 25 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. State unemployment rates have typically remained below the national average with the exception of a slight increase during the recession of the early 1990s and a seventeen-month stretch between 2006 and 2007. More recently, Massachusetts unemployment has fallen below the national average and currently stands at 2.9 percent, compared to the national rate of 3.5 percent. In 2014, Massachusetts was ranked second in the U.S. according to the American Human Development Index, modeled after the United Nations Human Development Index, which compares health, income and education outcomes.

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

POPULATION CHARACTERISTICS

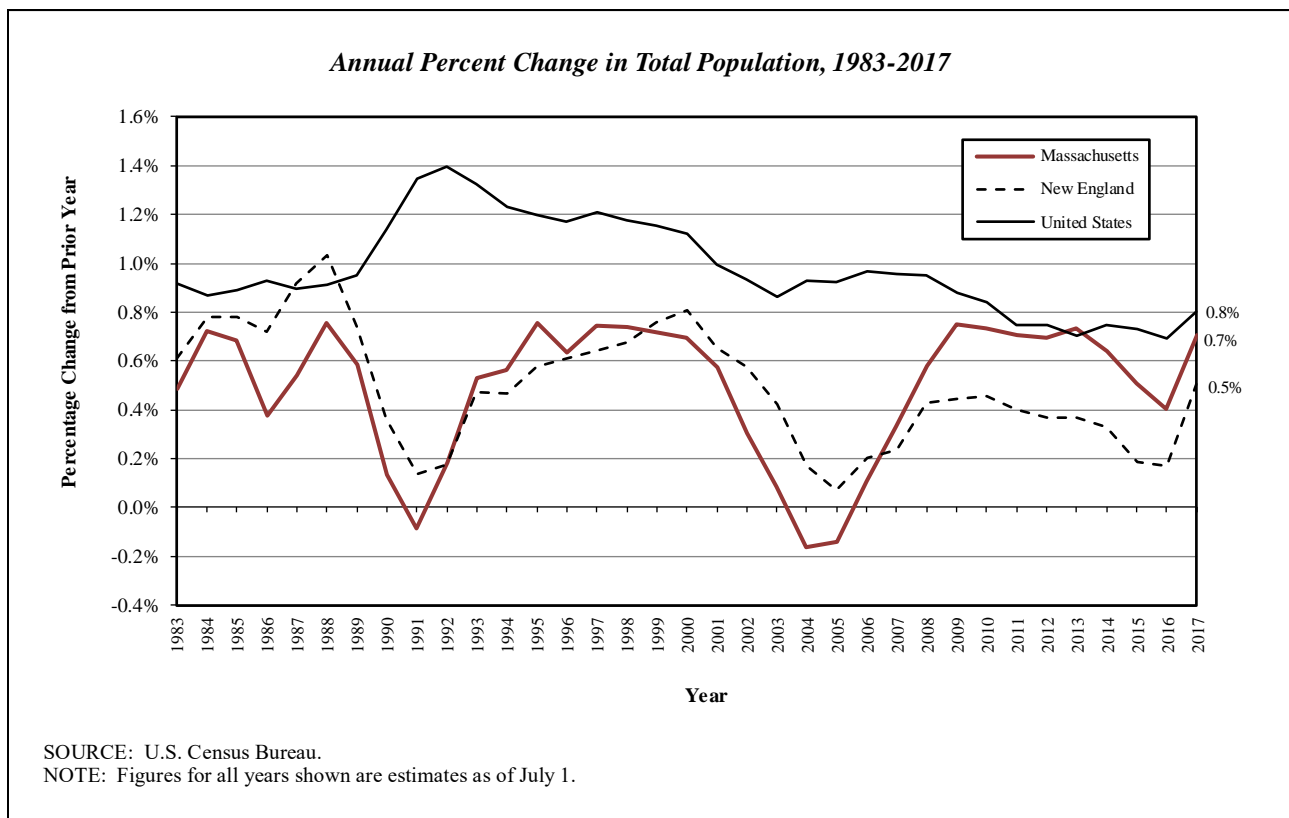
Massachusetts is a relatively slow growing but densely populated state with a comparatively large percentage of its residents living in metropolitan areas. The population density of Massachusetts was estimated as of July 1, 2017 to be 879.5 persons per square mile, as compared to 92.2 for the United States as a whole. Among the 50 states, only Rhode Island and New Jersey have a greater population density. Massachusetts also ranked just behind New Jersey and Rhode Island, as well as Delaware, in percentage of residents living in metropolitan areas. According to the current county-based definition, 98.6 percent of the state's population live in metropolitan areas.

The state's population is concentrated in its eastern portion. The city of Boston is the largest city in New England, with a July 1, 2017 population estimated at 685,094, or 10.0 percent of the total state population. Boston is the hub of the seven-county Boston-Cambridge-Newton, MA-NH Metropolitan Statistical Area (MSA), which includes the two southeastern New Hampshire counties, and had a total population as of July 1, 2017 estimated at 4,836,531, or 32.7 percent of the total New England population. The Cambridge-Newton-Framingham, MA Metropolitan Division is the largest component of that MSA, with a total population as of July 1, 2017 estimated at 2,388,152, while the Boston, MA Metropolitan division is the second largest component, with a total population estimated at 2,013,403.

The second largest MSA in the state is the Worcester, MA MSA, with a July 1, 2017 population estimated at 942,475. The city of Worcester, situated approximately 40 miles west of Boston with a July 1, 2017 estimated population of 185,677, is the second largest city, both in New England and the state. As a major medical and education center, the Worcester area is home to 18 patient care facilities and 13 colleges and universities, including the University of Massachusetts Medical School.

The third largest MSA in Massachusetts is the three-county Springfield, MA MSA, with a July 1, 2017 population estimated at 631,652. Springfield, the third largest city in the Commonwealth with a July 1, 2017 estimated population of 154,758, is located in the Connecticut River Valley in Western Massachusetts and enjoys a diverse body of corporate employers, including Baystate Health Systems, and MassMutual Financial Group. In addition, Springfield is home to three independent colleges.

As the following graph and table (on the next page) indicate, the population in Massachusetts has generally grown at a rate similar to the population of New England and more slowly than the nation as a whole. From 2009 to 2017, Massachusetts' growth has more closely resembled that of the U.S. as a whole than that of New England, although growth began to increase again in 2016. According to the Census Bureau's latest revised estimates released in July 2017, the Massachusetts population has grown by only 7.8 percent since Census 2000, while the U.S. has grown 15.4 percent in that span.



The following table compares the population level and percentage change in the population of Massachusetts to the six-state New England region and to the United States.

<i>Population, 1977-2017</i> <i>(in thousands)</i>						
Year	Massachusetts		New England		United States	
	Total	Percent Change	Total	Percent Change	Total	Percent Change
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	6,361	0.7%	13,950	0.8%	282,162	1.1%
2001	6,398	0.6%	14,041	0.7%	284,969	1.0%
2002	6,417	0.3%	14,122	0.6%	287,625	0.9%
2003	6,423	0.1%	14,182	0.4%	290,108	0.9%
2004	6,412	-0.2%	14,207	0.2%	292,805	0.9%
2005	6,403	-0.1%	14,217	0.1%	295,517	0.9%
2006	6,410	0.1%	14,246	0.2%	298,380	1.0%
2007	6,432	0.3%	14,279	0.2%	301,231	1.0%
2008	6,469	0.6%	14,340	0.4%	304,094	1.0%
2009	6,518	0.8%	14,404	0.4%	306,772	0.9%
2010	6,566	0.7%	14,469	0.5%	309,348	0.8%
2011	6,612	0.7%	14,528	0.4%	311,663	0.7%
2012	6,658	0.7%	14,581	0.4%	313,998	0.7%
2013	6,707	0.7%	14,635	0.4%	316,205	0.7%
2014	6,750	0.6%	14,683	0.3%	318,563	0.7%
2015	6,784	0.5%	14,710	0.2%	320,897	0.7%
2016	6,812	0.4%	14,736	0.2%	323,128	0.7%
2017	6,860	0.7%	14,810	0.5%	325,719	0.8%

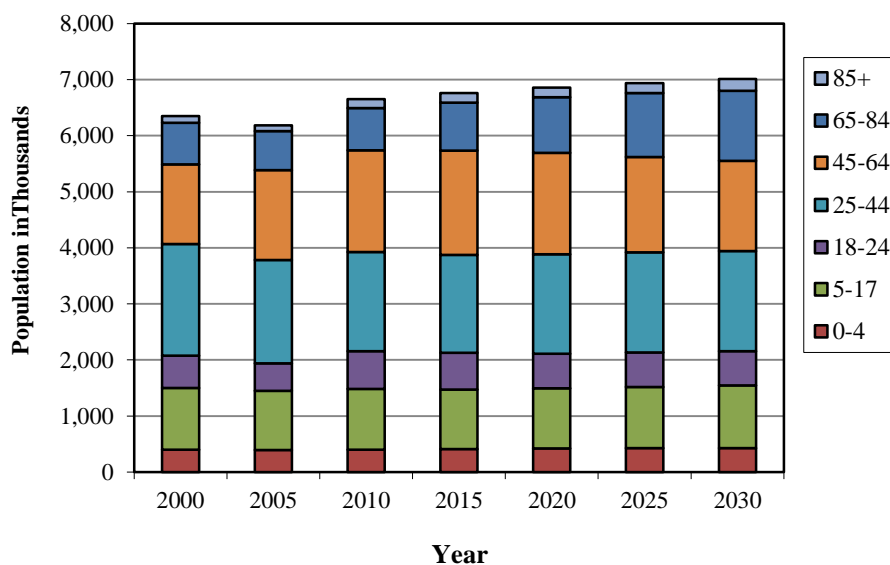
SOURCE: U.S. Department of Commerce, Census Bureau.

NOTE: The Census count in 1980 is as of April 1; estimates for all other years are as of July 1.

The next 12 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. The Census has not updated these projections to reflect the 2010 Census.

<i>Projected Massachusetts Population by Age Group 2000-2030 (in thousands)</i>									
Year	0-4	5-17	18-24	25-44	45-64	65-84	85+	All Ages	Median Age
2000	397.3	1,102.8	579.3	1,989.8	1,419.8	743.5	116.7	6,349.1	36.5
2005	395.1	1,055.6	488.9	1,844.0	1,602.5	693.1	103.7	6,182.9	38.2
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

*Projected Massachusetts Population by Age Group
2000-2030*

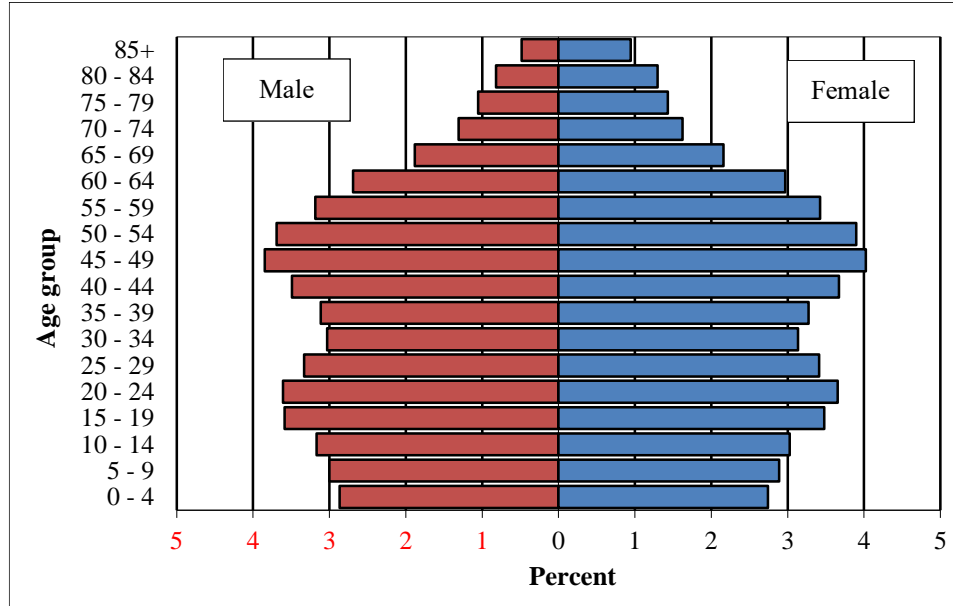


SOURCE: U.S. Census Bureau, Population Division, Interim State Population Projections, 2005.
Internet Release Date: 04/21/05.

NOTE: Actual Census 2000 counts as of April 1; Population Estimates for 2005 as of July 1; all other figures are projections as of July 1 of the indicated year.

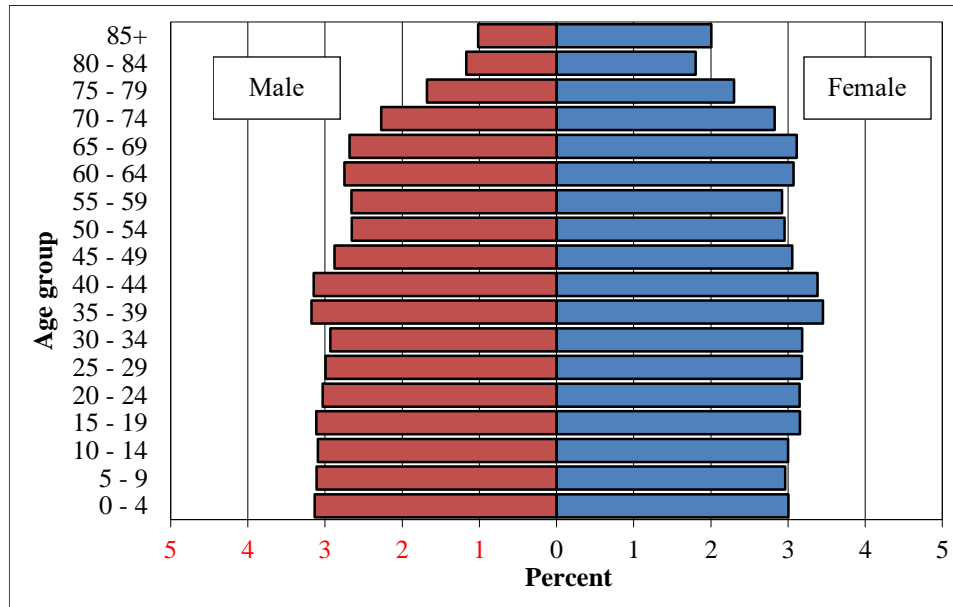
Population Pyramids of Massachusetts Percent of Total Population

2010



SOURCE: U.S. Census Bureau, 2010 Census.

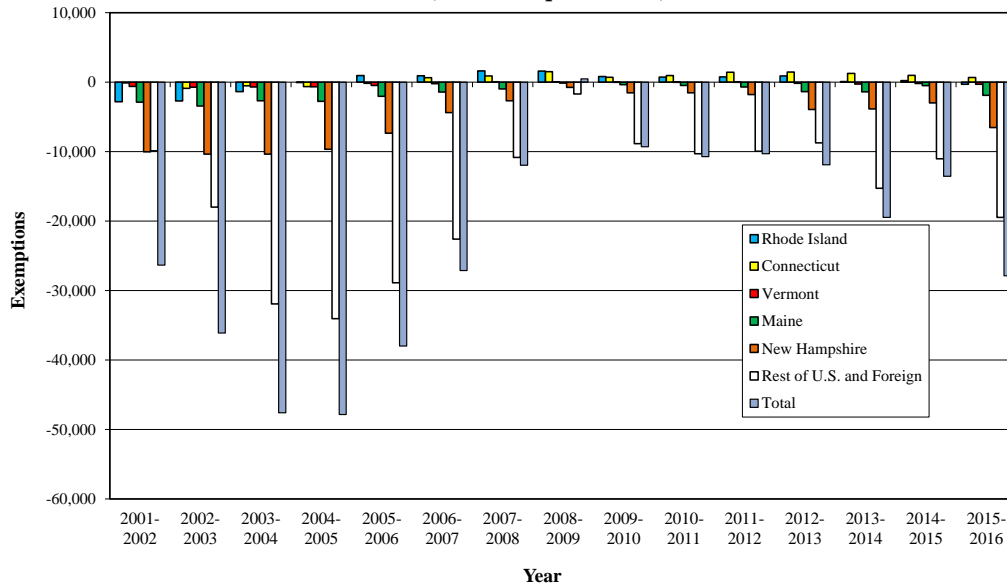
2030



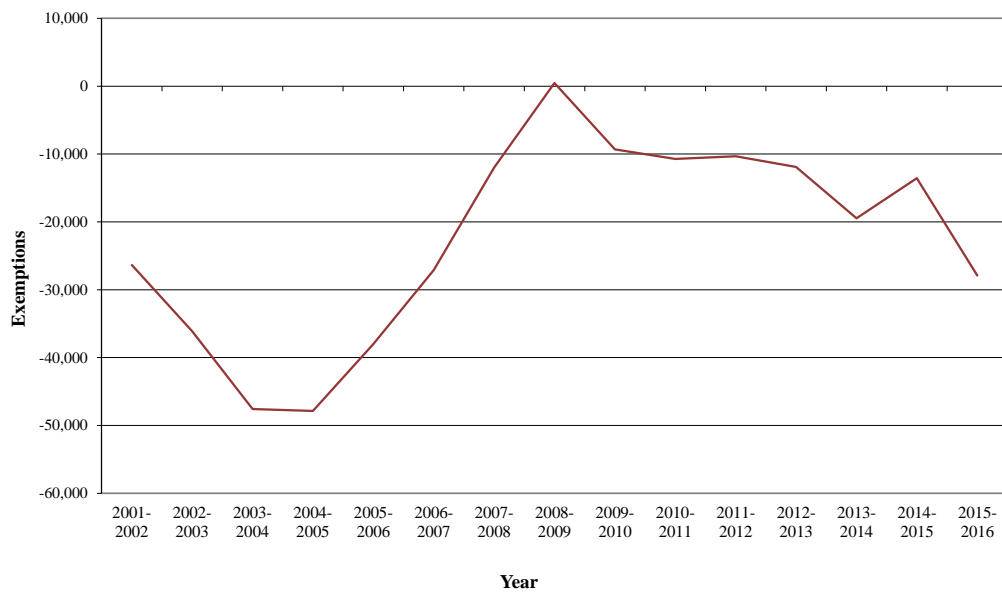
SOURCE: U.S. Census Bureau, Population Division, Interim State Population Projections, 2005.
Internet Release Date: 04/21/05.

Migration. Migration is one of several components of annual population change in Massachusetts. The movement of people from place to place is often linked to economic opportunities or downturns. These data are derived from the filing addresses and number of exemptions submitted with federal tax returns. A tax filer is considered a migrant when he/she files a tax return with an address different from the previous year's filing address. Of the New England states, New Hampshire was the largest net loss for Massachusetts and Connecticut was the largest net gain for Massachusetts from 2001 through 2016. Massachusetts also sends many more migrants to other U.S. states than it gains. Its largest net losses outside of New England are to Florida, California, North Carolina, and Texas while its largest net gains are from New York, New Jersey, Pennsylvania and Illinois. The charts below illustrate the net migration for Massachusetts to and from the New England states and the rest of the country using IRS data.

**Massachusetts Net Migration to and from New England States, 2001-2016
(IRS Exemption Data)**



Massachusetts Net Migration from U.S. States, 2001-2016

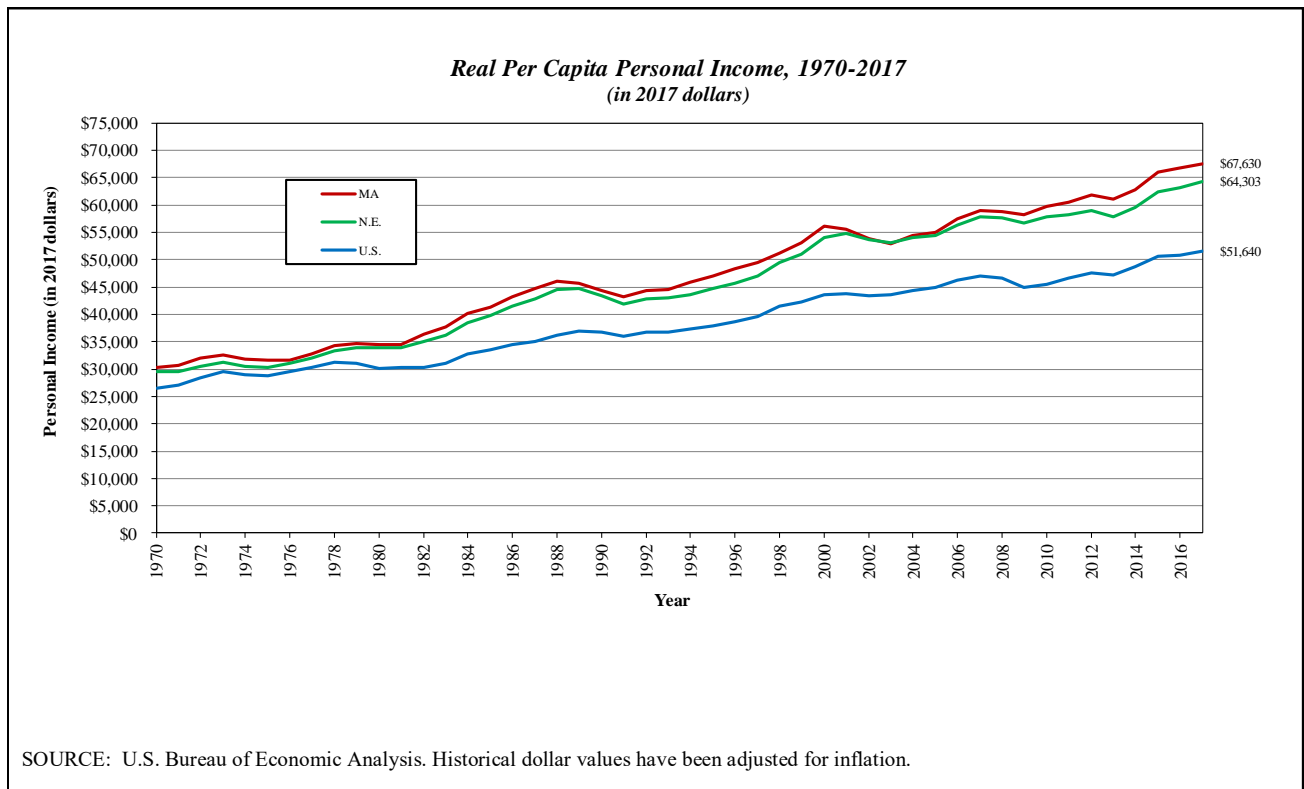


SOURCE: U.S. Internal Revenue Service, Statistics of Income.

PERSONAL INCOME, CONSUMER PRICES, AND POVERTY

Personal Income. Real per capita income levels in Massachusetts have varied over time. Between 1992 and 1997, real per capita income levels in the Commonwealth increased faster than the national average. In 2000, Massachusetts had its highest per capita income growth in 16 years, exceeding the national growth rate by 2.3 percentage points. From 2001 to 2003, real income declined in Massachusetts while staying roughly flat for the nation. However, real income levels in Massachusetts remained well above the national average. Following a significant decline in 2009, Massachusetts, New England, and the U.S. steadily increased until 2012. Overall, between 2006 and 2012, Massachusetts personal income increased considerably faster than the nation during the recession and its aftermath. In 2013, Massachusetts, New England, and the U.S. all experienced a slight decline in real income. From 2014 to 2017, real per capita income rose in the state, New England, and the nation. Massachusetts per capita personal income remains higher than the nation. At the state level in 2017, only the District of Columbia and Connecticut 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 1969-2017.

<i>Per Capita Personal Income, 1970-2017</i>									
Year	Nominal Income (in nominal dollars)			Real Income (in 2017 dollars)			Percent Change in Real Income		
	MA	N.E.	U.S.	MA	N.E.	U.S.	MA	N.E.	U.S.
1970	\$4,575	\$4,547	\$4,196	\$30,390	\$29,503	\$26,508	-4.7%	-0.1%	-4.2%
1971	\$4,859	\$4,795	\$4,468	\$30,747	\$29,560	\$27,042	1.2%	0.2%	2.0%
1972	\$5,228	\$5,156	\$4,853	\$31,946	\$30,552	\$28,459	3.9%	3.4%	5.2%
1973	\$5,647	\$5,589	\$5,352	\$32,569	\$31,195	\$29,547	1.9%	2.1%	3.8%
1974	\$6,108	\$6,056	\$5,824	\$31,856	\$30,402	\$28,957	-2.2%	-2.5%	-2.0%
1975	\$6,592	\$6,516	\$6,312	\$31,546	\$30,307	\$28,758	-1.0%	-0.3%	-0.7%
1976	\$7,098	\$7,061	\$6,856	\$31,590	\$31,061	\$29,535	0.1%	2.5%	2.7%
1977	\$7,733	\$7,701	\$7,494	\$32,725	\$32,082	\$30,312	3.6%	3.3%	2.6%
1978	\$8,547	\$8,527	\$8,338	\$34,372	\$33,430	\$31,347	5.0%	4.2%	3.4%
1979	\$9,500	\$9,501	\$9,212	\$34,656	\$33,872	\$31,103	0.8%	1.3%	-0.8%
1980	\$10,695	\$10,716	\$10,153	\$34,575	\$33,835	\$30,203	-0.2%	-0.1%	-2.9%
1981	\$11,868	\$11,914	\$11,262	\$34,522	\$33,980	\$30,369	-0.2%	0.4%	0.6%
1982	\$13,005	\$12,939	\$11,947	\$36,364	\$35,054	\$30,347	5.3%	3.2%	-0.1%
1983	\$14,067	\$13,896	\$12,652	\$37,639	\$36,138	\$31,137	3.5%	3.1%	2.6%
1984	\$15,755	\$15,472	\$13,860	\$40,182	\$38,427	\$32,698	6.8%	6.3%	5.0%
1985	\$16,938	\$16,591	\$14,719	\$41,344	\$39,723	\$33,531	2.9%	3.4%	2.5%
1986	\$18,197	\$17,795	\$15,459	\$43,308	\$41,570	\$34,574	4.8%	4.7%	3.1%
1987	\$19,608	\$19,182	\$16,265	\$44,714	\$42,918	\$35,096	3.2%	3.2%	1.5%
1988	\$21,403	\$20,900	\$17,426	\$46,017	\$44,535	\$36,107	2.9%	3.8%	2.9%
1989	\$22,437	\$22,218	\$18,653	\$45,632	\$44,840	\$36,873	-0.8%	0.7%	2.1%
1990	\$23,080	\$22,764	\$19,591	\$44,371	\$43,346	\$36,742	-2.8%	-3.3%	-0.4%
1991	\$23,468	\$23,056	\$19,985	\$43,219	\$41,992	\$35,967	-2.6%	-3.1%	-2.1%
1992	\$24,639	\$24,360	\$21,060	\$44,276	\$42,922	\$36,794	2.4%	2.2%	2.3%
1993	\$25,487	\$25,152	\$21,698	\$44,512	\$43,117	\$36,807	0.5%	0.5%	0.0%
1994	\$26,603	\$26,092	\$22,538	\$45,861	\$43,661	\$37,277	3.0%	1.3%	1.3%
1995	\$27,933	\$27,394	\$23,568	\$47,030	\$44,688	\$37,907	2.5%	2.4%	1.7%
1996	\$29,523	\$28,763	\$24,728	\$48,277	\$45,630	\$38,632	2.7%	2.1%	1.9%
1997	\$31,152	\$30,401	\$25,950	\$49,545	\$47,078	\$39,632	2.6%	3.2%	2.6%
1998	\$32,964	\$32,386	\$27,557	\$51,267	\$49,444	\$41,440	3.5%	5.0%	4.6%
1999	\$34,959	\$34,153	\$28,675	\$53,041	\$51,089	\$42,190	3.5%	3.3%	1.8%
2000	\$38,577	\$37,357	\$30,657	\$56,107	\$54,044	\$43,639	5.8%	5.8%	3.4%
2001	\$39,888	\$38,902	\$31,589	\$55,621	\$54,754	\$43,722	-0.9%	1.3%	0.2%
2002	\$39,621	\$38,890	\$31,832	\$53,843	\$53,631	\$43,372	-3.2%	-2.0%	-0.8%
2003	\$40,453	\$39,638	\$32,681	\$52,978	\$53,166	\$43,537	-1.6%	-0.9%	0.4%
2004	\$42,637	\$41,721	\$34,251	\$54,346	\$54,087	\$44,445	2.6%	1.7%	2.1%
2005	\$44,609	\$43,505	\$35,849	\$55,047	\$54,415	\$44,994	1.3%	0.6%	1.2%
2006	\$48,012	\$46,695	\$38,114	\$57,467	\$56,368	\$46,342	4.4%	3.6%	3.0%
2007	\$50,254	\$49,161	\$39,844	\$59,010	\$57,861	\$47,104	2.7%	2.6%	1.6%
2008	\$51,859	\$51,012	\$40,904	\$58,835	\$57,737	\$46,569	-0.3%	-0.2%	-1.1%
2009	\$50,962	\$50,158	\$39,284	\$58,211	\$56,762	\$44,884	-1.1%	-1.7%	-3.6%
2010	\$53,073	\$52,152	\$40,545	\$59,686	\$57,876	\$45,577	2.5%	2.0%	1.5%
2011	\$55,281	\$54,138	\$42,727	\$60,529	\$58,303	\$46,560	1.4%	0.7%	2.2%
2012	\$57,353	\$55,853	\$44,582	\$61,821	\$58,999	\$47,597	2.1%	1.2%	2.2%
2013	\$57,418	\$55,555	\$44,826	\$61,052	\$57,897	\$47,166	-1.2%	-1.9%	-0.9%
2014	\$59,943	\$57,963	\$47,025	\$62,726	\$59,587	\$48,690	2.7%	2.9%	3.2%
2015	\$63,522	\$60,631	\$48,940	\$66,075	\$62,399	\$50,613	5.3%	4.7%	3.9%
2016	\$65,186	\$62,033	\$49,831	\$66,822	\$63,174	\$50,893	1.1%	1.2%	0.6%
2017	\$67,630	\$64,303	\$51,640	\$67,630	\$64,303	\$51,640	1.2%	1.8%	1.5%

SOURCE: U.S. Bureau of Economic Analysis.

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

Average Annual Pay. Massachusetts saw steady growth in average annual pay for most of the past fifteen years, adjusted for inflation. It lost ground in 2009, but resumed growth in 2010, and dropped slightly again in 2016. Payroll data are reported to the Quarterly Census of Employment and Wages (QCEW) by all employers covered under the Unemployment Insurance programs, and summary data are released. 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 from the data in the QCEW. Since 2005, average annual wages in the state have grown at an annual rate of 0.9 percent, compared to 0.7 percent for the nation. The level of average annual pay in Massachusetts in 2017 was 26 percent higher than the national average: \$69,929 compared to \$55,390.

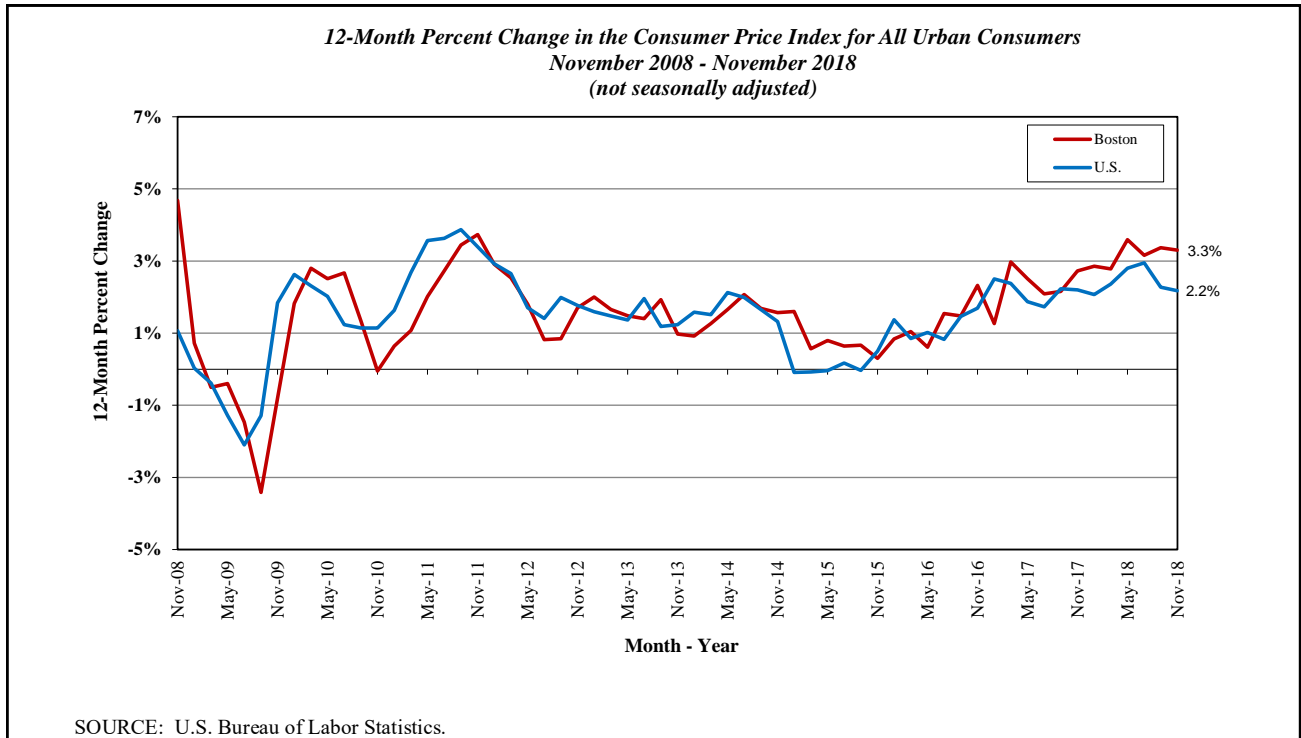
Annual Wage and Salary Disbursements. Wage and salary disbursements by place of work is a component of personal income and measures monetary disbursements to employees. This includes compensation of corporate officers, commissions, tips, bonuses, and receipts in-kind. Although the data are recorded on 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 1998 and 2000, the Massachusetts share of New England and overall U.S. totals increased. In subsequent years, the Massachusetts share of New England and the U.S. decreased slightly until 2006. Since then, Massachusetts' share of New England has risen steadily while its share of the U.S. has stayed roughly the same. In 2017, the shares were 53.4 and 3.0 percent respectively.

Annual Wage and Salary Disbursements, 1990-2017
(in billions of 2017 dollars)

Year	U.S.	N.E.	MA	MA as a pct. of N.E.	MA as a pct. of U.S.
1990	\$ 5,120	\$319	\$154	48.4%	3.0%
1991	\$ 5,043	\$304	\$147	48.3%	2.9%
1992	\$ 5,180	\$308	\$149	48.3%	2.9%
1993	\$ 5,207	\$309	\$150	48.5%	2.9%
1994	\$ 5,335	\$313	\$153	48.8%	2.9%
1995	\$ 5,491	\$322	\$158	49.0%	2.9%
1996	\$ 5,643	\$331	\$163	49.3%	2.9%
1997	\$ 5,914	\$349	\$172	49.3%	2.9%
1998	\$ 6,282	\$370	\$183	49.5%	2.9%
1999	\$ 6,557	\$389	\$195	50.2%	3.0%
2000	\$ 6,866	\$415	\$213	51.2%	3.1%
2001	\$ 6,851	\$414	\$210	50.7%	3.1%
2002	\$ 6,803	\$405	\$203	50.1%	3.0%
2003	\$ 6,839	\$404	\$201	49.6%	2.9%
2004	\$ 7,029	\$415	\$206	49.6%	2.9%
2005	\$ 7,139	\$415	\$205	49.4%	2.9%
2006	\$ 7,358	\$424	\$210	49.5%	2.9%
2007	\$ 7,558	\$437	\$218	49.9%	2.9%
2008	\$ 7,436	\$430	\$216	50.2%	2.9%
2009	\$ 7,131	\$413	\$208	50.3%	2.9%
2010	\$ 7,153	\$416	\$211	50.6%	2.9%
2011	\$ 7,209	\$419	\$213	50.8%	3.0%
2012	\$ 7,386	\$425	\$217	51.2%	2.9%
2013	\$ 7,476	\$429	\$221	51.4%	3.0%
2014	\$ 7,730	\$443	\$230	51.9%	3.0%
2015	\$ 8,116	\$464	\$243	52.5%	3.0%
2016	\$ 8,246	\$469	\$248	52.8%	3.0%
2017	\$ 8,448	\$477	\$255	53.4%	3.0%

SOURCE: U.S. 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 graph presents consumer price trends for the Boston metropolitan area and the United States for the period between September 2008 and September 2018. The latest available data for November 2018 show that the CPI-U for the Boston area increased at a rate of 3.2 percent over November 2017. The U.S. index increased at a rate of 2.2 percent over the same period.



In 2009, the Boston metropolitan area and U.S. experienced their first monthly year-over-year declines in the CPI-U since 1954 and 1955, respectively. The 2017 U.S. CPI-U increased 12.4 percent since 2010 while Boston's CPI-U increased 12.5 percent during that period. Between 2014 and 2017, Boston's Consumer Price Index increased by 4.6 percent while in the United States as a whole, CPI-U increased by 3.5 percent. The table on the following page 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 from 1970 through the present.

**Consumer Price Index for All Urban Consumers (CPI-U)
1970-2017**

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

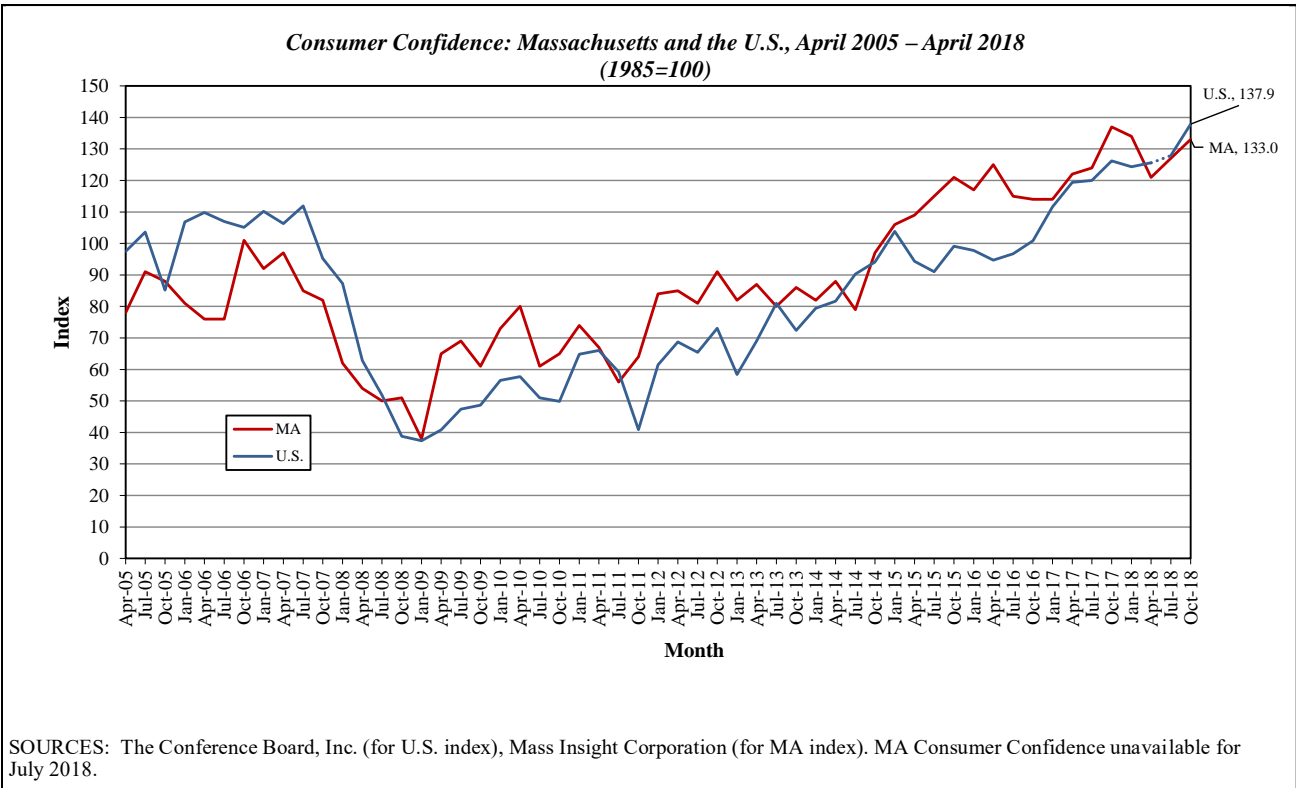
Year	Boston Metro Area		United States	
	CPI-U	Pct. Change	CPI-U	Pct. Change
1970	40.2		38.8	
1971	42.2	5.0%	40.5	4.4%
1972	43.7	3.6%	41.8	3.2%
1973	46.3	5.9%	44.4	6.2%
1974	51.2	10.6%	49.3	11.0%
1975	55.8	9.0%	53.8	9.1%
1976	60.0	7.5%	56.9	5.8%
1977	63.1	5.2%	60.6	6.5%
1978	66.4	5.2%	65.2	7.6%
1979	73.2	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%
2008	235.4	3.5%	215.3	3.8%
2009	233.8	-0.7%	214.5	-0.4%
2010	237.4	1.6%	218.1	1.6%
2011	243.9	2.7%	224.9	3.2%
2012	247.7	1.6%	229.6	2.1%
2013	251.1	1.4%	233.0	1.5%
2014	255.2	1.6%	236.7	1.6%
2015	256.7	0.6%	237.0	0.1%
2016	260.5	1.5%	240.0	1.3%
2017	267.0	2.5%	245.1	2.1%

SOURCE: U.S. 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 MassInsight, based on quarterly polling of 450 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 of 137.9 in October 2018. The all-time quarterly low reading was 37.4 in January 2009. The Massachusetts index has generally been higher than the U.S. index since sharing lows in January 2009, except for brief periods as they tracked closely together in 2011 and experienced slight dips in July of 2013 and 2014 as well as in April 2018.

In the fourth quarter of FY 2018, Consumer Confidence for Massachusetts rose to 133.0, up from 121.0 in the most recent quarter for which consumer confidence was produced for the state. The U.S. has surpassed its pre-recessionary (2007) levels and stood at 137.9 in the fourth quarter of FY 2018. The following graph and table detail the recent record of these measures.

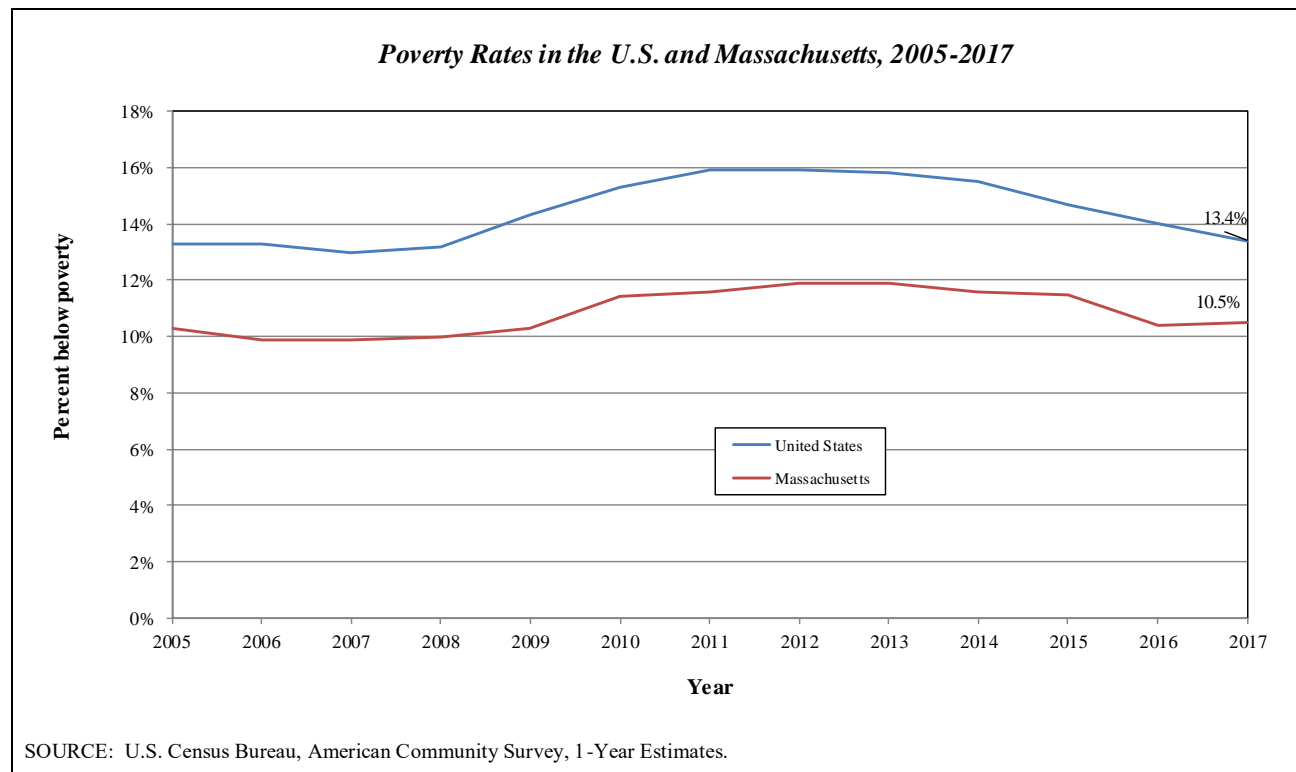


***Consumer Confidence, Present Situation, and Future Expectations for Massachusetts and the U.S.
(1985=100)***

	Consumer Confidence		Present Situation		Future Expectations	
	MA	U.S.	MA	U.S.	MA	U.S.
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	95.2	76.0	118.0	86.0	80.0
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
Jan-09	38.0	37.4	9.0	29.7	58.0	42.5
Apr-09	65.0	40.8	24.0	25.5	92.0	51.0
Jul-09	69.0	47.4	16.0	23.3	105.0	63.4
Oct-09	61.0	48.7	14.0	21.1	93.0	67.0
Jan-10	73.0	56.5	14.0	25.2	112.0	77.3
Apr-10	80.0	57.7	22.0	28.2	119.0	77.4
Jul-10	61.0	51.0	16.0	26.4	91.0	67.5
Oct-10	65.0	49.9	15.0	23.5	99.0	67.5
Jan-11	74.0	64.8	17.0	31.1	112.0	87.3
Apr-11	67.0	66.0	24.0	40.2	96.0	83.2
Jul-11	56.0	59.2	20.0	35.7	80.0	74.9
Oct-11	64.0	40.9	24.0	27.1	91.0	50.0
Jan-12	84.0	61.5	34.0	38.8	118.0	76.7
Apr-12	85.0	68.7	41.0	51.2	114.0	80.4
Jul-12	81.0	65.4	40.0	45.9	109.0	78.4
Oct-12	91.0	73.1	48.0	56.7	120.0	84.0
Jan-13	82.0	58.4	48.0	56.2	105.0	59.9
Apr-13	87.0	69.0	54.0	61.0	109.0	74.3
Jul-13	80.0	81.0	56.0	73.6	97.0	86.0
Oct-13	86.0	72.4	64.0	72.6	101.0	72.2
Jan-14	82.0	79.4	55.0	77.3	99.0	80.8
Apr-14	88.0	81.7	66.0	78.5	103.0	83.9
Jul-14	79.0	90.3	69.0	87.9	86.0	91.9
Oct-14	97.0	94.1	76.0	94.4	111.0	93.8
Jan-15	106.0	103.8	84.0	113.9	120.0	97.0
Apr-15	109.0	94.3	94.0	105.1	119.0	87.1
Jul-15	115.0	91.0	115.0	104.0	115.0	82.3
Oct-15	121.0	99.1	118.0	114.6	123.0	88.7
Jan-16	117.0	97.8	122.0	116.6	114.0	85.3
Apr-16	125.0	94.7	129.0	117.1	123.0	79.7
Jul-16	115.0	96.7	120.0	118.8	111.0	82.0
Oct-16	114.0	100.8	120.0	123.1	111.0	86.0
Jan-17	114.0	111.6	128.0	130.0	104.0	99.3
Apr-17	122.0	119.4	139.0	140.3	111.0	105.4
Jul-17	124.0	120.0	133.0	145.4	118.0	103.0
Oct-17	137.0	126.2	143.0	152.0	133.0	109.0
Jan-18	134.0	124.3	147.0	154.7	126.0	104.0
Apr-18	121.0	125.6	141.0	157.5	107.0	104.3
Jul-18	N/A	127.9	N/A	166.1	N/A	102.4
Oct-18	133.0	137.9	147.0	172.8	123.0	114.6

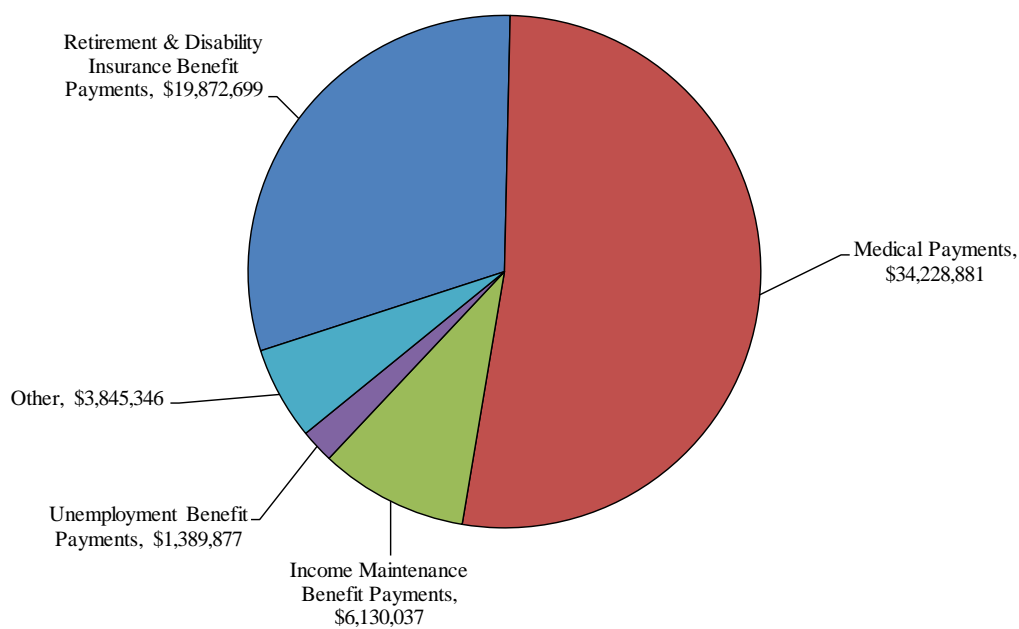
SOURCES: The Conference Board, Inc. (for U.S. measure, seasonally adjusted); Mass Insight Corporation (for MA measures, not seasonally adjusted). MA Consumer Confidence unavailable for July 2018.

Poverty. Since 2005, the Massachusetts poverty rate, which was 10.5 percent in 2017, has been three to four percentage points lower than the national average, which was 13.4 percent in 2017. Massachusetts ranked 43rd out of the 50 states and the District of Columbia in 2017, for percent of persons whose ratio of income to the poverty level was below 100 percent in the past 12 months. Poverty status is not determined for all people. Institutionalized people, people in military quarters, people in college dormitories, and unrelated individuals under 15 years old are excluded.



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 14.5 percent of total personal income in Massachusetts in 2017, decreasing from 14.9 percent in 2016. The chart below does not include transfer payments from businesses or payments to nonprofit organizations. Total transfer payments to individuals in Massachusetts from governments and businesses totaled \$67.1 billion for 2017, adjusted for inflation. Fifty one percent of government transfer payments to individuals were medical payments, down from 51.6 percent in 2016.

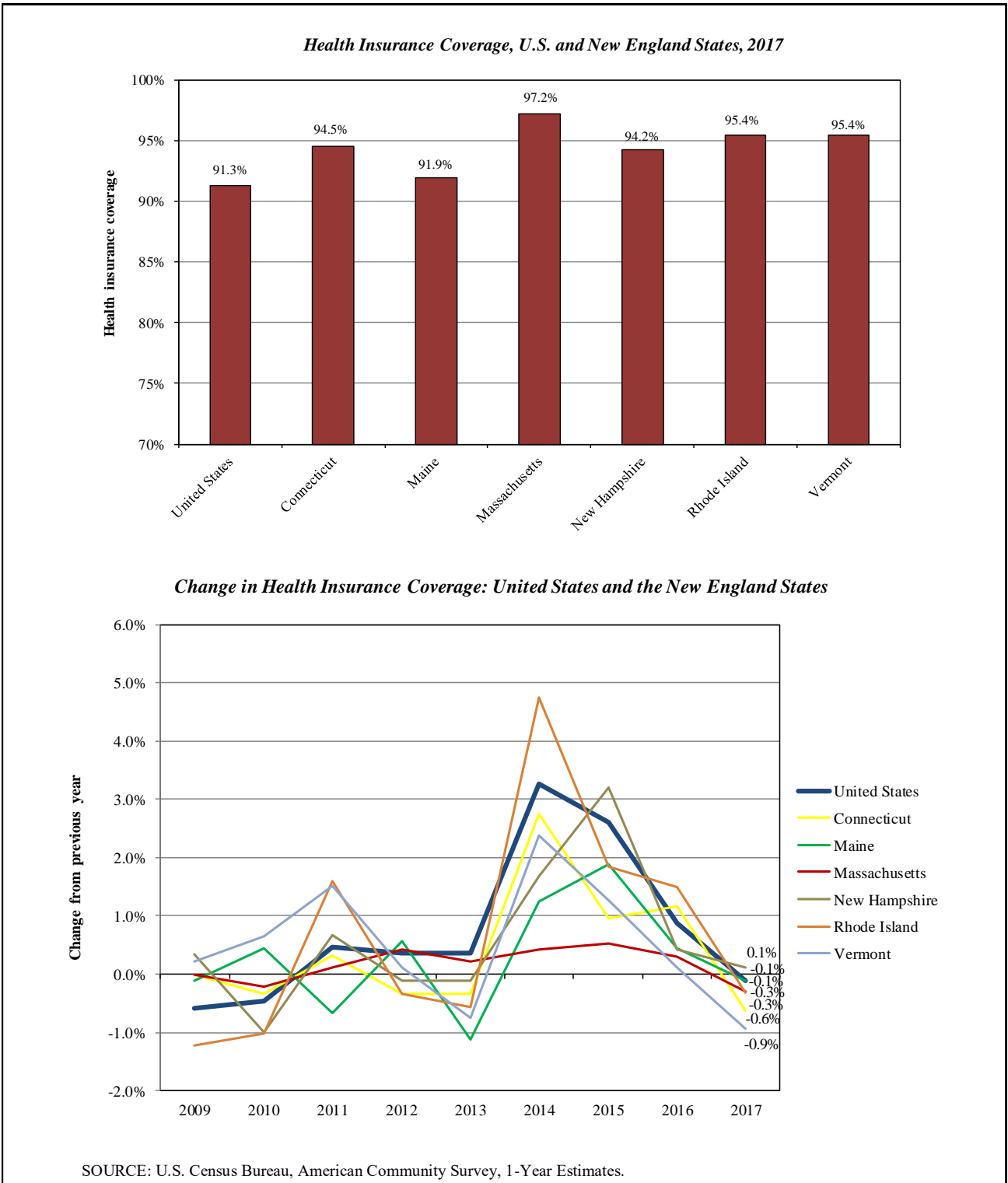
Transfer Payments from Governments to Individuals in Massachusetts in 2017
(From Annual State Personal Income Estimates)
(in thousands of 2017 dollars)



SOURCE: U.S. Bureau of Economic Analysis, Annual State Personal Income Estimates.

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

Health Insurance Coverage. Massachusetts leads the nation in the percent of individuals with health insurance coverage. Massachusetts passed legislation in 2006 mandating universal coverage in the Commonwealth. In 2017, 97.2 percent of the civilian non-institutionalized population was covered in the state by either private or public insurance, compared with 91.3 percent nationwide. Massachusetts also leads the other New England states in coverage, with Rhode Island and Vermont as the next closest at 95.4 percent. All of the New England states have higher rates of coverage than the nation. These data do not indicate the comprehensiveness of coverage, however.

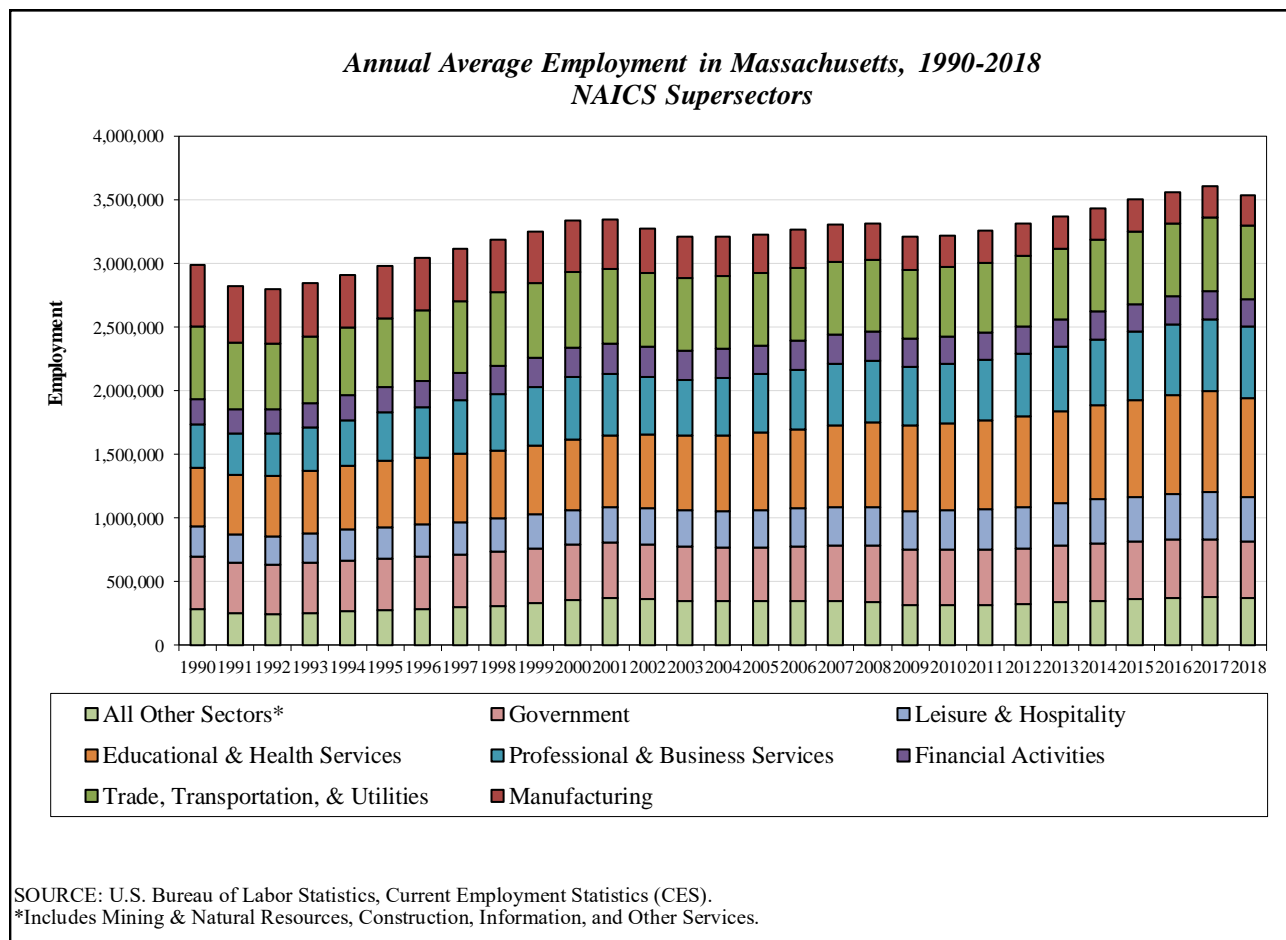


EMPLOYMENT

Employment by Industry. The chart on this page shows the annual level of non-agricultural payroll employment in Massachusetts based on the North American Industry Classification System (NAICS) 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 supersector shares for 2018 with the corresponding shares for 1998. Like many industrial states, Massachusetts has seen a steady decline of its manufacturing jobs over the last two decades, not only as a share of total employment, but also in absolute numbers of jobs. Several NAICS service sectors, Education and Health Services, Professional and Business Services, and Leisure and Hospitality have grown to take the place of manufacturing in driving the Massachusetts economy and now account for almost half of total payroll employment, while Financial Activities, Government, Information, and Trade, Transportation & Utilities have remained relatively level or declined in share.

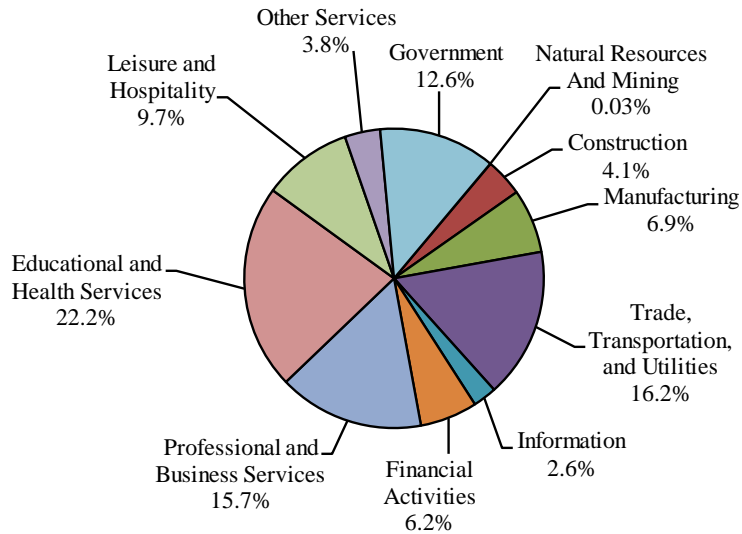
After significant declines in 2009, total non-agricultural employment in Massachusetts eventually increased 0.4 percent and continued to grow steadily, until 2017. In 2018, nonfarm employment decreased by 1.9 percent in 2018, the first fall in nonfarm employment since 2009. With an annual average slightly over 3.6 million nonfarm employees, 2017 had the highest numbers to date.

After years of moderate but steady declines or near-zero growth in the late nineties and early 2000s, manufacturing employment in the state experienced steep annual declines in 2002 (10.3 percent) and 2003 (7.0 percent) before returning to a more moderate decline in 2004 (3.5 percent). After a steep drop of 9.6 percent in 2009, the decline returned to a less dramatic 2.4 percent in 2010. December 2018 saw manufacturing employment increase by 2.1 percent since December of 2017, even as total employment fell. The 2018 manufacturing employment total was slightly higher than 2017 (244.9 thousand compared to 244.2).

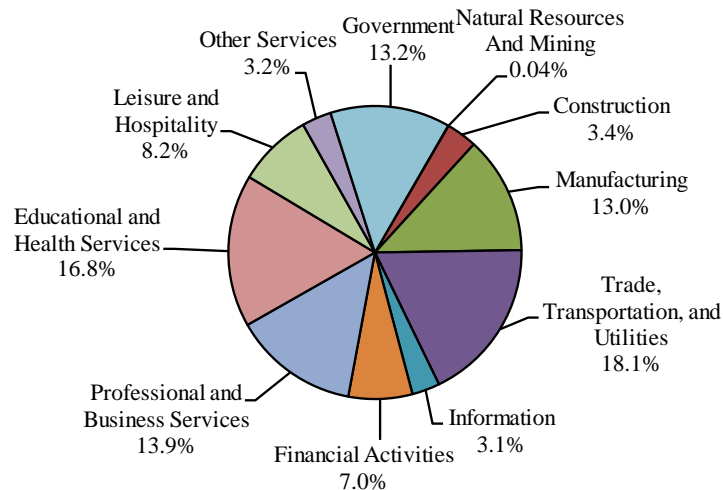


**Massachusetts Nonfarm Payroll Employment
(NAICS Industry Basis)**

NAICS Supersectors: 2018 Share



NAICS Supersectors: 1998 Share



SOURCE: U.S. Bureau of Labor Statistics, Current Employment Statistics (CES).

Largest Employers in Massachusetts. The following inset lists the 19 largest private employers in Massachusetts based upon employment covered by the Unemployment Insurance system for FY 2017. The 2017 list is nearly identical to the 2016 list, except that Big Y Foods, Inc. is now among the top 19 and South Coast Hospitals is no longer in the top listing. The list does not include employers whose headquarters are located outside of Massachusetts, and it may not include some employers who do business in the state under multiple legal names or register each facility as a separate employer.

Largest Private Employers Headquartered in Massachusetts in FY 2017 (listed alphabetically)	
Bay State Medical Center, Inc	Partners Healthcare Systems, Inc.
Beth Israel Deaconess Medical Center	President and Fellows of Harvard College
Big Y Foods, Inc.	Raytheon Company
Boston Medical Center Corporation	The Stop & Shop Supermarkets Corporation
Boston University	Shaw's Supermarkets, Inc.
Brigham & Women's Hospital, Inc.	State Street Bank & Trust Company
DeMoulas Supermarkets, Inc	The Children's Hospital Corporation
EMC Corporation	The TJX Companies, Inc.
General Hospital Corporation	UMass Memorial Medical Center, Inc.
Massachusetts Institute of Technology	

SOURCE: FY2017 Commonwealth of Massachusetts Comprehensive Annual Financial Report (CAFR), p. 205 (<http://www.macomptroller.info/comptroller/docs/reports-audits/cafr/cafr-fy17.pdf>).

NOTE: This alphabetic listing includes private employers reporting large numbers of jobs covered by the MA unemployment insurance program. The information is based on the 2016 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 franchise as a separate employer. In addition, Bank of America NA, Home Depot USA, Inc., Massachusetts CVS Pharmacy LLC, Target Corp, United Parcel Service, Inc., Wal-Mart Associates, Inc., and Verizon New England are all large Massachusetts employers, but are headquartered outside of Massachusetts.

Massachusetts Companies in the Fortune 500 List. Massachusetts is home to the headquarters of twelve Fortune 500 companies. When comparing the 2018 Fortune 500 list to the 2017 list, seven Massachusetts companies gained and five lost rank. American Tower located in Boston, climbed 30 places on the list, while Springfield-based Mass Mutual Life Insurance fell 16 places. General Electric relocated its headquarters from Fairfield, CT to Boston in May 2017 and leads the top Fortune 500 companies in the state with \$122.3 billion in revenues.

Massachusetts Companies in the Fortune 500					
Rank		Company (location)	Industry	2018 revenues (billions)	
2018	2017				
18	13	General Electric (Boston)	Industrial Machinery		\$122.3
68	75	Liberty Mutual Ins. Group (Boston)	Insurance: Property & Casualty (Stock)		\$42.7
85	87	TJX (Framingham)	Specialty Retailers: Apparel		\$35.9
93	77	Mass. Mutual Life Ins. (Springfield)	Insurance: Life, Health (Mutual)		\$33.5
119	116	Raytheon (Waltham)	Aerospace and Defense		\$25.3
144	154	Thermo Fisher Scientific (Waltham)	Scientific, Photo & Control Equipment		\$20.9
245	248	Biogen (Weston)	Pharmaceuticals		\$12.3
259	271	State Street Corp. (Boston)	Commercial Banks		\$11.8
328	327	Boston Scientific (Natick)	Medical Products & Equipment		\$9.0
331	334	Global Partners (Waltham)	Wholesalers: Diversified		\$8.9
364	358	Eversource Energy (Springfield)	Utilities: Gas and Electric		\$7.8
419	449	American Tower (Boston)	Real Estate		\$6.7

SOURCE: *Forbes*, June 2018 issue.

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 September 30, 2018, the preliminary Massachusetts Unemployment Trust Fund had a balance of \$1.272 billion. This balance is the sum of the private contributory account balance of \$1.154 billion and the government contributory portion of \$118 million. This compares to the September 30, 2017 balance of \$1.050 billion with a private contributory portion of \$941 million. The October 2018 Unemployment Insurance Trust Fund report indicated that the private contributory account balance was estimated to be \$730 million by the end of 2022, according to the Moody's-based outlook.

Unemployment. The unemployment rate in Massachusetts was consistently below or equal to the national average from mid-1995 through September 2005, with similar patterns of gradual improvement after the mid-2003 peak. The Massachusetts rate was greater than or equal to the U.S. rate for 19 months between January 2006 and June 2007, but has not exceeded the U.S. rate since then. The Massachusetts rate peaked at 9.6 percent in January 2010, the same month that the U.S. rate peaked at 10.6 percent. From July 2007 onward, the state rate remained equal to or below the comparable (not seasonally adjusted) U.S. unemployment rate.

Since reaching 6.7 percent in January 2014, the Massachusetts unemployment rate has gradually declined to 2.9 percent in October 2018, below the national rate of 3.5 percent. The tables and graphs on the following two pages compare the unemployment rate in the state with those in New England and the U.S.

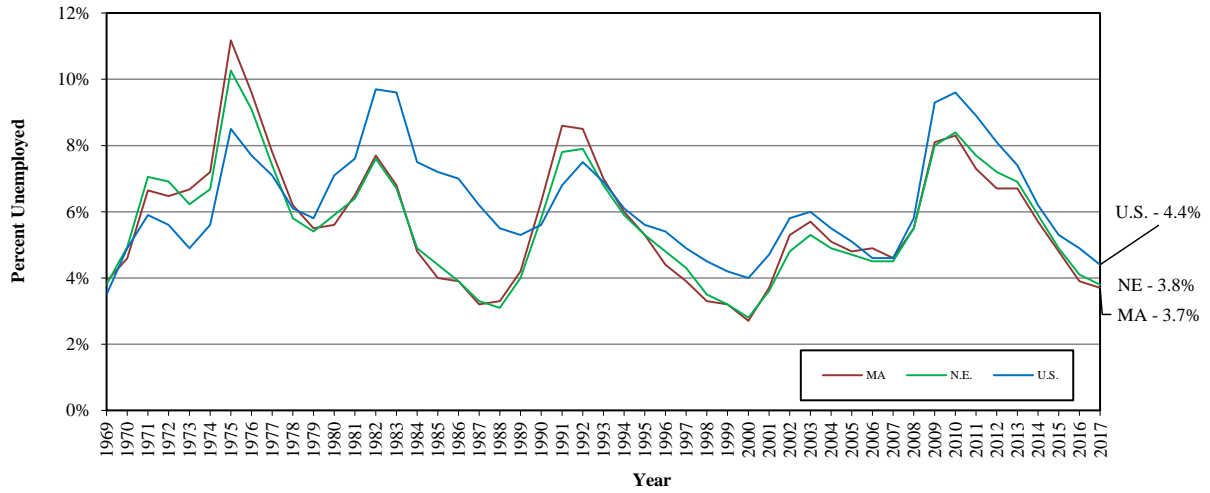
Annual Average Civilian Labor Force and Unemployment, 1969-2017

(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	2,722	5,706	96,158	262	518	7,406	9.6%	9.1%	7.7%	124.7%
1977	2,763	5,821	99,009	215	433	6,991	7.8%	7.4%	7.1%	109.9%
1978	2,814	5,936	102,251	175	344	6,202	6.2%	5.8%	6.1%	101.6%
1979	2,853	6,071	104,962	157	328	6,137	5.5%	5.4%	5.8%	94.8%
1980	2,868	6,148	106,940	162	363	7,637	5.6%	5.9%	7.1%	78.9%
1981	2,942	6,259	108,670	190	403	8,273	6.5%	6.4%	7.6%	85.5%
1982	2,987	6,341	110,204	231	482	10,678	7.7%	7.6%	9.7%	79.4%
1983	2,997	6,392	111,550	202	428	10,717	6.8%	6.7%	9.6%	70.8%
1984	3,037	6,525	113,544	145	319	8,539	4.8%	4.9%	7.5%	64.0%
1985	3,051	6,633	115,461	121	289	8,312	4.0%	4.4%	7.2%	55.6%
1986	3,066	6,726	117,834	119	264	8,237	3.9%	3.9%	7.0%	55.7%
1987	3,094	6,825	119,865	100	227	7,425	3.2%	3.3%	6.2%	51.6%
1988	3,141	6,909	121,669	103	216	6,701	3.3%	3.1%	5.5%	60.0%
1989	3,176	7,007	123,869	132	277	6,528	4.2%	4.0%	5.3%	79.2%
1990	3,206	7,109	125,840	202	412	7,047	6.3%	5.8%	5.6%	112.5%
1991	3,195	7,117	126,346	275	554	8,628	8.6%	7.8%	6.8%	126.5%
1992	3,181	7,102	128,105	269	564	9,613	8.5%	7.9%	7.5%	113.3%
1993	3,174	7,051	129,200	222	481	8,940	7.0%	6.8%	6.9%	101.4%
1994	3,201	7,033	131,056	193	415	7,996	6.0%	5.9%	6.1%	98.4%
1995	3,215	7,049	132,304	170	374	7,404	5.3%	5.3%	5.6%	94.6%
1996	3,241	7,118	133,943	144	340	7,236	4.4%	4.8%	5.4%	81.5%
1997	3,306	7,220	136,297	130	312	6,739	3.9%	4.3%	4.9%	79.6%
1998	3,341	7,264	137,673	110	254	6,210	3.3%	3.5%	4.5%	73.3%
1999	3,354	7,327	139,368	107	234	5,880	3.2%	3.2%	4.2%	76.2%
2000	3,330	7,335	142,583	90	205	5,692	2.7%	2.8%	4.0%	67.5%
2001	3,381	7,394	143,734	126	267	6,801	3.7%	3.6%	4.7%	78.7%
2002	3,431	7,476	144,863	181	360	8,378	5.3%	4.8%	5.8%	91.4%
2003	3,422	7,504	146,510	195	401	8,774	5.7%	5.3%	6.0%	95.0%
2004	3,396	7,478	147,401	175	363	8,149	5.1%	4.9%	5.5%	92.7%
2005	3,384	7,521	149,320	164	352	7,591	4.8%	4.7%	5.1%	94.1%
2006	3,413	7,605	151,428	167	345	7,001	4.9%	4.5%	4.6%	106.5%
2007	3,426	7,648	153,124	158	344	7,078	4.6%	4.5%	4.6%	100.0%
2008	3,452	7,704	154,287	191	426	8,924	5.5%	5.5%	5.8%	94.8%
2009	3,470	7,729	154,142	281	620	14,265	8.1%	8.0%	9.3%	87.1%
2010	3,480	7,751	153,889	289	649	14,825	8.3%	8.4%	9.6%	86.5%
2011	3,469	7,738	153,617	252	597	13,747	7.3%	7.7%	8.9%	82.0%
2012	3,485	7,730	154,975	233	559	12,506	6.7%	7.2%	8.1%	82.7%
2013	3,513	7,730	155,389	236	533	11,460	6.7%	6.9%	7.4%	90.5%
2014	3,566	7,799	155,922	204	457	9,617	5.7%	5.9%	6.2%	91.9%
2015	3,588	7,808	157,130	172	381	8,296	4.8%	4.9%	5.3%	90.6%
2016	3,611	7,853	159,187	140	326	7,751	3.9%	4.1%	4.9%	79.6%
2017	3,657	7,922	160,320	136	303	6,982	3.7%	3.8%	4.4%	84.1%

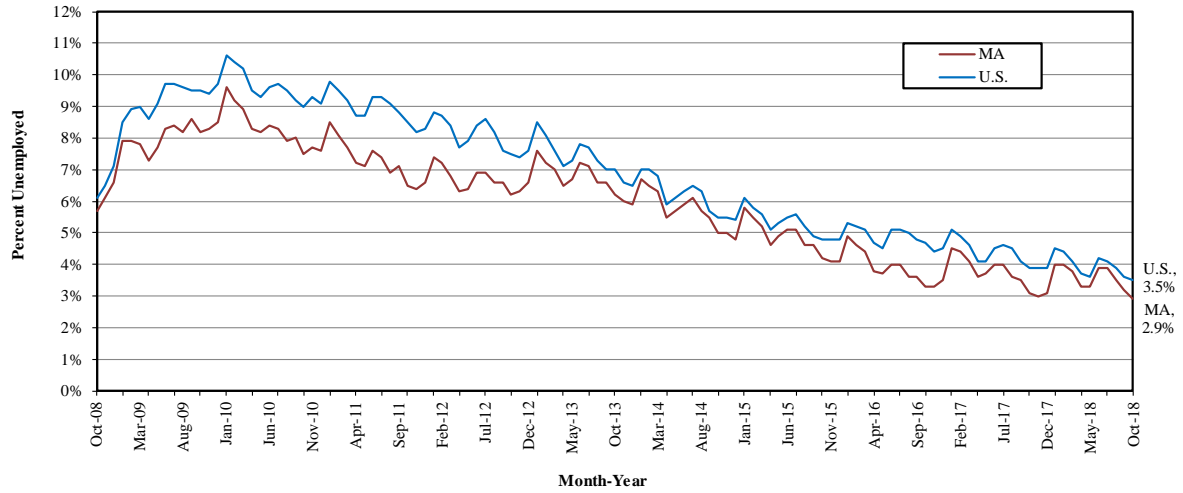
SOURCES: U.S. Bureau of Labor Statistics, Local Area Unemployment Statistics (LAUS) and Current Population Survey (CPS).

**Annual Average Unemployment Rate, 1969-2017
Massachusetts, New England, and the United States**



SOURCE: U.S. Bureau of Labor Statistics, Local Area Unemployment Statistics (LAUS).

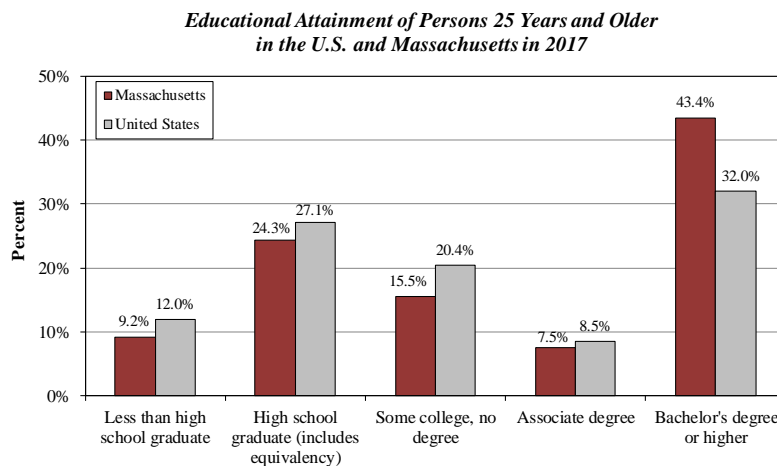
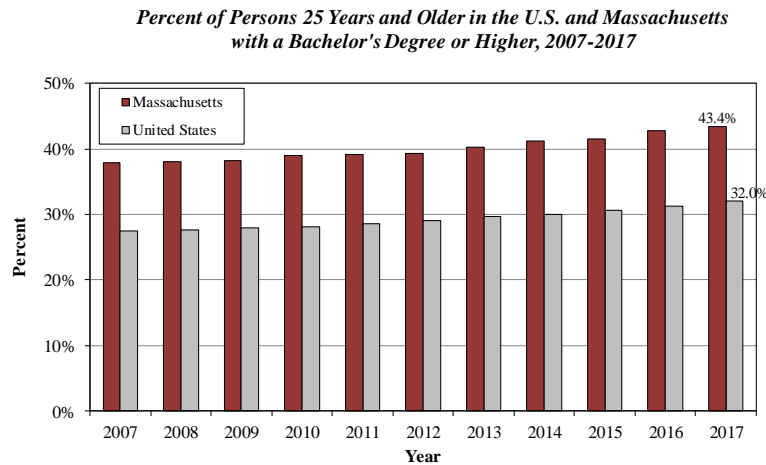
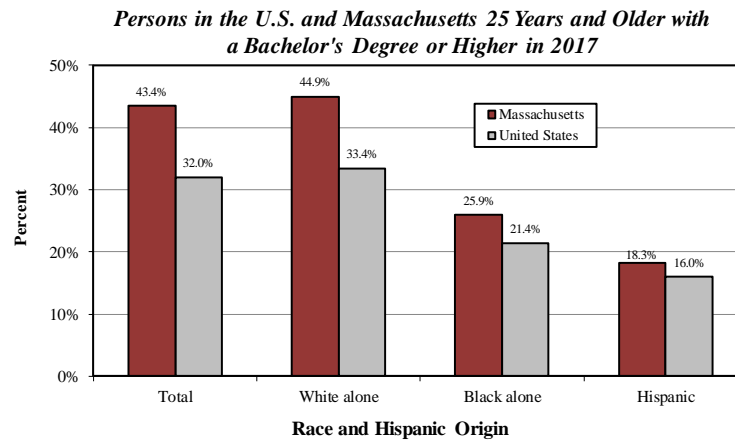
**Monthly Unemployment Rate, October 2008 - October 2018
Massachusetts and the United States
(not seasonally adjusted)**



SOURCES: Massachusetts Executive Office of Labor and Workforce Development and U.S. Bureau of Labor Statistics, Local Area Unemployment Statistics (LAUS).

EDUCATION AND TECHNOLOGY

Educational Attainment. The availability of a skilled and well-educated population is an important resource for the Commonwealth. Only the District of Columbia had a higher percentage of adults with a bachelor's degree or higher in 2017, according to the Census Bureau's American Community Survey (ACS). The Census also reported that Massachusetts ranked 31st in persons who had not completed high school, at 9.2 percent of the population age 25 or older, less than the national average of 12.0 percent. Massachusetts' black and Hispanic populations achieved college degrees at a lower rate than its white population, but their rates were higher than the national averages. The most current ACS data are shown below.



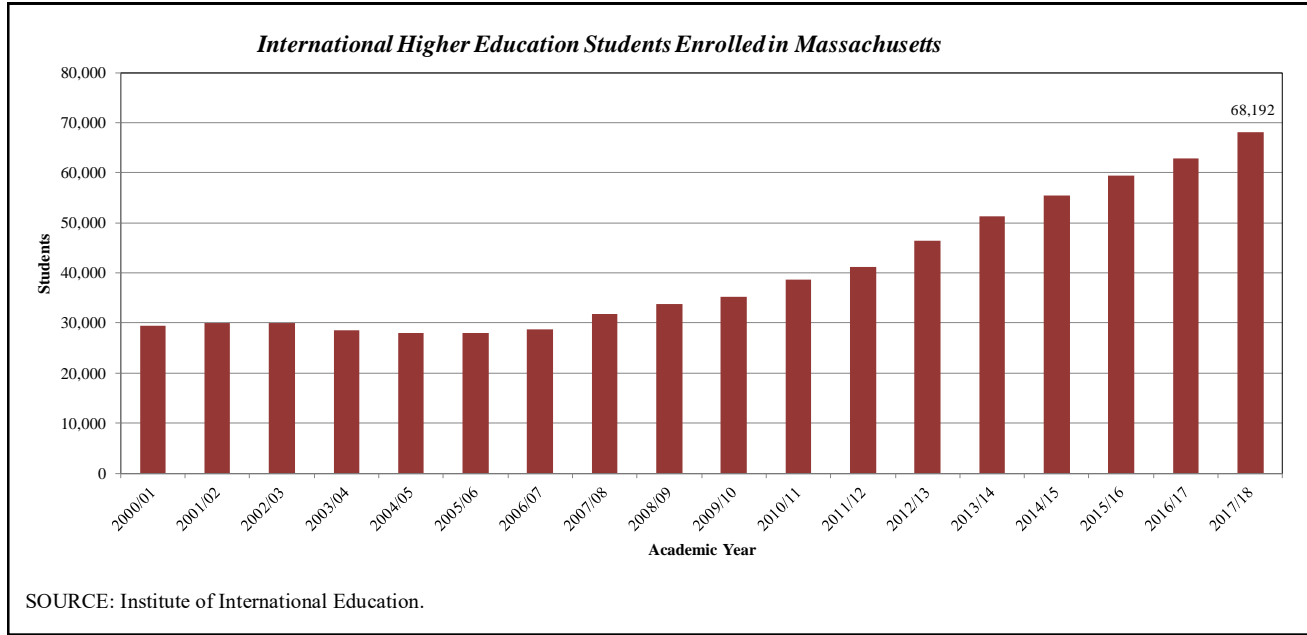
SOURCE: U.S. Census Bureau, American Community Survey, 1-Year Estimates

Higher Education Data. The table below compares Massachusetts residents' higher education enrollment by race and Hispanic origin to the U.S. There were 1.8 percent fewer people enrolled in college in the U.S. in 2017 compared to 2016. The proportion of total enrollment in Massachusetts also fell by 0.4 percent.

<i>Higher Education Enrollment by Race and Hispanic Origin in 2017</i>						
	Total	White alone	Black alone	Asian alone	All other races	Hispanic or Latino
United States	22,294,251	66.6%	14.6%	8.9%	9.9%	18.1%
Massachusetts	583,898	70.3%	10.4%	11.8%	7.5%	11.5%

SOURCE: U.S. Census Bureau, American Community Survey, 1-Year Estimates
 NOTE: The Hispanic or Latino Origin category includes all Hispanics in the population regardless of race and therefore should not be added to the other categories to avoid double-counting races.

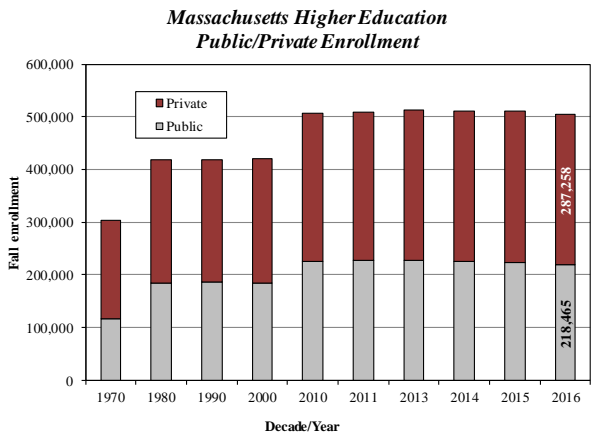
Survey data released by the Institute of International Education state that 68,192 foreign students were enrolled in Massachusetts colleges and universities in the 2017/2018 school year. This was an increase of 8.4 percent from the previous year. The national enrollment increased 1.5 percent. Massachusetts remains fourth ranked among states for foreign student enrollment.



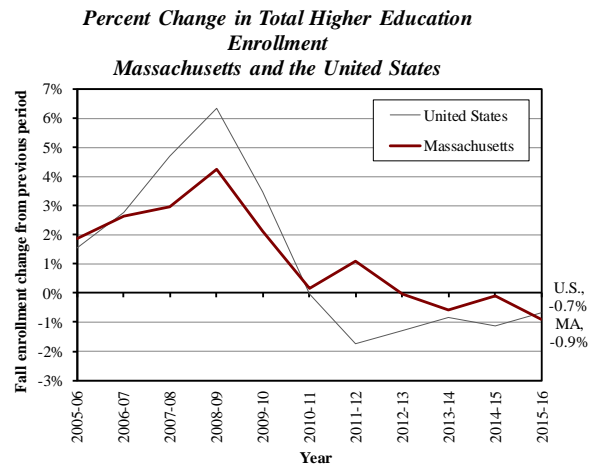
The graphs and table on the following page provide information about higher education enrollment, degrees conferred, and research and development expenditures at colleges and universities.

U.S. Department of Education data show that from 2015 to 2016, higher education enrollment decreased 0.7 percent in the United States and 0.9 percent at Massachusetts institutions. During the 2000-2016 period, enrollment in public higher education increased 24.1 percent in the United States and 19.2 percent at Massachusetts institutions. Enrollment in private institutions increased 47.7 percent in the United States and 20.8 percent at Massachusetts institutions.

Research and development expenditures at universities and colleges increased 22 percent in the United States and 44 percent in Massachusetts between 2008 and 2017.

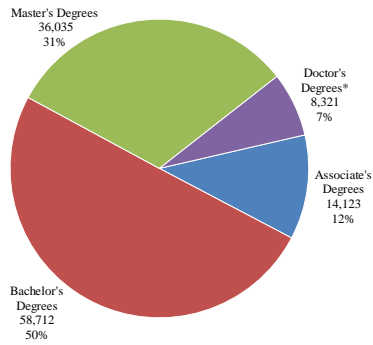


SOURCE: U.S. Department of Education, Digest of Education Statistics.



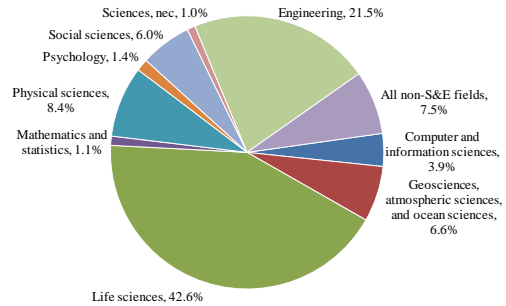
SOURCE: U.S. Department of Education, Digest of Education Statistics.

Degrees Conferred by Degree-Granting Institutions in Massachusetts, 2015-2016



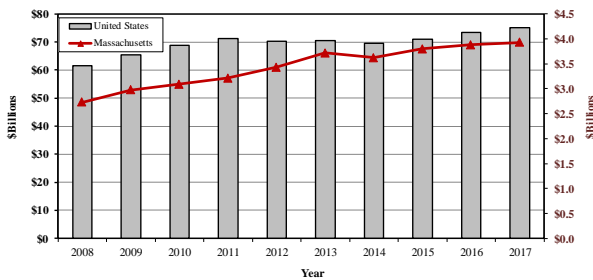
SOURCE: U.S. Department of Education, Digest of Education Statistics.
*Includes Ph.D., Ed.D., and comparable degrees at the doctoral level.

R&D Expenditures at Massachusetts Universities and Colleges, by Science and Engineering Field: FY 2017



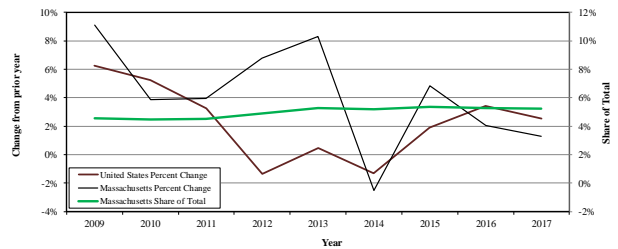
SOURCE: National Science Foundation.

Research and Development Expenditures at Universities and Colleges



SOURCE: National Science Foundation.

Research and Development Expenditures at Universities and Colleges



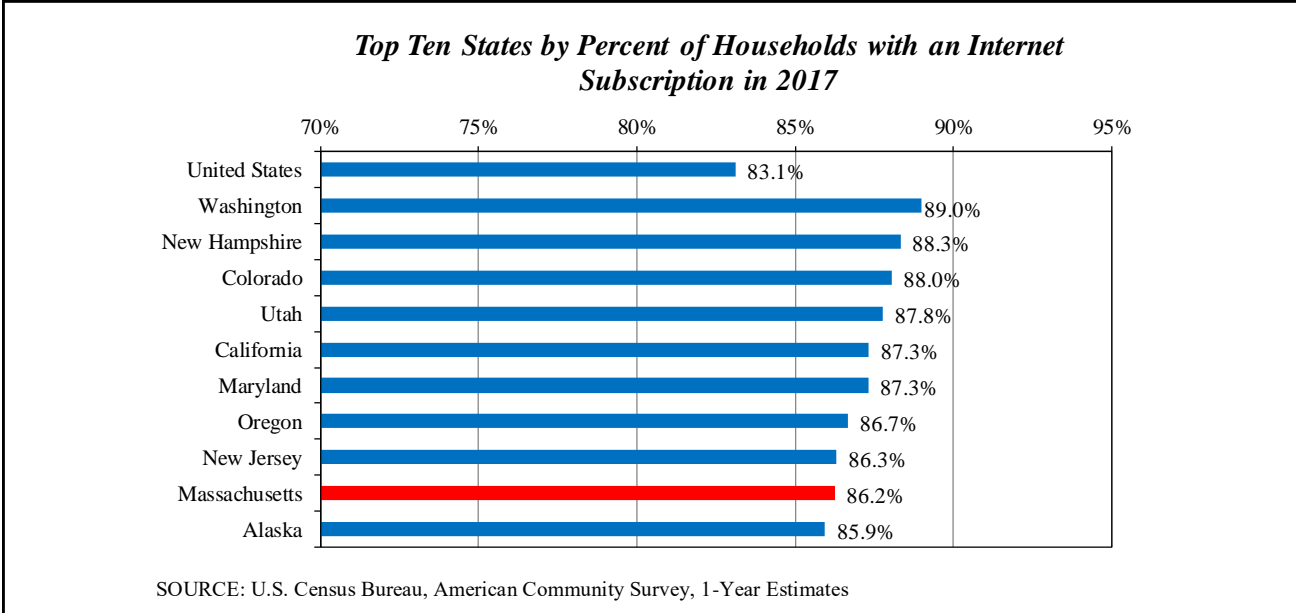
SOURCE: National Science Foundation.

Current Massachusetts Higher Education Rank Among States and the District of Columbia				
Enrollment - 2016 MA Rank		Degrees Awarded - 2016 MA Rank		Research & Development\$ - FY 2016 MA Rank
Total	13	Total	8	All R&D expenditures
Public	23	Associate's	22	Computer and information sciences
Private	4	Bachelor's	8	Engineering
		Master's	5	Geosciences, atmospheric sciences, and ocean sciences
		Professional/Doctorate	7	Life sciences
				Mathematics and statistics
				Physical sciences
				Psychology
				Sciences, nec
				Social sciences

SOURCE: U.S. DOE Digest of Education Statistics.

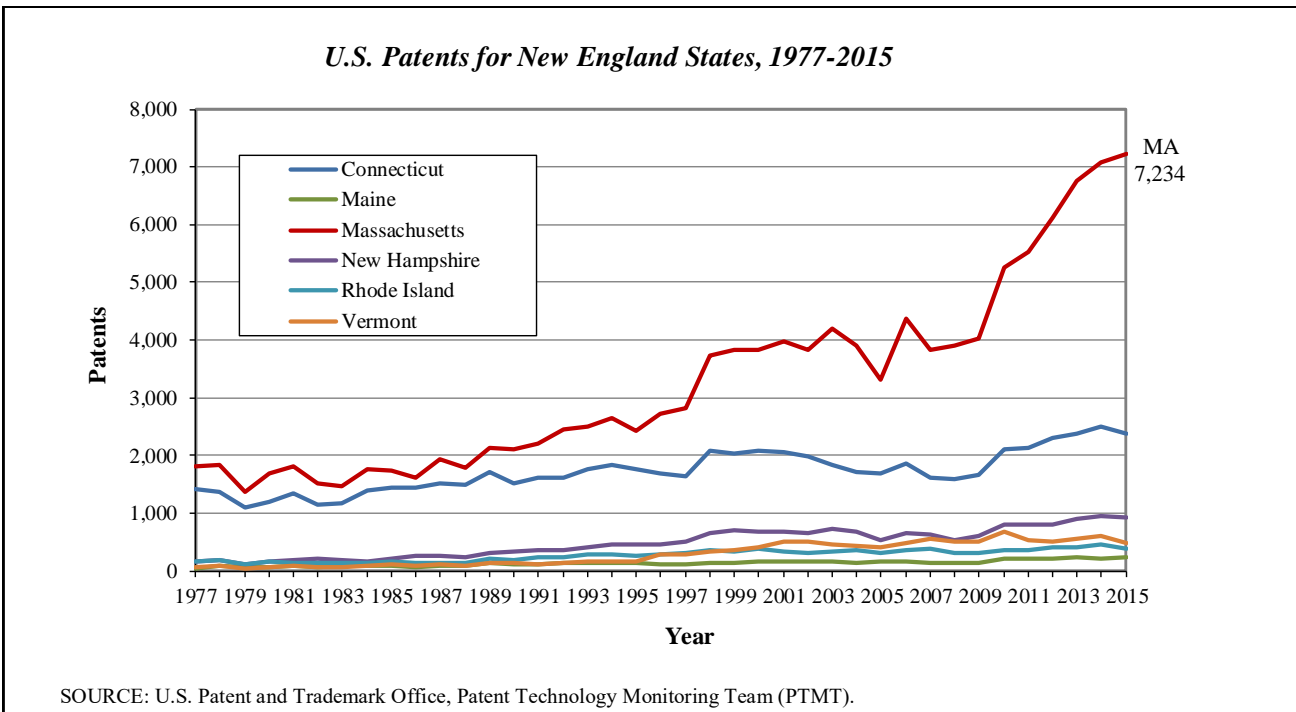
SOURCE: National Science Foundation

Internet Access. Massachusetts has the ninth highest household internet subscription rate in the U.S., according to the Census Bureau’s 2017 American Community Survey.



Patents. The U.S. Patent and Trademark Office notes: “This report shows the number of U.S. patent documents (i.e., utility patents, design patents, plant patents, reissue patents, defensive publications, and statutory invention registrations) granted since 1977, broken down by the state or country of origin (patent origin is determined by the residence of the first-named inventor).”

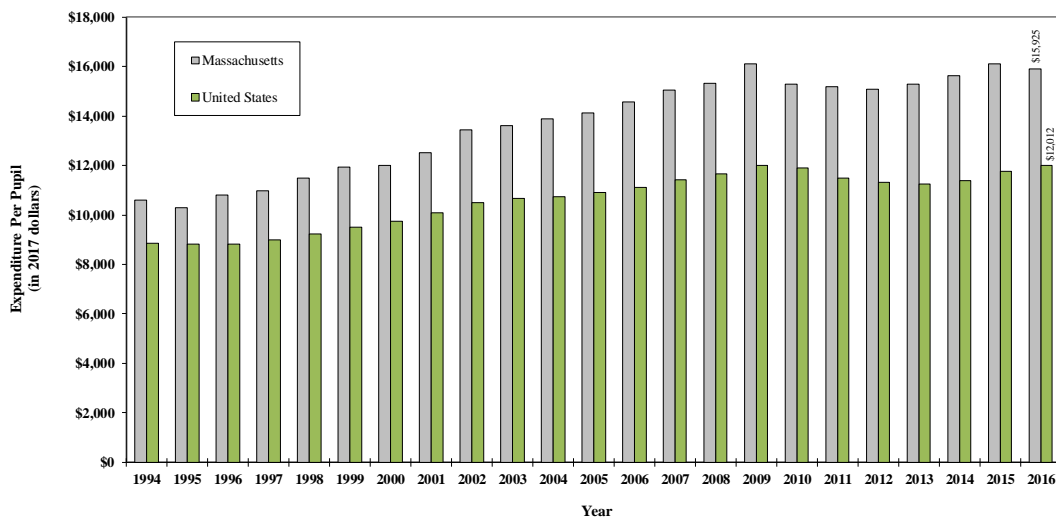
In 2015, Massachusetts was fourth among all states for the number of new patents issued. Only six nations originated more U.S. patents than Massachusetts, putting the state on par with Canada for origination of U.S. patents. Since 1977, Massachusetts has received more new patents than any other New England state. With 6,777 new utilities patents and 7,234 total new patents in 2015, a 2.2 percent increase in total patents since 2014, Massachusetts innovators were responsible for 62 percent of the new patents in New England.



Primary and Secondary Education Expenditures. Massachusetts has spent from 16.5 to 37.0 percent more per pupil on primary and secondary education than the national average since 1994. During the 2015-2016 school year, the average Massachusetts per student expenditures decreased 1.2 percent to \$15,925. Massachusetts was ranked eighth in the nation among states and the District of Columbia in 2016. The table and chart below show expenditures per pupil for Massachusetts and the U.S.

*Per Pupil Expenditure in Public Elementary and Secondary Schools
(in 2017 adjusted dollars)*

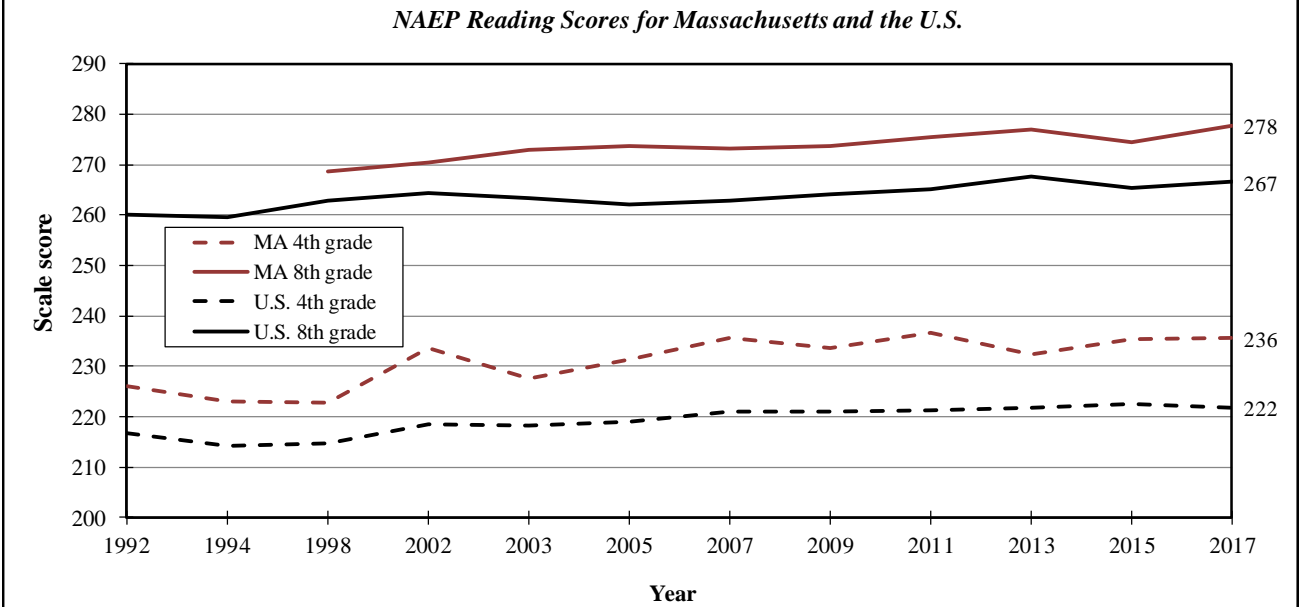
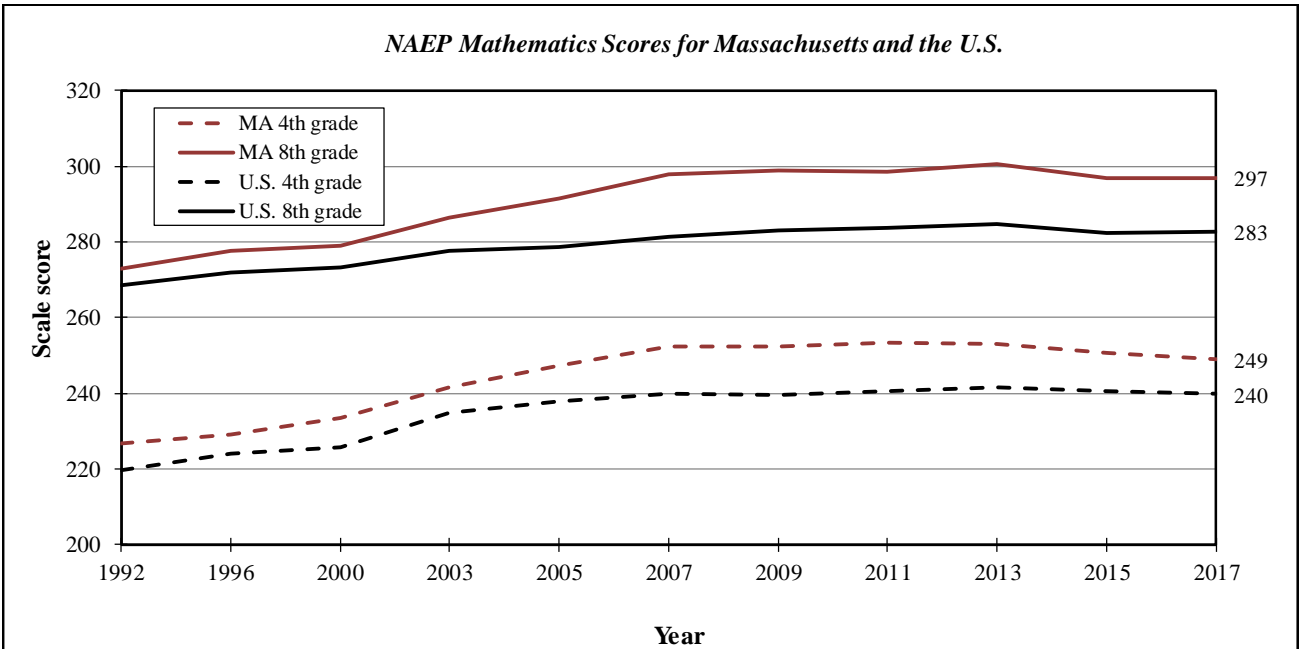
Fiscal Year	MA	U.S.	Ratio (MA/ U.S.)	MA change from previous year
1994	\$10,607	\$8,870	1.20	
1995	\$10,292	\$8,837	1.16	-3.0%
1996	\$10,809	\$8,836	1.22	5.0%
1997	\$10,981	\$8,983	1.22	1.6%
1998	\$11,506	\$9,229	1.25	4.8%
1999	\$11,926	\$9,502	1.26	3.7%
2000	\$12,020	\$9,731	1.24	0.8%
2001	\$12,509	\$10,082	1.24	4.1%
2002	\$13,429	\$10,493	1.28	7.4%
2003	\$13,619	\$10,683	1.27	1.4%
2004	\$13,876	\$10,753	1.29	1.9%
2005	\$14,141	\$10,921	1.29	1.9%
2006	\$14,567	\$11,111	1.31	3.0%
2007	\$15,059	\$11,427	1.32	3.4%
2008	\$15,317	\$11,680	1.31	1.7%
2009	\$16,131	\$11,995	1.34	5.3%
2010	\$15,277	\$11,916	1.28	-5.3%
2011	\$15,192	\$11,507	1.32	-0.6%
2012	\$15,098	\$11,325	1.33	-0.6%
2013	\$15,304	\$11,259	1.36	1.4%
2014	\$15,622	\$11,399	1.37	2.1%
2015	\$16,125	\$11,781	1.37	3.2%
2016	\$15,925	\$12,012	1.33	-1.2%



SOURCE: U.S. Census Bureau, Public Elementary–Secondary Education Finance Data.

National Assessment of Educational Progress (NAEP) scores. 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 administering 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 below compare the data available for Massachusetts and the national public samples.



SOURCE: National Center for Education Statistics.
 NOTE: Between 1992 and 2003 math and reading tests were administered during different years.

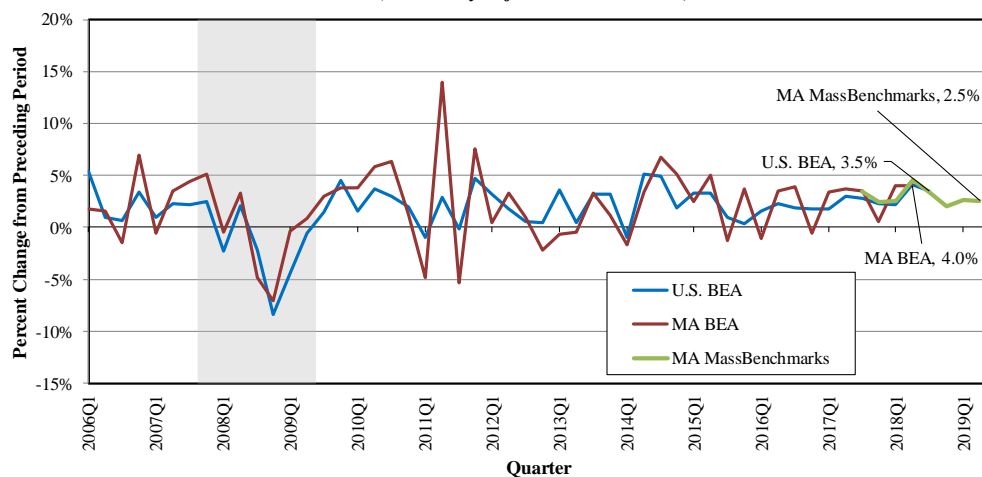
ECONOMIC BASE AND PERFORMANCE—STATE OVERVIEW

Comparing BEA GDP for the U.S., the region, and Massachusetts. The U.S. Bureau of Economic Analysis (BEA) defines Gross Domestic Product by State (GDP) as “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).”

The BEA provides national (in January) and state (in June) annual and quarterly GDP estimates. *MassBenchmarks* releases quarterly estimates of Massachusetts economic activity. This is reported in the following section. While we do not have access to many of the components that the BEA uses to calculate state GDP in advance of its release, we provide an overview of our state’s components when they are available. Additionally, we provide state economic indexes and industrial sector data that are released more frequently and in some cases, are among the components used to calculate state GDP.

<i>State Gross Domestic Product - Annual Change</i> (billions of chained 2009 dollars)						
Year	Massachusetts		New England		United States	
	GDP	Annual change	GDP	Annual change	GDP	Annual change
2000	\$348		\$725		\$12,617	
2001	\$353	1.3%	\$736	1.5%	\$12,735	0.9%
2002	\$354	0.5%	\$742	0.8%	\$12,963	1.8%
2003	\$362	2.2%	\$758	2.2%	\$13,296	2.6%
2004	\$370	2.2%	\$785	3.6%	\$13,765	3.5%
2005	\$376	1.7%	\$798	1.7%	\$14,203	3.2%
2006	\$383	1.7%	\$813	1.9%	\$14,585	2.7%
2007	\$392	2.4%	\$830	2.1%	\$14,798	1.5%
2008	\$393	0.2%	\$825	-0.6%	\$14,718	-0.5%
2009	\$386	-1.8%	\$805	-2.4%	\$14,320	-2.7%
2010	\$399	3.5%	\$821	2.0%	\$14,628	2.2%
2011	\$408	2.3%	\$826	0.6%	\$14,834	1.4%
2012	\$416	1.8%	\$834	0.9%	\$15,126	2.0%
2013	\$415	-0.2%	\$830	-0.5%	\$15,348	1.5%
2014	\$423	1.8%	\$839	1.0%	\$15,717	2.4%
2015	\$439	4.0%	\$861	2.7%	\$16,148	2.7%
2016	\$445	1.2%	\$869	0.9%	\$16,384	1.5%
2017	\$456	2.6%	\$883	1.6%	\$16,721	2.1%

Real GDP: Percent Change from Preceding Quarter
(Seasonally Adjusted Annual Rates)



SOURCES: U.S. Bureau of Economic Analysis, MA *MassBenchmarks* calculations by Dr. Alan Clayton-Matthews. Seasonally adjusted annual rates are quarterly data adjusted to an annual basis.

NOTE: Shaded areas are recession periods.

ECONOMIC BASE AND PERFORMANCE—ECONOMIC INDICATORS

State Coincident Indexes. To track more recent changes in the state and national economies, we use the Federal Reserve Bank of Philadelphia’s Coincident Indexes. It:

...produces a monthly coincident index for each of the 50 states. The indexes are released a few days after the Bureau of Labor Statistics (BLS) releases the employment data for the states.

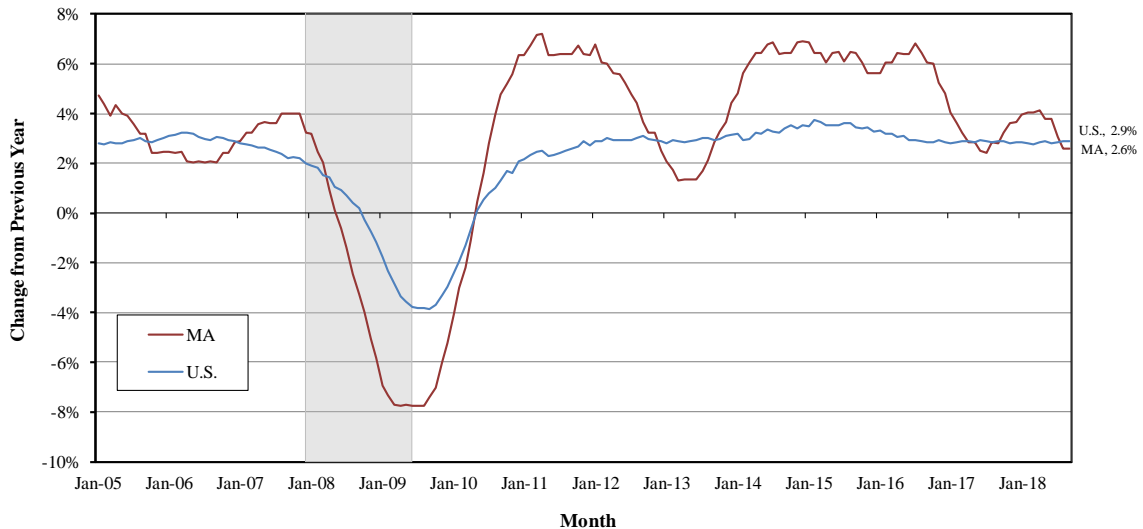
The coincident indexes combine four state-level indicators to summarize current economic conditions in a single statistic. The four state-level variables in each coincident index are nonfarm payroll employment, average hours worked in manufacturing, the unemployment rate, and wage and salary disbursements deflated by the consumer price index (U.S. city average). The trend for each state’s index is set to the trend of its gross domestic product (GDP), so long term growth in the state’s index matches long term growth in its GDP. (<https://www.phil.frb.org/research-and-data/regional-economy/indexes/coincident/>)

The graph below indicates the state and national index change from 12 months prior. Recent revisions to BLS data that the Philadelphia Federal Reserve Bank uses to construct its indexes resulted in an improved trend for Massachusetts since the recession ended in 2009. The table below compares the Massachusetts index to its New England neighbors and the U.S.

Comparing the U.S. and New England States Coincident Indexes

Area	September 2018	1-Month Change	3-Month Change	12-Month Change
U.S.	124.3	0.3%	0.8%	2.9%
Massachusetts	136.1	0.2%	0.2%	2.6%
Connecticut	124.8	0.5%	1.1%	2.9%
Maine	123.4	-0.3%	-1.1%	1.4%
New Hampshire	142.2	0.2%	0.7%	3.2%
Rhode Island	125.5	0.5%	1.6%	3.6%
Vermont	132.6	-0.2%	-0.1%	1.9%

Comparing the U.S. and Massachusetts Coincident Indexes



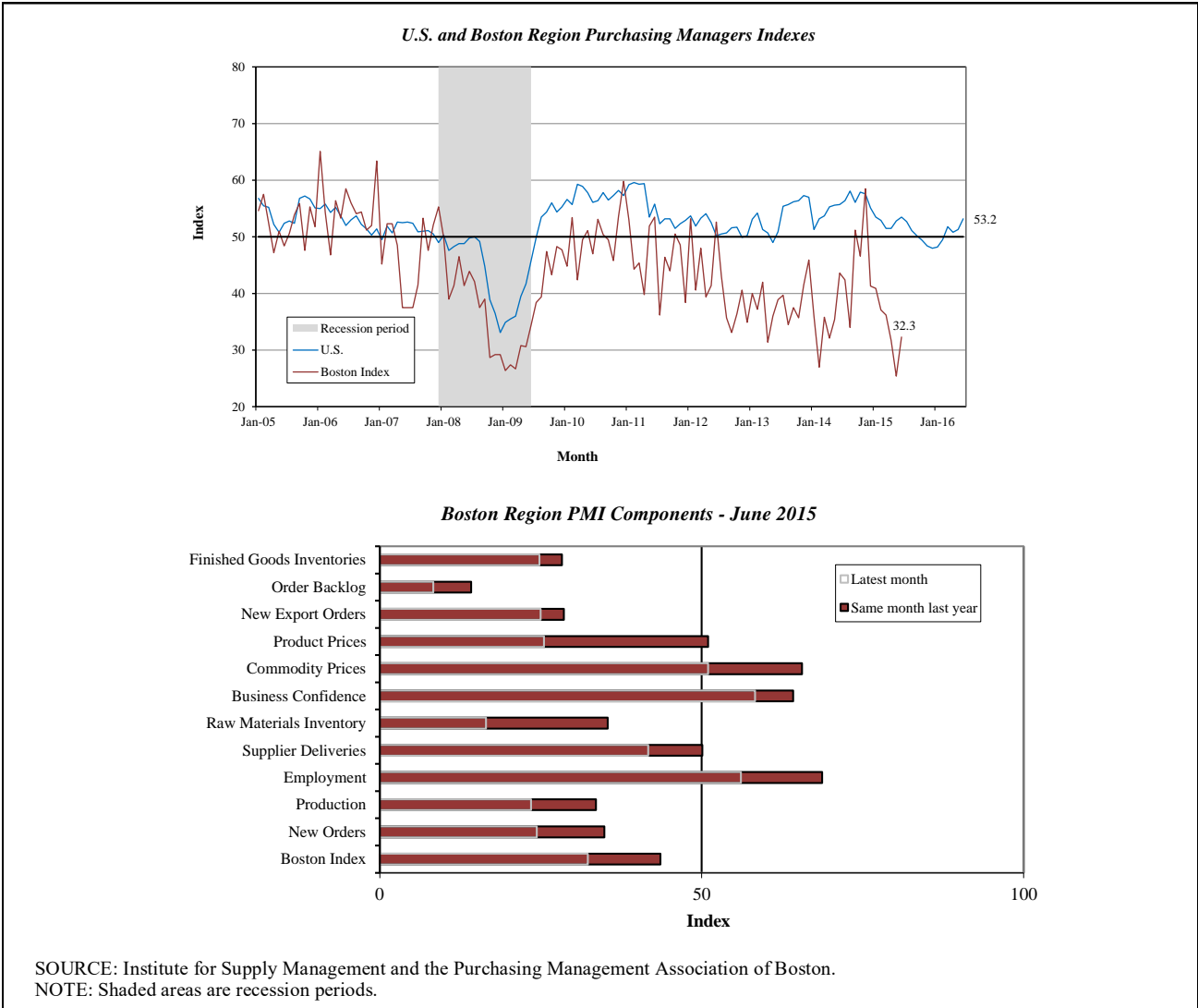
SOURCE: Federal Reserve Bank of Philadelphia.

NOTES: Shaded areas are recession periods. Indexes are set to 2007 annual averages. Methodology changes in January 2018 resulted in revised values for historical data.

Institute for Supply Management Purchasing Manager Indexes (PMI). These indexes are compiled using survey data from purchasing and supply executives and are used as a leading business indicator. While the national index is based on a survey of manufacturers, the Boston region's is based on a survey of "companies representing industries as diverse as the banking and financial services, pharmaceuticals and biotechnology, software development and communication, medical products and equipment, computers, chemicals, consumer products, education, and the public sector." **It should be noted that the Boston survey has been suspended, and consequently, data from it are not currently being updated.**

Index readings above 50 indicate the economy is generally expanding. Readings below 50 indicate the economy is generally contracting, although a reading above 42 for a period of time indicates the economy is generally expanding. Components of the national index include new orders, production, employment, supplier deliveries, inventories, customer inventories, prices, backlog of orders, exports, and imports. The Boston region's components are slightly different and include new orders, production, employment, supplier deliveries, raw monthly materials inventory, business confidence, commodity prices, product prices, new export orders, order backlog, and finished goods inventories. These components show which segments of the business supply chain are expanding or contracting.

The June 2016 national index indicated that the manufacturing sector has been expanding since December 2015, with the exception of a small dip in April 2016. The Boston region's June 2015 (the last date for which data were available) index of 32.3 indicated that overall business conditions were contracting after hitting a four-year high of 58.5 in November 2014.



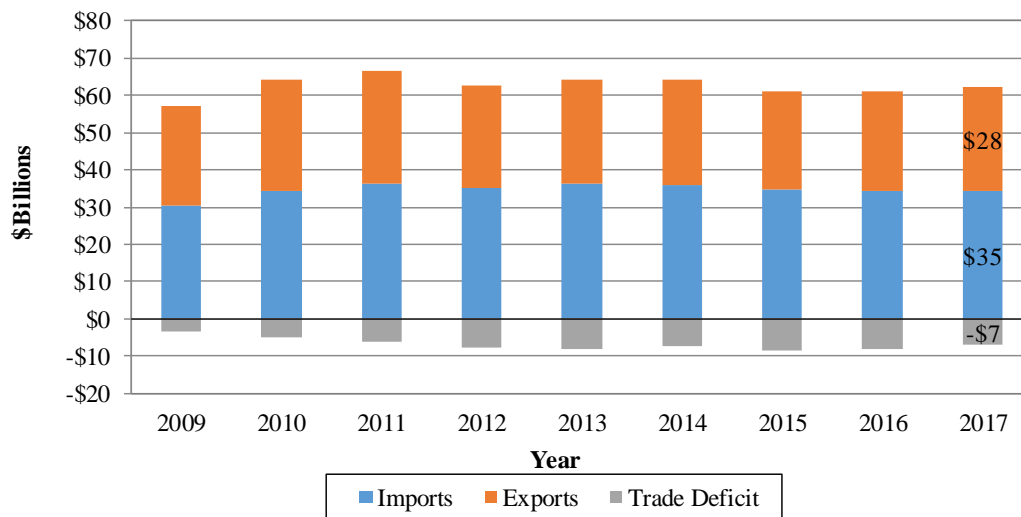
ECONOMIC BASE AND PERFORMANCE—INTERNATIONAL TRADE

Total Trade Volume. Total trade volume, exports and imports, increased 1.8 percent from 2016 to \$62.1 billion in 2017. Canada's trade volume was \$9.9 billion and, at 15.9 percent of the total state trade, it was by far our most valuable trading partner. Massachusetts trade deficit, \$6.9 billion, decreased 14.0 percent in 2017. See appendix 8 for more trade data.

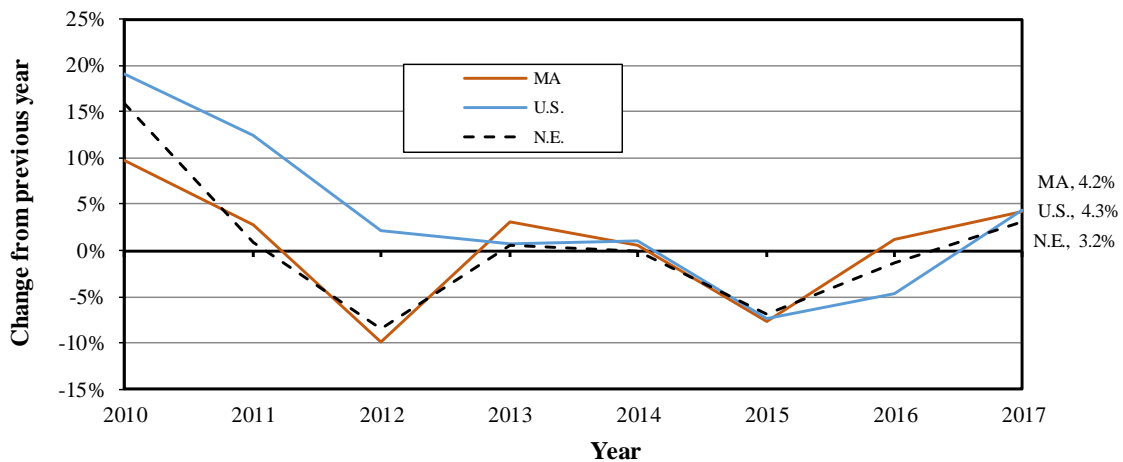
Exports. Massachusetts ranked 19th in the United States in 2017 and first in New England with \$27.6 billion in exports. This was a 4.2 percent increase from the previous year's export value, while national exports increased by 4.3 percent. Total exports from New England increased by 3.2 percent. Canada was again our top export destination in 2017 with \$3.0 billion.

Imports. Imports decreased 0.03 percent to \$34.5 billion in 2017. Canada was also the largest source for Massachusetts imports in 2017, from which we imported \$6.9 billion or 19.9 percent of our total.

Massachusetts Imports, Exports and Trade Deficit



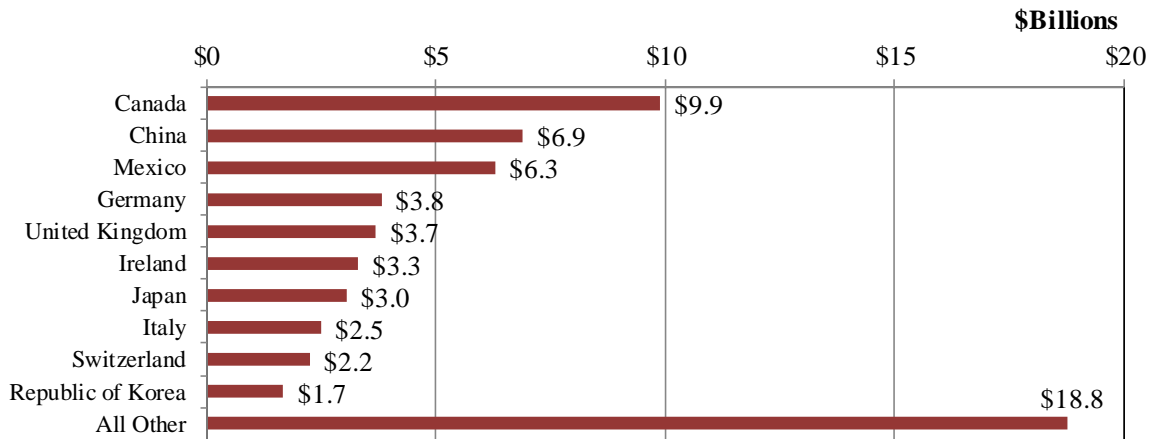
Export Growth for Massachusetts, U.S. and New England



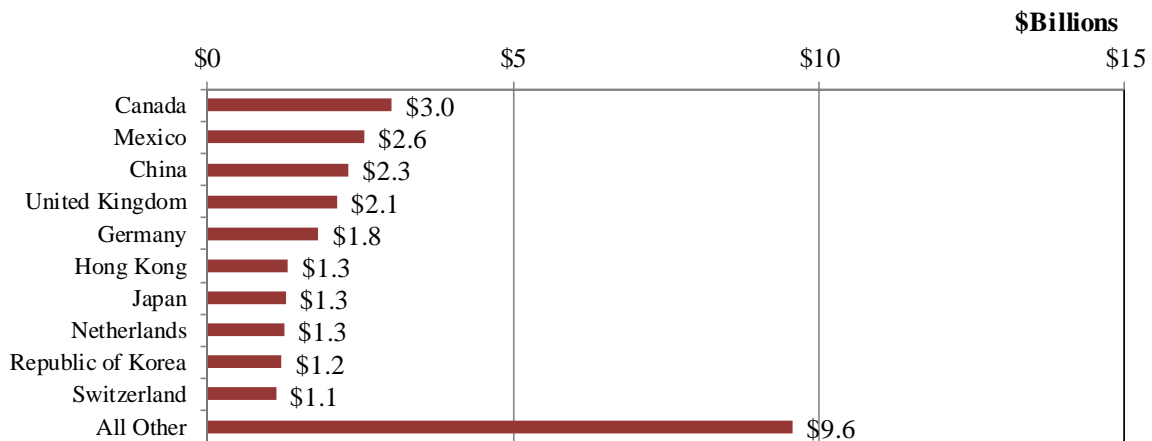
SOURCE: WISERTrade.org

Top Ten Trade Partners by Trade Type from WISERTrade.

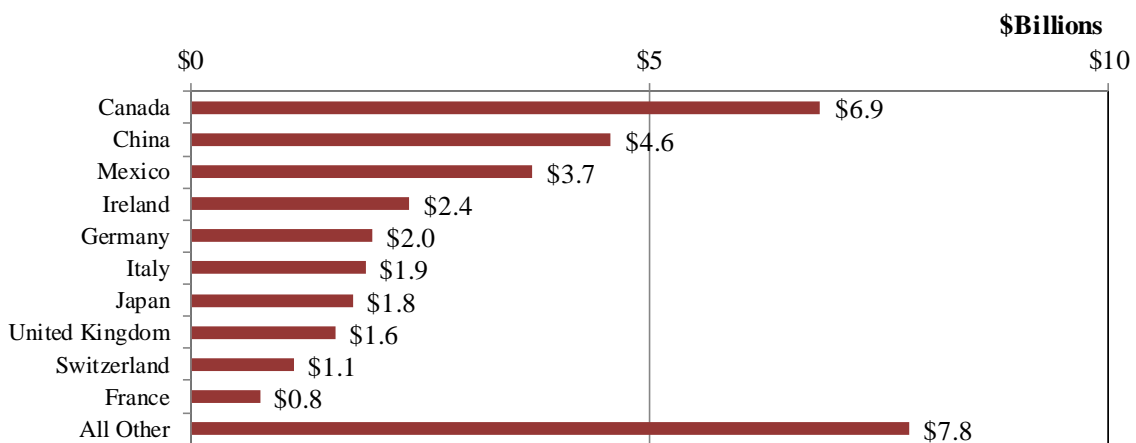
Massachusetts 2017 Top Ten Trade Partners (in \$2017)



Massachusetts 2017 Top Ten Export Partners (in \$2017)

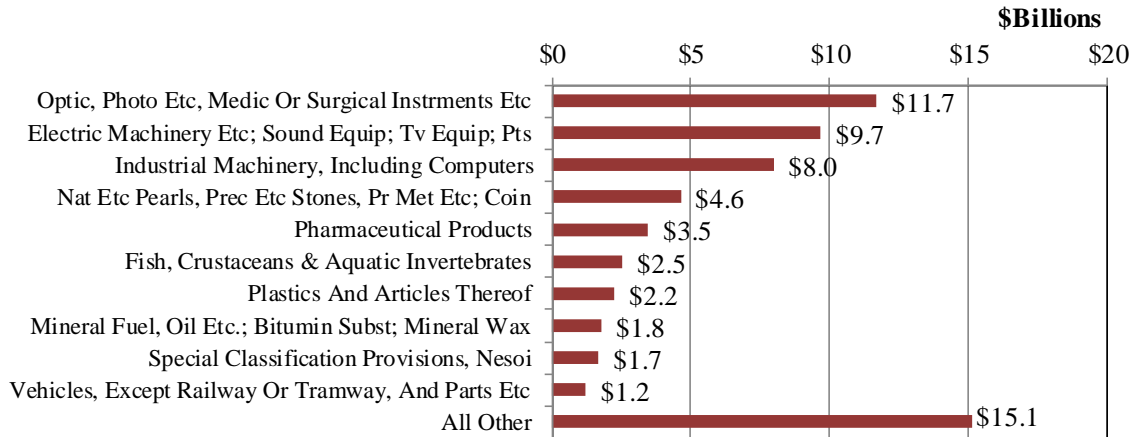


Massachusetts 2017 Top Ten Import Partners (in \$2017)

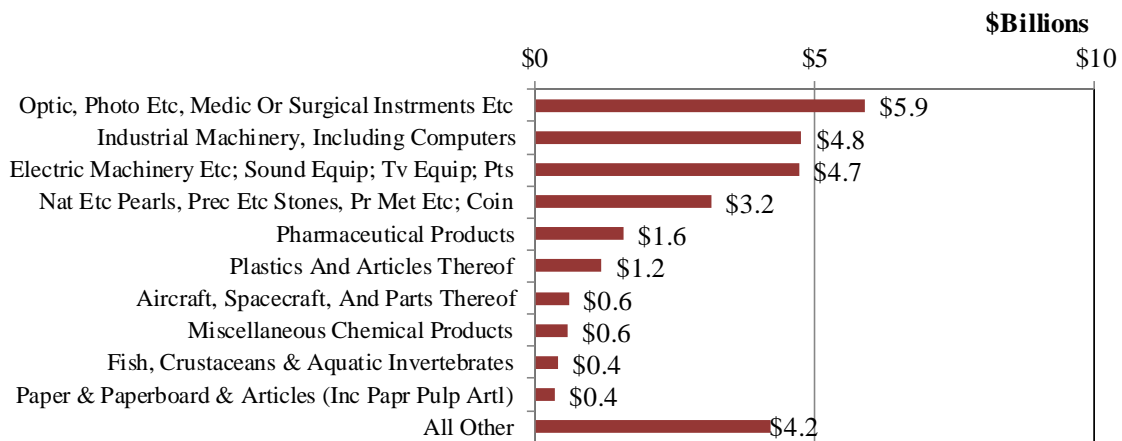


Top Ten Commodities Traded by Trade Type from WISERTrade.

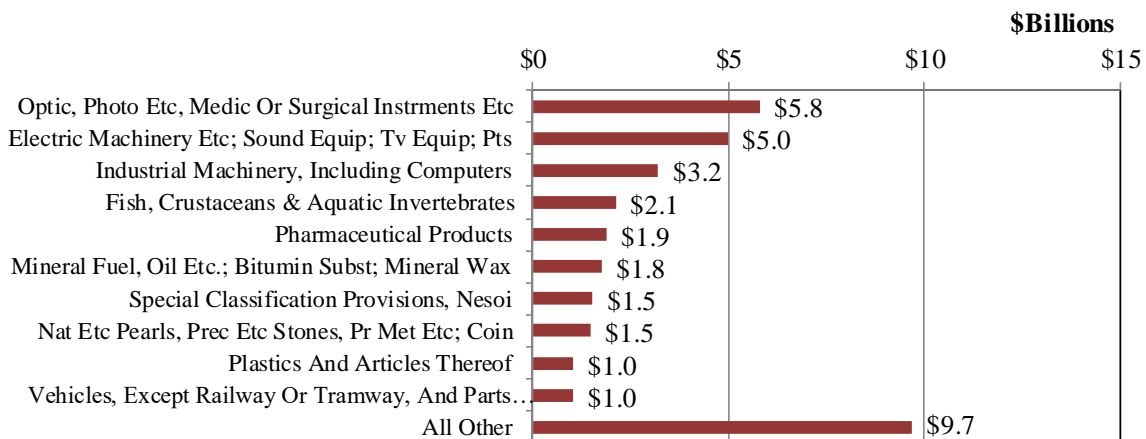
Massachusetts 2017 Top Ten Commodities Imported and Exported (in \$2017)



Massachusetts 2017 Top Ten Commodities Exported (in \$2017)



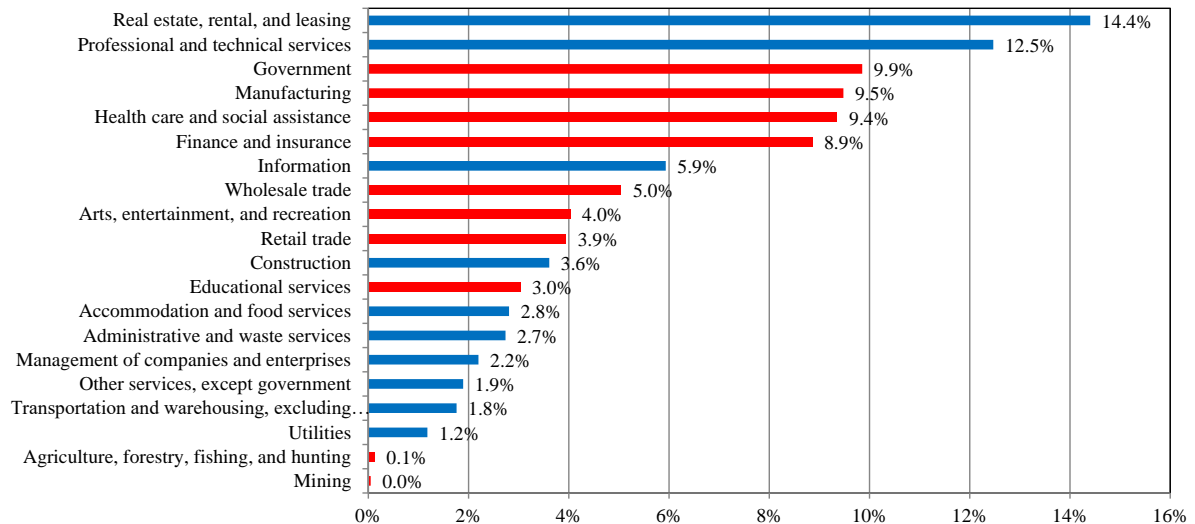
Massachusetts 2017 Top Ten Commodities Imported (in \$2017)



ECONOMIC BASE AND PERFORMANCE—INDUSTRY SECTOR DETAIL (NAICS BASIS)

The Massachusetts economy remains diversified among several industrial and non-industrial sectors. The four largest sectors of the economy are real estate, rental and leasing; professional and technical services; government; and manufacturing, which contributed 46.2 percent of the GDP in 2017. The real estate, rental and leasing sector remained the largest contributor in 2017. The following bar chart displays the latest sector contributions to the Massachusetts GDP.

NAICS* Sector Composition of Massachusetts Gross Domestic Product 2017
(as a percent of total GDP in 2017 dollars)



SOURCE: U.S. Bureau of Economic Analysis.

*North American Industry Classification System.

NOTES: Blue bars indicate a positive change from previous year and red bars indicate a negative change. Transportation and warehousing excludes the U.S. Post Office.

GDP Subsectors. When measured in inflation-adjusted dollars, the change in Massachusetts total GDP grew 20.2 percent between 2007 and 2017. Between 2007 and 2016 (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 (2017 dollars)

NAICS* Industry Subsector	Percent Change 2007-2016
Support activities for mining	354.2%
Data processing, internet publishing, and other information services	111.9%
Amusements, gambling, and recreation industries	107.5%
Performing arts, spectator sports, museums, and related activities	96.4%
Rental and leasing services and lessors of intangible assets	87.4%
Air transportation	74.9%
Funds, trusts, and other financial vehicles	-61.4%
Computer systems design and related services	58.1%

SOURCE: U.S. Bureau of Economic Analysis.

*North American Industry Classification System.

NOTE: Updated July 2018 Subsector represents at least a half percent of Massachusetts GDP in the latest year.

Gross Domestic Product by Industry in Massachusetts

(millions of 2017 dollars)

NAICS* Industry Sector	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
All industry total	\$449,091	\$442,398	\$447,041	\$460,620	\$463,776	\$474,377	\$478,068	\$490,222	\$520,007	\$530,633	\$542,979
Private industries	\$399,835	\$392,634	\$396,125	\$409,752	\$411,151	\$424,459	\$427,129	\$438,332	\$466,488	\$477,385	\$489,479
Agriculture, forestry, fishing, and hunting	\$1,095	\$1,057	\$1,108	\$1,272	\$1,079	\$1,078	\$939	\$730	\$761	\$730	\$733
Mining	\$291	\$169	\$196	\$181	\$175	\$169	\$180	\$215	\$279	\$363	\$267
Utilities	\$5,819	\$6,632	\$5,486	\$6,214	\$6,117	\$5,704	\$6,192	\$6,339	\$6,458	\$6,008	\$6,421
Construction	\$17,828	\$15,911	\$14,448	\$13,526	\$13,627	\$14,613	\$15,429	\$16,029	\$17,762	\$18,832	\$19,600
Manufacturing	\$53,175	\$47,960	\$47,259	\$50,553	\$49,266	\$49,647	\$48,864	\$50,320	\$52,693	\$51,125	\$51,467
Wholesale trade	\$24,430	\$24,538	\$24,075	\$24,678	\$24,576	\$24,216	\$24,912	\$25,645	\$26,776	\$26,880	\$27,416
Retail trade	\$20,461	\$19,359	\$19,454	\$19,826	\$19,269	\$19,126	\$19,509	\$19,588	\$20,621	\$21,163	\$21,430
Transportation and warehousing, excluding Postal Service	\$7,376	\$7,122	\$6,979	\$7,265	\$7,582	\$7,515	\$7,690	\$8,128	\$8,909	\$9,263	\$9,559
Information	\$23,784	\$26,100	\$25,083	\$27,187	\$26,952	\$25,838	\$26,786	\$26,527	\$29,026	\$31,016	\$32,230
Finance and insurance	\$39,346	\$32,531	\$37,569	\$37,288	\$36,277	\$43,459	\$40,943	\$42,385	\$46,963	\$48,640	\$48,112
Real estate, rental, and leasing	\$61,783	\$60,878	\$62,672	\$64,209	\$66,643	\$68,093	\$68,869	\$70,582	\$73,269	\$75,625	\$78,202
Professional and technical services	\$47,923	\$51,842	\$50,063	\$52,340	\$52,898	\$55,786	\$55,329	\$56,870	\$61,129	\$63,441	\$67,715
Management of companies and enterprises	\$9,876	\$9,612	\$9,505	\$9,568	\$10,734	\$10,710	\$11,057	\$11,157	\$12,402	\$11,568	\$11,952
Administrative and waste services	\$12,932	\$12,626	\$11,619	\$12,108	\$12,255	\$12,329	\$12,479	\$12,842	\$13,683	\$14,195	\$14,864
Educational services	\$12,055	\$12,779	\$14,066	\$14,744	\$14,892	\$15,103	\$15,246	\$15,521	\$16,010	\$16,439	\$16,486
Health care and social assistance	\$37,756	\$39,952	\$42,380	\$43,676	\$43,796	\$45,286	\$45,912	\$46,882	\$48,985	\$50,293	\$50,821
Arts, entertainment, and recreation	\$14,497	\$14,461	\$15,111	\$16,179	\$16,220	\$16,860	\$17,827	\$19,158	\$20,937	\$21,758	\$21,920
Accommodation and food services	\$11,009	\$10,969	\$11,255	\$11,764	\$11,864	\$12,437	\$12,792	\$13,131	\$14,383	\$14,911	\$15,266
Other services, except government	\$9,407	\$9,103	\$9,051	\$8,939	\$8,793	\$8,928	\$8,966	\$9,415	\$9,826	\$10,044	\$10,285
Government	\$49,257	\$49,764	\$50,916	\$50,868	\$52,625	\$49,918	\$50,939	\$51,890	\$53,519	\$53,248	\$53,500

Rank of Industry Contribution to GDP in Massachusetts

(based on millions of 2017 dollars)

NAICS* Industry Sector	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
All industry total											
Private industries											
Agriculture, forestry, fishing, and hunting	19	19	19	19	19	19	19	19	19	19	19
Mining	20	20	20	20	20	20	20	20	20	20	20
Utilities	18	18	18	18	18	18	18	18	18	18	18
Construction	10	10	11	12	12	12	11	11	11	11	11
Manufacturing	2	4	4	4	4	4	4	4	4	4	4
Wholesale trade	7	8	8	8	8	8	8	8	8	8	8
Retail trade	9	9	9	9	9	9	9	9	10	10	10
Transportation and warehousing, excluding Postal Service	17	17	17	17	17	17	17	17	17	17	17
Information	8	7	7	7	7	7	7	7	7	7	7
Finance and insurance	5	6	6	6	6	6	6	6	6	6	6
Real estate, rental, and leasing	1	1	1	1	1	1	1	1	1	1	1
Professional and technical services	4	2	3	2	2	2	2	2	2	2	2
Management of companies and enterprises	15	15	15	15	15	15	15	15	15	15	15
Administrative and waste services	12	13	13	13	13	14	14	14	14	14	14
Educational services	13	12	12	11	11	11	12	12	12	12	12
Health care and social assistance	6	5	5	5	5	5	5	5	5	5	5
Arts, entertainment, and recreation	11	11	10	10	10	10	10	10	9	9	9
Accommodation and food services	14	14	14	14	14	13	13	13	13	13	13
Other services, except government	16	16	16	16	16	16	16	16	16	16	16
Government	3	3	2	3	3	3	3	3	3	3	3

SOURCE: U.S. Bureau of Economic Analysis.
*North American Industry Classification System.

Industry Sector Analysis. The following section contains a summary for each of the twenty major NAICS* sectors. The data series show a ten-year time span. Graphs include data value labels for the latest annual points.

Not all datasets are reported for all of the major NAICS sectors. The Massachusetts Department of Workforce and Labor Development's Employment and Wages (ES-202) data series are available for every sector and contain the number of establishments, average monthly employment, total annual wages and average weekly wages for establishments with employees. The data are reported quarterly and annually for employees in the private, federal government, state government, and local government sectors. **NOTE:** Beginning with the first Quarter 2013, a code change for employees from private households (NAICS 814110) into services for the elderly and persons with disabilities (NAICS 624120) moved 33,960 employees in Massachusetts in January 2013.

The nonemployer businesses and receipts graph uses the U.S. Census Nonemployer Statistics series and is available for every sector except 55 - Management of Companies and Enterprises and 92 - Public Administration. Some sectors also lack subsector (at the four-digit NAICS level) detail. Nonemployer annual data have a two-year reporting lag for businesses that do not have paid employees and are subject to federal income tax. The Census reports that "Nonemployers account for a majority of all business establishments, but average less than four percent of all sales or receipts." These can be second or part-time businesses and not the owner's primary source of income.

State Gross Domestic Product is an annual series from the U.S. Bureau of Economic Analysis's Regional Economic Accounts. For more information, please visit:

http://www.bea.gov/newsreleases/regional/gdp_state/qgsp_newsrelease.htm

Foreign exports from the U.S. Census Bureau's Foreign Trade Division and WISERTrade, are available for four industries on a monthly basis. Total state exports are available on a monthly basis. Sector exports and the top ten export destinations for this industry sector are by dollar value.

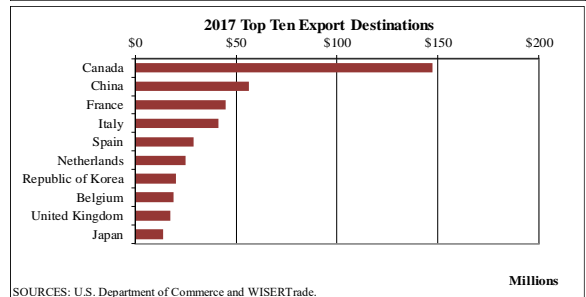
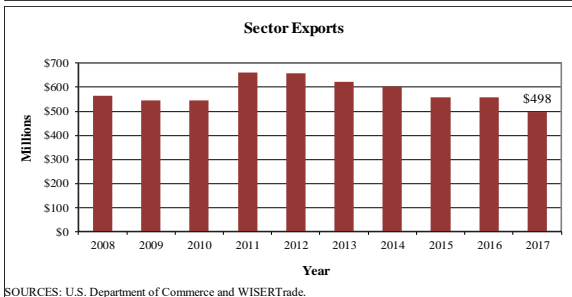
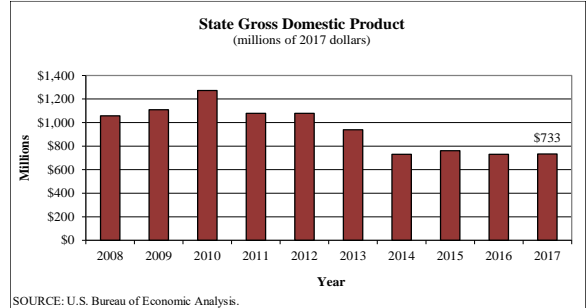
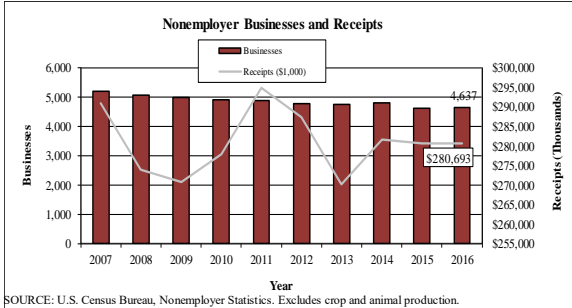
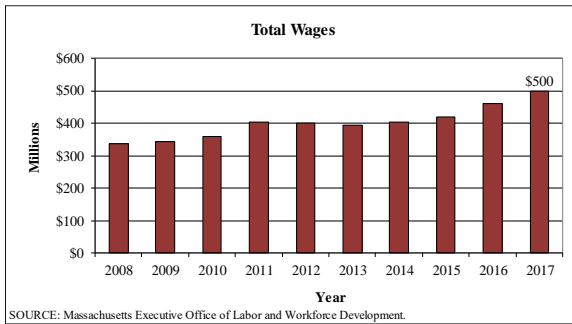
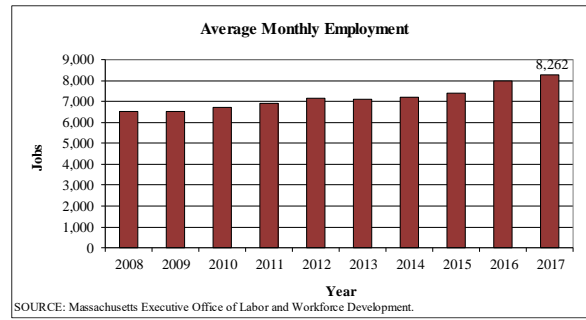
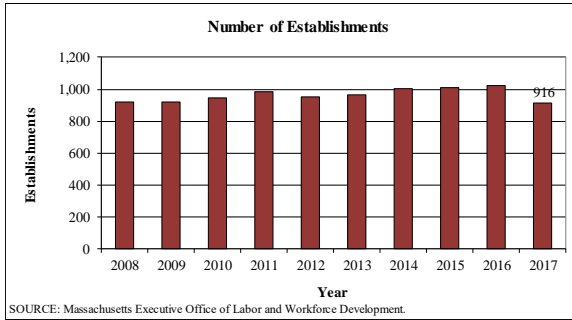
Each sector analysis has a summary at the bottom of each page. The summary provides (when available):

1. GDP contribution to state total: this sector's GDP divided by the state's total GDP. A green figure in the text at the bottom of the page indicates it is larger than the previous year's GDP contribution. Red indicates it is smaller than the previous year's and black indicates no change from the previous year's GDP contribution.
2. GDP rank: this sector's GDP rank versus all state sectors. A green figure in the text at the bottom of the page indicates that it is higher than the previous year's rank. Red indicates that it is lower than the previous year's and black indicates that there was no change from the previous year's GDP rank.
3. Nonemployer to employer establishment ratio: the number of nonemployer establishments divided by the number of establishments with employers. In general, a ratio greater than one means there are more small businesses, while a number less than one means there are more large businesses.
4. Establishments with employees: the subsector with the largest number of establishments who have employees.
5. Nonemployer establishments: the subsector with the largest number of establishments that do not have employees.
6. Employees: the subsector with the largest number of employees, at establishments with employees.
7. Annual wages: the subsector with the largest total annual wages, at establishments with employees.
8. Average weekly wage: the subsector with the largest average weekly wage, at establishments with employees.
9. Annual receipts at nonemployer establishments: the subsector with the most receipts, at establishments that do not have employees.
10. Most valuable export: the subsector export with the highest dollar value.

*North American Industry Classification System.

Note: Total Wage, State Gross Domestic Product, Average Weekly Wage, Nonemployer Receipts, and Sector Exports are all inflation-adjusted to 2017.

NAICS 11 - Agriculture, Forestry, Fishing & Hunting. The Agriculture, Forestry, Fishing and Hunting sector comprises establishments primarily engaged in growing crops, raising animals, harvesting timber, and harvesting fish and other animals from a farm, ranch, or their natural habitats.



Summary.

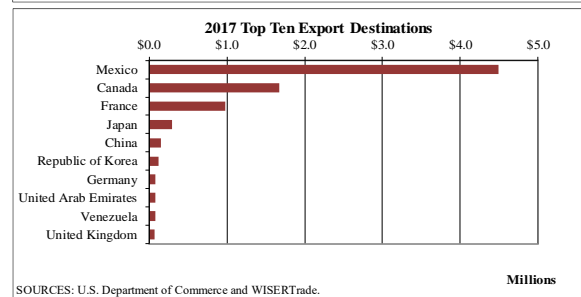
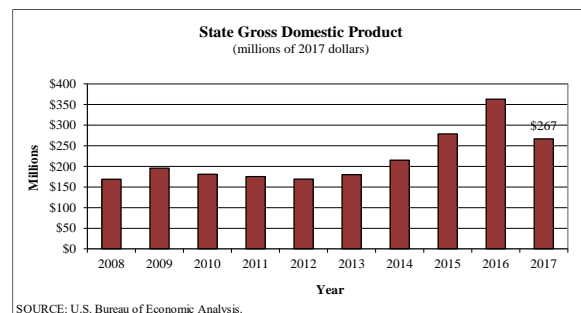
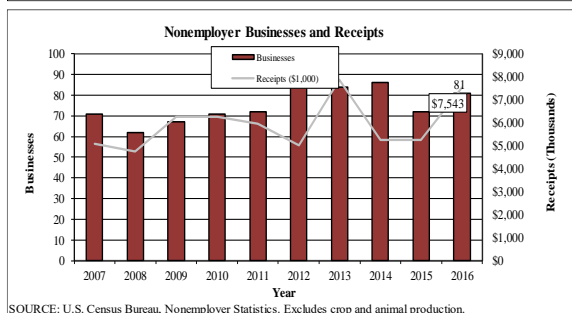
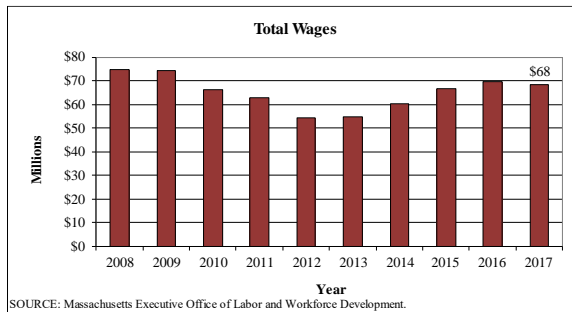
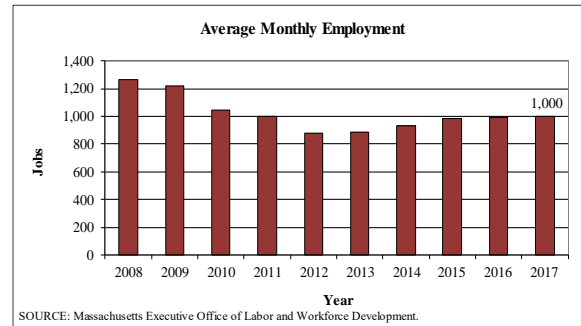
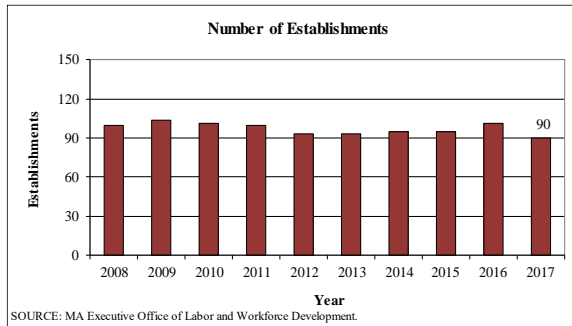
GDP contribution to state total: **0.2%**
 GDP rank: **19 of 20**
 Nonemployer to employer establishment ratio: **4.5 to 1**

Sector leaders. Industry subsectors with the majority of establishments, employees, payroll and receipts.

- Establishments with employees: **Fishing**
- Nonemployer establishments: **Fishing**
- Employees: **Greenhouse and nursery production**
- Annual wages: **Fishing**
- Average weekly wage: **Fishing**
- Annual receipts at nonemployer establishments: **Fishing**
- Most valuable export: **Fish, fresh, chilled, or frozen and other marine products**

*For this 2-digit industry, Nonemployer data are available only for 113-115 (Forestry, fishing & hunting & agricultural support services).

NAICS 21 – Mining. The Mining, Quarrying, and Oil and Gas Extraction sector comprises establishments that extract naturally occurring mineral solids, such as coal and ores; liquid minerals, such as crude petroleum; and gases, such as natural gas. The term mining is used in the broad sense to include quarrying, well operations, beneficiating (e.g., crushing, screening, washing, and flotation), and other preparation customarily performed at the mine site, or as a part of mining activity.



Summary.

GDP contribution to state total: **0.1%**

GDP rank: **20 of 20**

Nonemployer to employer establishment ratio: **0.7 to 1**

Sector leaders. Industry subsectors with the majority of establishments, employees, payroll and receipts.

Establishments with employees: **Nonmetallic mineral mining and quarrying**

Nonemployer establishments: **Nonmetallic mineral mining and quarrying**

Employees: **Nonmetallic mineral mining and quarrying**

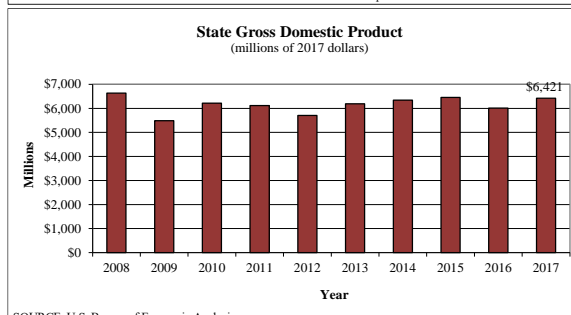
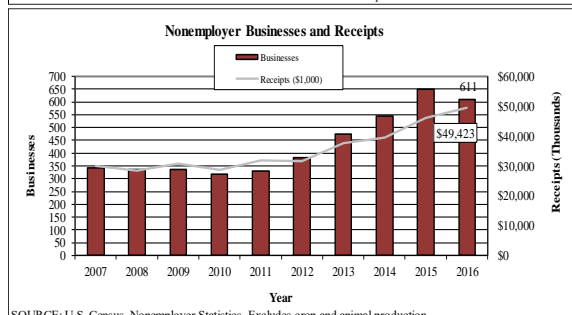
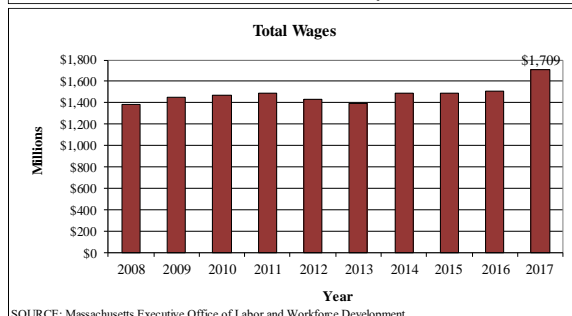
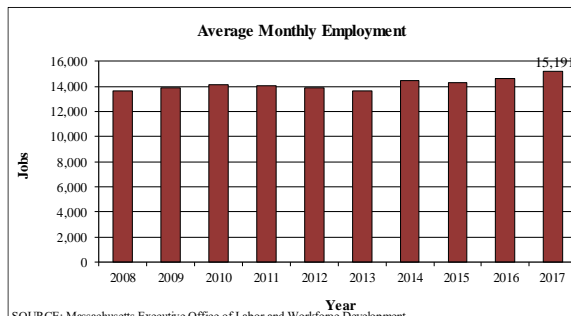
Annual wages: **Nonmetallic mineral mining and quarrying**

Average weekly wage: **Support activities for mining**

Annual receipts at nonemployer establishments: **Nonmetallic mineral mining and quarrying**

Most valuable export: **Minerals and ores**

NAICS 22 – Utilities. The Utilities sector comprises establishments engaged in the provision of the following utility services: electric power, natural gas, steam supply, water supply, and sewage removal. See the appendix, pages five and six for supplemental tables regarding electricity generation, supply and capacity.



State export data are not available for this sector.

Summary.

GDP contribution to state total: **1.3%**

GDP rank: **17 of 20**

Nonemployer to employer establishment ratio: **1.3 to 1**

Sector leaders. Industry subsectors with the majority of establishments, employees, payroll and receipts.

Establishments with employees: **Power generation and supply**

Nonemployer establishments: Subsector detail N/A

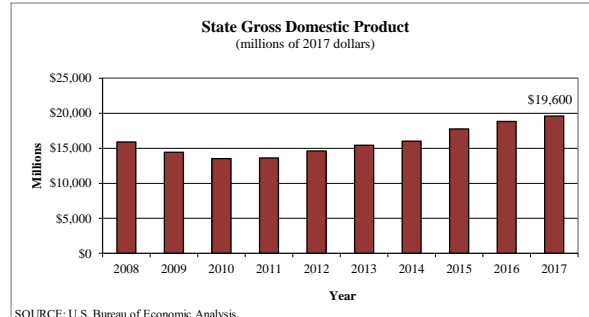
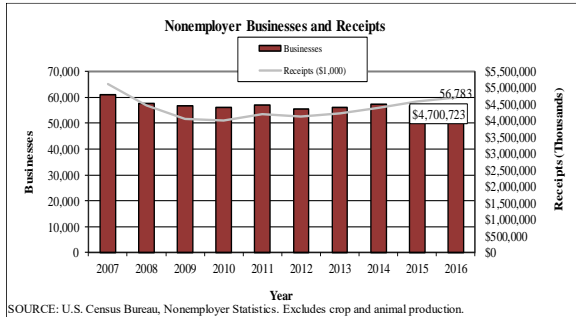
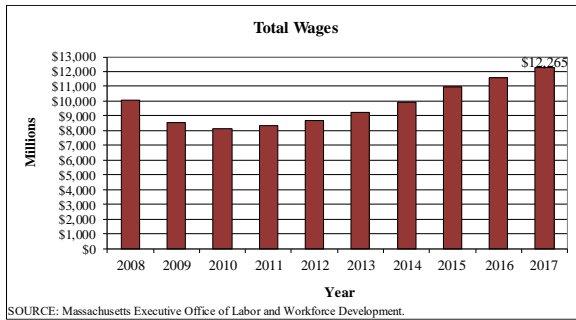
Employees: **Power generation and supply**

Annual wages: **Power generation and supply**

Average weekly wage: **Natural gas distribution**

Annual receipts at nonemployer establishments: Subsector detail N/A

NAICS 23 – Construction. The Construction sector comprises establishments primarily engaged in the construction of buildings or engineering projects (e.g., highways and utility systems). Establishments primarily engaged in the preparation of sites for new construction and establishments primarily engaged in subdividing land for sale as building sites also are included in this sector. See the appendix pages two through four for housing permits, housing sales, and housing sale prices.



State export data are not available for this sector.

Summary.

GDP contribution to state total: **3.9%**

GDP rank: **10 of 20**

Nonemployer to employer establishment ratio: **2.7 to 1**

Sector leaders. Industry subsectors with the majority of establishments, employees, payroll and receipts.

Establishments with employees: **Building equipment contractors**

Nonemployer establishments: **Building finishing contractors**

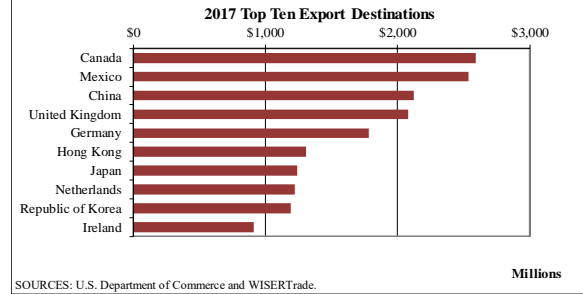
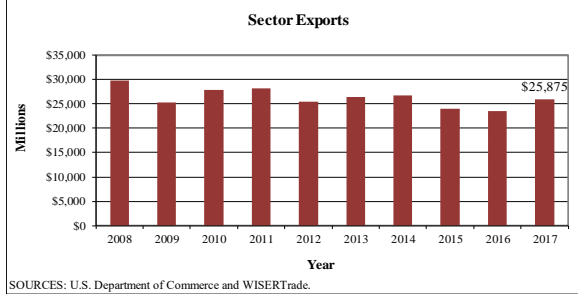
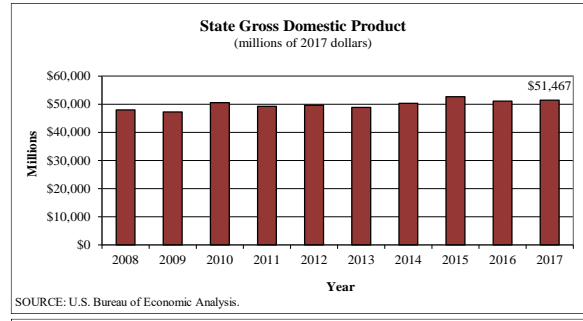
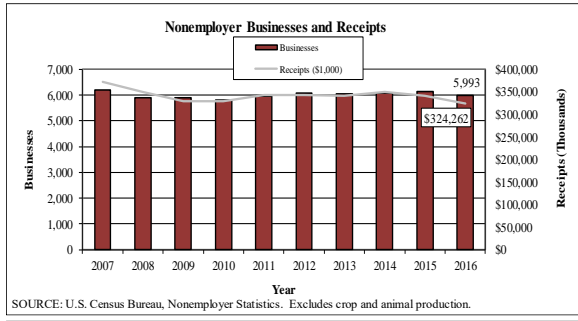
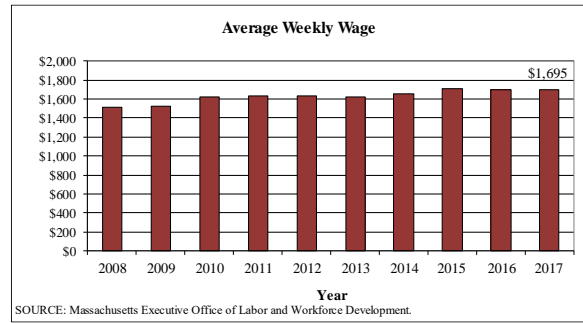
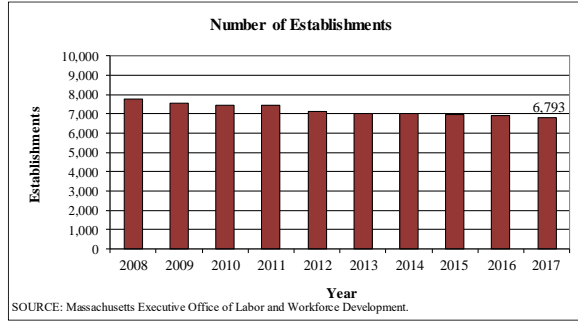
Employees: **Building equipment contractors**

Annual wages: **Building equipment contractors**

Average weekly wage: **Utility system construction**

Annual receipts at nonemployer establishments: **Residential building construction**

NAICS 31-33 – Manufacturing. The Manufacturing sector comprises establishments engaged in the mechanical, physical, or chemical transformation of materials, substances, or components into new products. The assembling of component parts of manufactured products is considered manufacturing, except in cases where the activity is appropriately classified in Sector 23, Construction.



Summary.

GDP contribution to state total: **9.4%**

GDP rank: **4 of 20**

Nonemployer to employer establishment ratio: **0.9 to 1**

Sector leaders. Industry subsectors with the majority of establishments, employees, payroll and receipts.

Establishments with employees: **Iron and steel mills and ferroalloy manufacturing**

Nonemployer establishments: **Other miscellaneous manufacturing**

Employees: **Electrical equipment manufacturing**

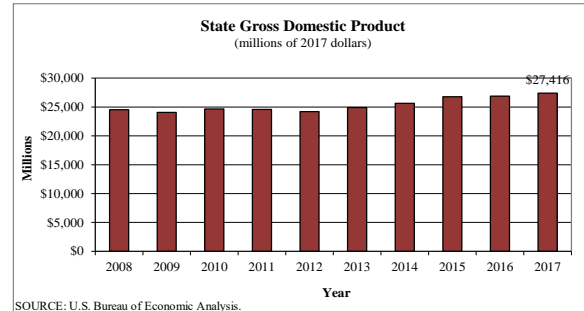
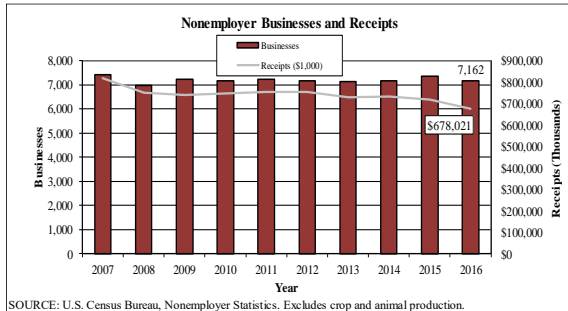
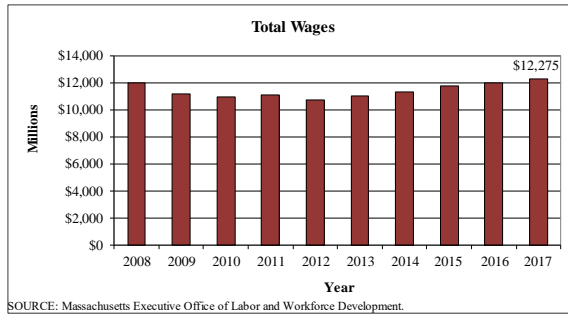
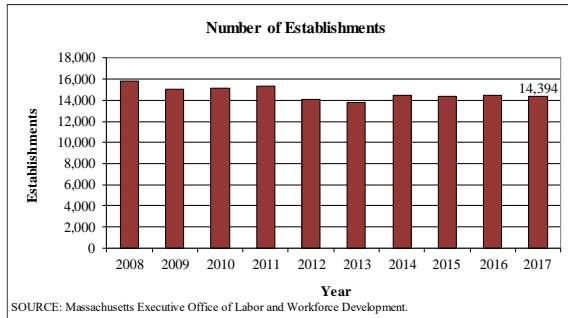
Annual wages: **Electrical equipment manufacturing**

Average weekly wage: **Communications equipment manufacturing**

Annual receipts at nonemployer establishments: **Other miscellaneous manufacturing**

Most valuable export: **Computers and electronic products**

NAICS 42 - Wholesale Trade. The Wholesale Trade sector comprises establishments engaged in wholesaling merchandise, generally without transformation, and rendering services incidental to the sale of merchandise. The merchandise described in this sector includes the outputs of agriculture, mining, manufacturing, and certain information industries, such as publishing. The wholesaling process is an intermediate step in the distribution of merchandise.



State export data are not available for this sector.

Summary.

GDP contribution to state total: **5.0%**

GDP rank: **8 of 20**

Nonemployer to employer establishment ratio: **0.5 to 1**

Sector leaders. Industry subsectors with the majority of establishments, employees, payroll and receipts.

Establishments with employees: **Electronic markets and agents and brokers**

Nonemployer establishments: **Miscellaneous durable goods merchant wholesalers**

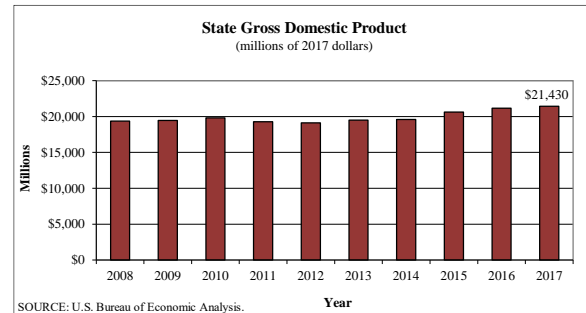
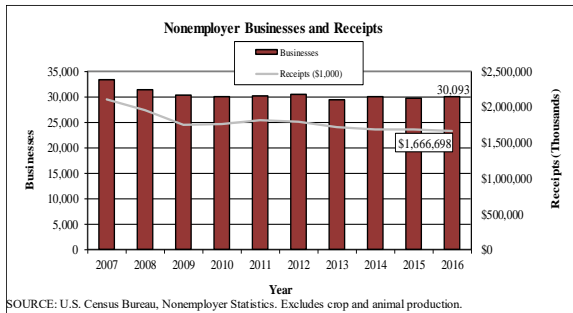
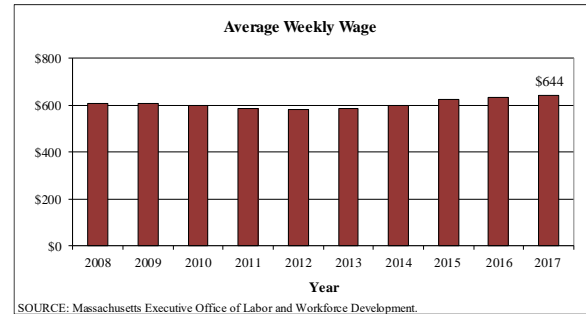
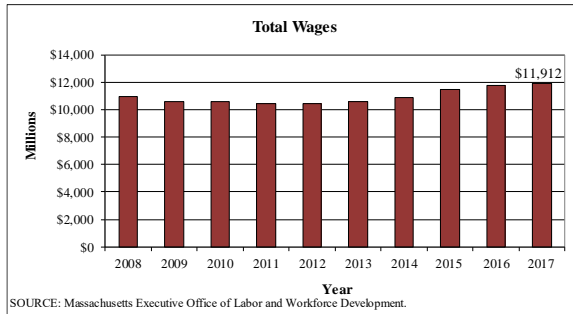
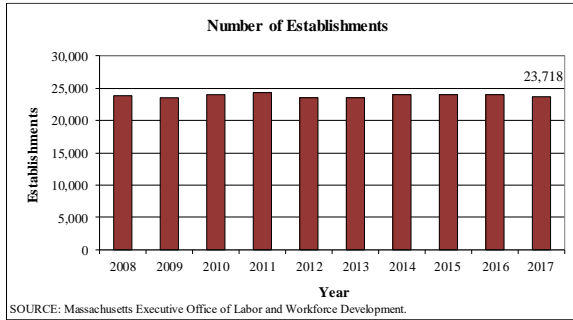
Employees: **Electronic markets and agents and brokers**

Annual wages: **Electronic markets and agents and brokers**

Average weekly wage: **Druggists' goods merchant wholesalers**

Annual receipts at nonemployer establishments: **Miscellaneous durable goods merchant wholesalers**

NAICS 44-45 - Retail Trade. The Retail Trade sector comprises establishments engaged in retailing merchandise, generally without transformation, and rendering services incidental to the sale of merchandise. The retailing process is the final step in the distribution of merchandise; retailers are therefore organized to sell merchandise in small quantities to the general public. This sector comprises two main types of retailers: store and nonstore retailers.



State export data are not available for this sector.

Summary.

GDP contribution to state total: **4.3%**

GDP rank: **9 of 20**

Nonemployer to employer establishment ratio: **1.2 to 1**

Sector leaders. Industry subsectors with the majority of establishments, employees, payroll and receipts.

Establishments with employees: **Health and personal care stores**

Nonemployer establishments: **Direct selling establishments**

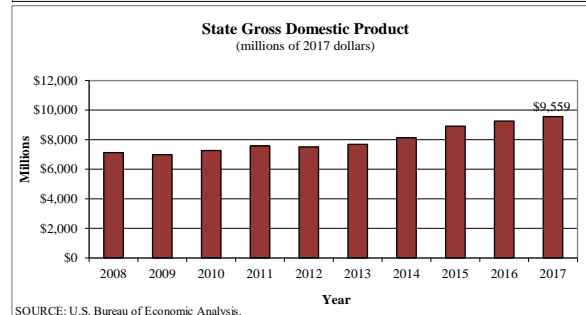
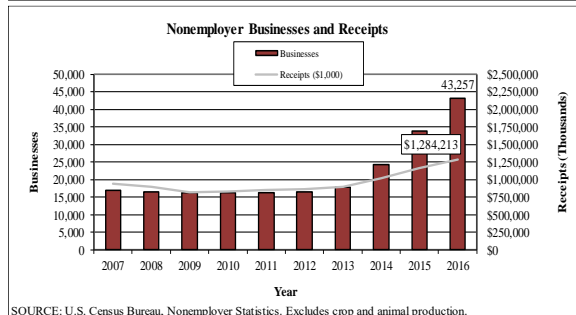
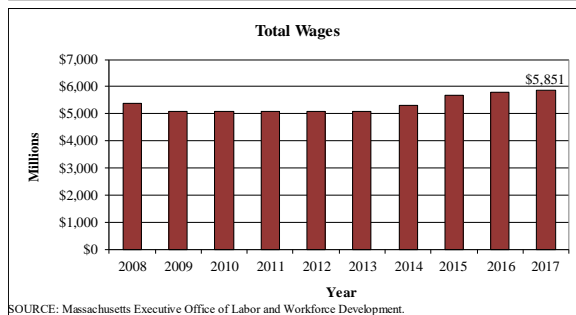
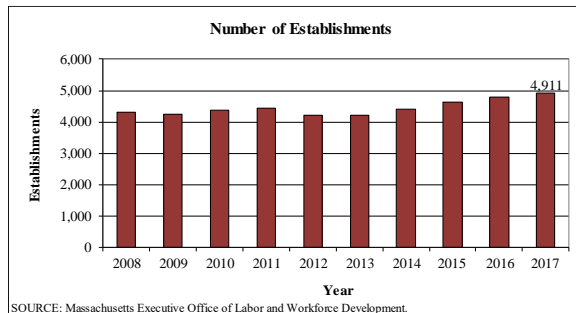
Employees: **Health and personal care stores**

Annual wages: **Health and personal care stores**

Average weekly wage: **Florists**

Annual receipts at nonemployer establishments: **Direct selling establishments**

NAICS 48-49 - Transportation and Warehousing. The Transportation and Warehousing sector includes industries providing transportation of passengers and cargo, warehousing and storage for goods, scenic and sightseeing transportation, and support activities related to modes of transportation. Establishments in these industries use transportation equipment or transportation related facilities as a productive asset. The type of equipment depends on the mode of transportation. The modes of transportation are air, rail, water, road, and pipeline. See pages six and seven of the appendix for more information regarding transportation and warehousing.



State export data are not available for this sector.

Summary.

GDP contribution to state total: 1.7%

GDP rank: 16 of 20

Nonemployer to employer establishment ratio: 7.1 to 1

Sector leaders. Industry subsectors with the majority of establishments, employees, payroll and receipts.

Establishments with employees: **General freight trucking**

Nonemployer establishments: **Taxi and limousine service**

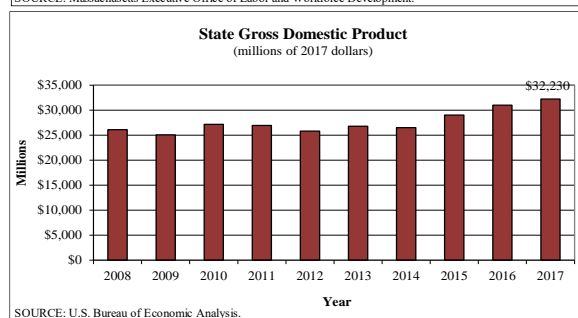
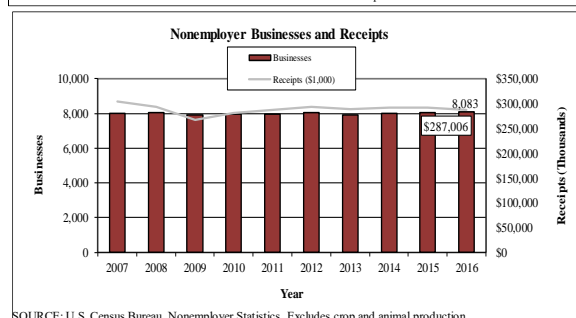
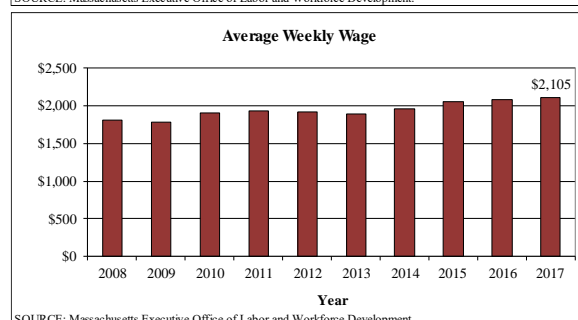
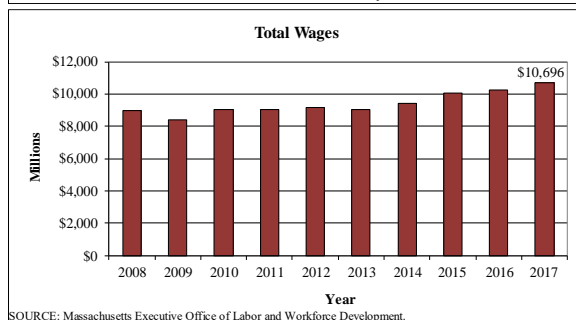
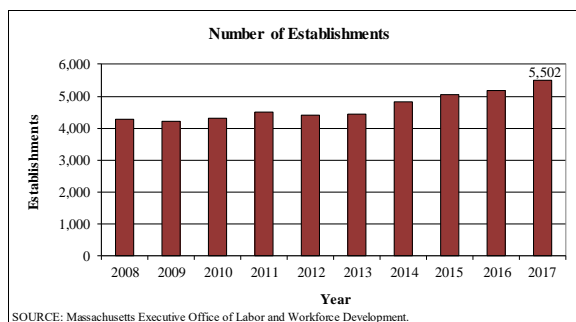
Employees: **Warehousing and storage**

Annual wages: **Warehousing and storage**

Average weekly wage: **Pipeline transportation of natural gas**

Annual receipts at nonemployer establishments: **Taxi and limousine service**

NAICS 51 – Information. The Information sector comprises establishments engaged in the following processes: producing and distributing information and cultural products, providing the means to transmit or distribute these products as well as data or communications, and processing data. In 2014, Information exports of prepackaged software, NAICS code 511, were recoded to the Manufacturing NAICS code 334.



State export data are not available for this sector.

Summary.

GDP contribution to state total: **5.2%**

GDP rank: **7 of 20**

Nonemployer to employer establishment ratio: **1.6 to 1**

Sector leaders. Industry subsectors with the majority of establishments, employees, payroll and receipts.

Establishments with employees: **Other information services**

Nonemployer establishments: **Other information services**

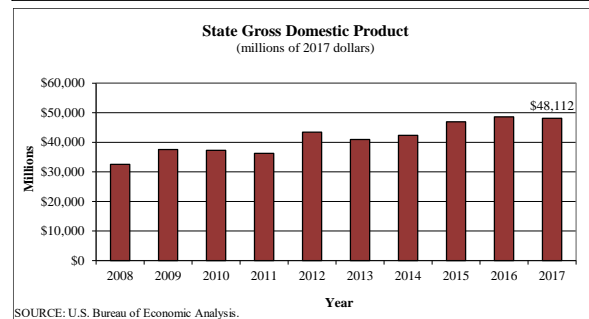
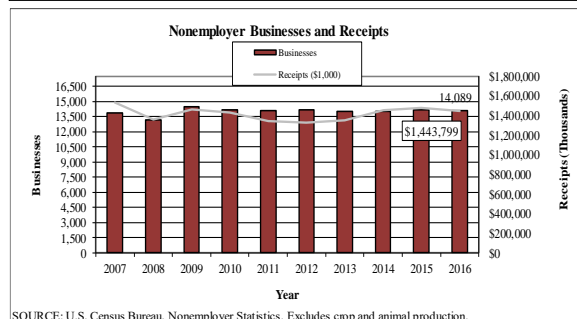
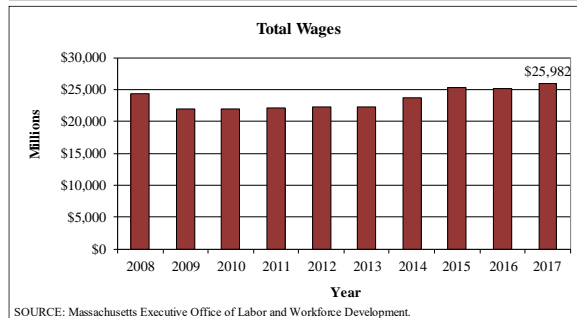
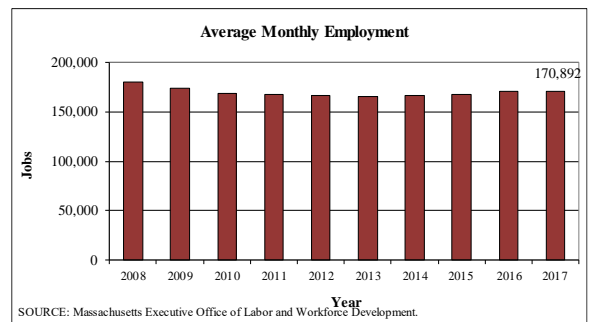
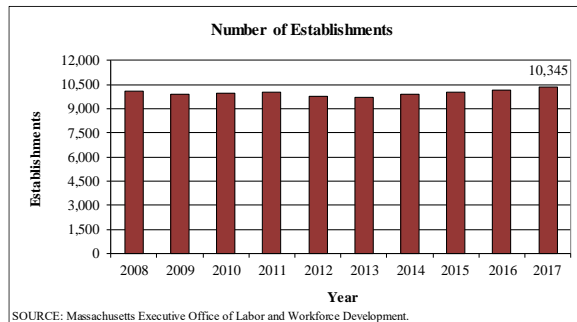
Employees: **Software publishers**

Annual wages: **Software publishers**

Average weekly wage: **Software publishers**

Annual receipts at nonemployer establishments: **Other information services**

NAICS 52 - Finance and Insurance. The Finance and Insurance sector comprises establishments primarily engaged in financial transactions (transactions involving the creation, liquidation, or change in ownership of financial assets) and/or in facilitating financial transactions.



State export data are not available for this sector.

Summary.

GDP contribution to state total: **9.3%**

GDP rank: **5 of 20**

Nonemployer to employer establishment ratio: **1.4 to 1**

Sector leaders. Industry subsectors with the majority of establishments, employees, payroll and receipts.

Establishments with employees: **Insurance agencies and brokerages**

Nonemployer establishments: **Other financial investment activities**

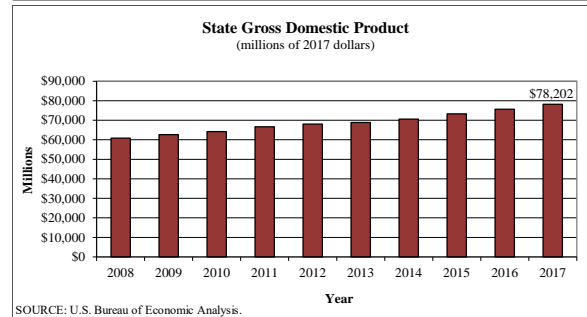
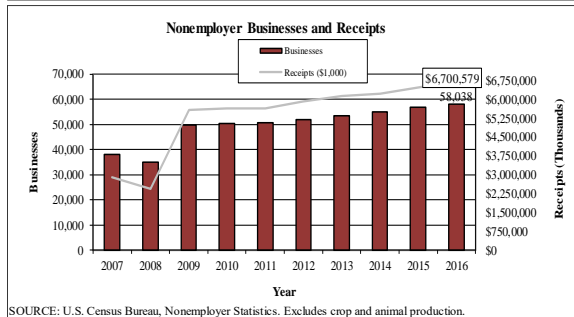
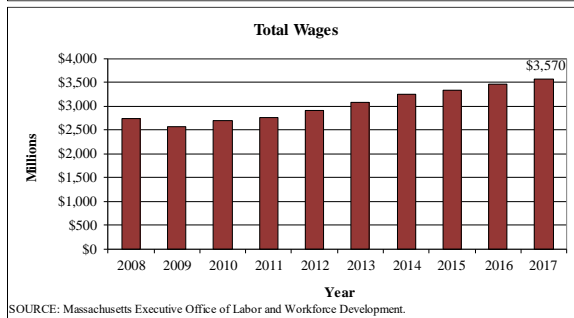
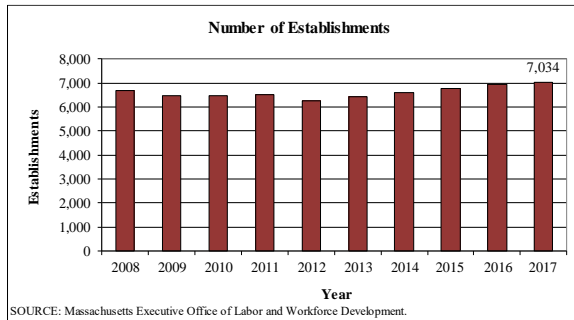
Employees: **Depository credit intermediation**

Annual wages: **Other financial investment activities**

Average weekly wage: **Securities and commodity contracts brokerage**

Annual receipts at nonemployer establishments: **Other financial investment activities**

NAICS 53 - Real Estate and Rental and Leasing. The Real Estate and Rental and Leasing sector comprises establishments primarily engaged in renting, leasing, or otherwise allowing the use of tangible or intangible assets, and establishments providing related services. The major portion of this sector comprises establishments that rent, lease, or otherwise allow the use of their own assets by others. The assets may be tangible, as is the case of real estate and equipment, or intangible, as is the case with patents and trademarks.



State export data are not available for this sector.

Summary.

GDP contribution to state total: **14.7%**

GDP rank: **1 of 20**

Nonemployer to employer establishment ratio: **8.1 to 1**

Sector leaders. Industry subsectors with the majority of establishments, employees, payroll and receipts.

Establishments with employees: **Activities related to real estate**

Nonemployer establishments: **Lessors of real estate**

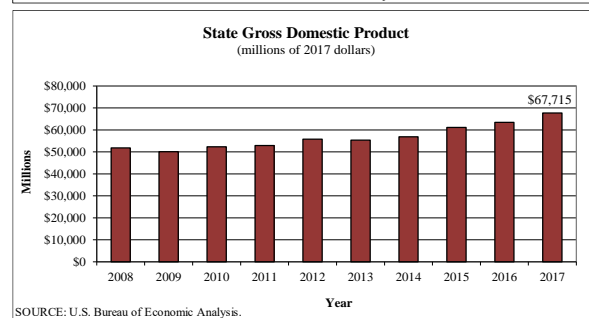
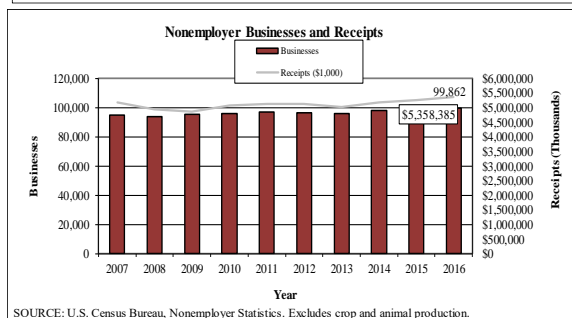
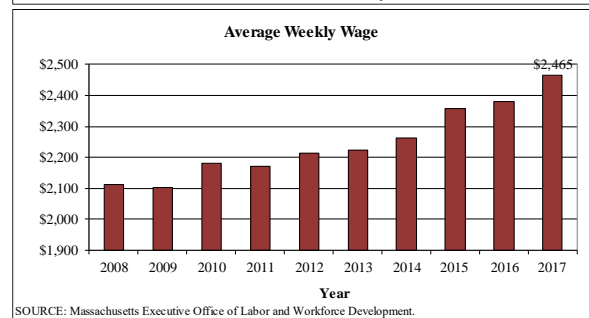
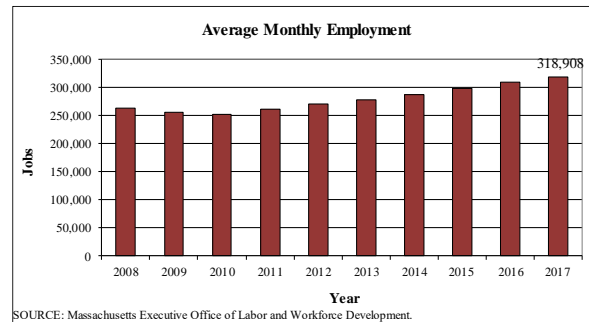
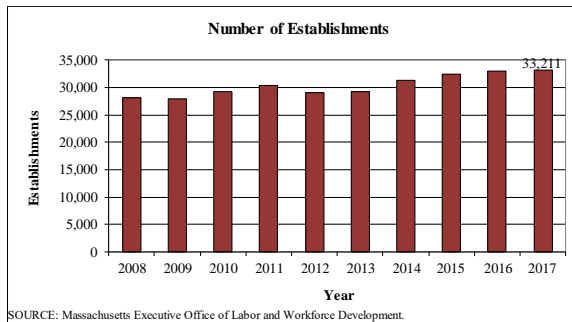
Employees: **Activities related to real estate**

Annual wages: **Activities related to real estate**

Average weekly wage: **Lessors of nonfinancial intangible assets**

Annual receipts at nonemployer establishments: **Lessors of real estate**

NAICS 54 - Professional and Technical Services. The Professional and Technical Services sector comprises establishments that specialize in performing professional, scientific, and technical activities for others. These activities require a high degree of expertise and training. The establishments in this sector specialize according to expertise and provide these services to clients in a variety of industries - in some cases, to households. Activities performed include: legal advice and representation, accounting, bookkeeping, and payroll services, architectural, engineering, and specialized design services, computer services, consulting services, research services, advertising services, photographic services, translation and interpretation services, veterinary services, and other professional, scientific, and technical services.



State export data are not available for this sector.

Summary.

GDP contribution to state total: **11.9%**

GDP rank: **2 of 20**

Nonemployer to employer establishment ratio: **3.0 to 1**

Sector leaders. Industry subsectors with the majority of establishments, employees, payroll and receipts.

Establishments with employees: **Computer systems design and related services**

Nonemployer establishments: **Other professional, scientific, and technical services**

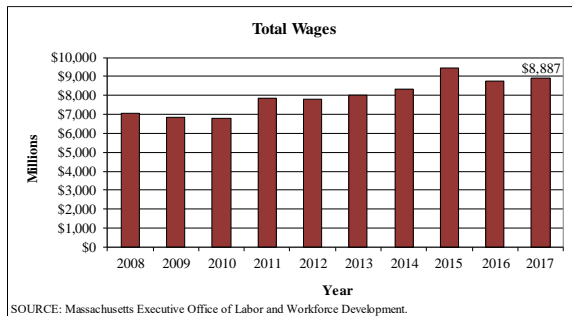
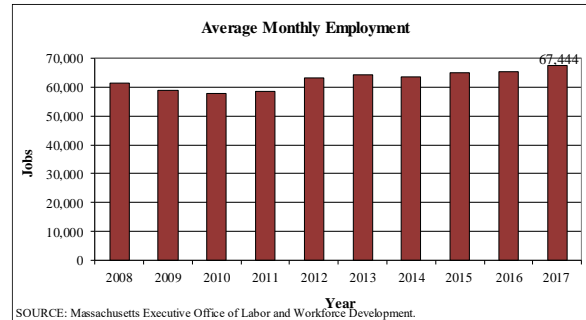
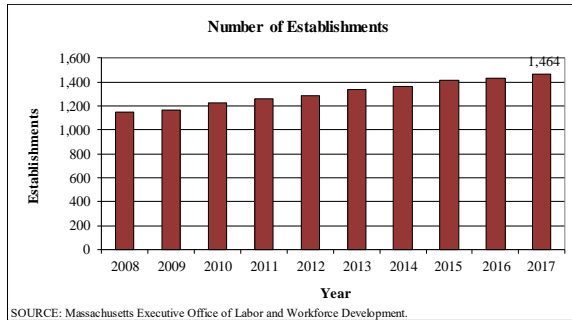
Employees: **Computer systems design and related services**

Annual wages: **Computer systems design and related services**

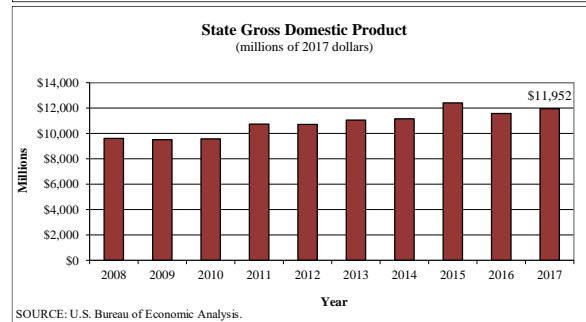
Average weekly wage: **Scientific research and development services**

Annual receipts at nonemployer establishments: **Other professional, scientific, and technical services**

NAICS 55 - Management of Companies and Enterprises. The Management of Companies and Enterprises sector comprises establishments that hold the securities of (or other equity interests in) companies and enterprises for the purpose of owning a controlling interest or influencing management decisions or establishments (except government establishments) that administer, oversee, and manage establishments of the company or enterprise and that normally undertake the strategic or organizational planning and decision making role of the company or enterprise. Establishments that administer, oversee, and manage may hold the securities of the company or enterprise.



State nonemployer and export data are not available for this sector.



Summary.

GDP contribution to state total: **2.3%**

GDP rank: **14 of 20**

Nonemployer to employer establishment ratio: **N/A**

Sector leaders. Industry subsectors with the majority of establishments, employees, payroll, and receipts.

Establishments with employees: Subsector detail **N/A**

Nonemployer establishments: **N/A**

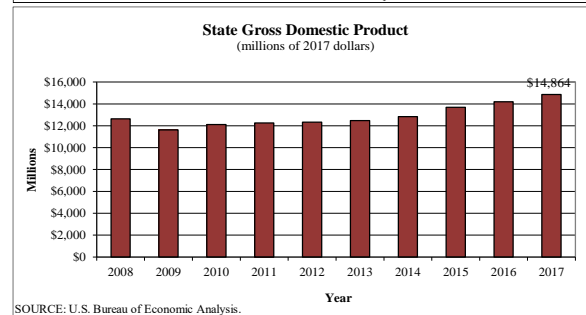
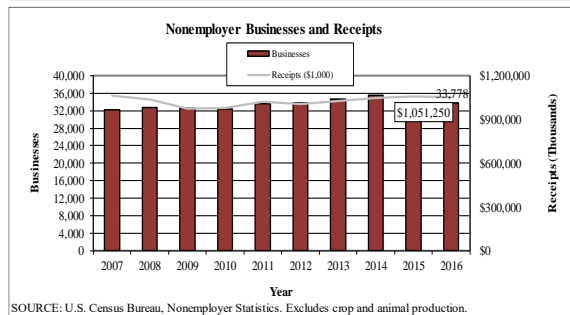
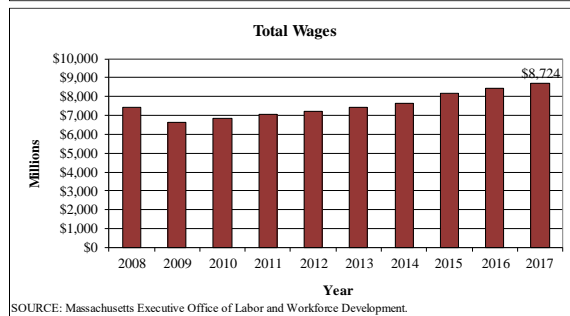
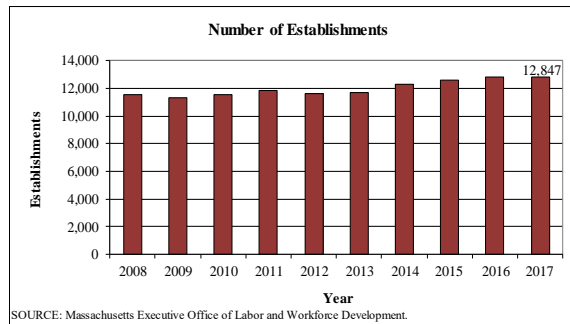
Employees: Subsector detail **N/A**

Annual wages: Subsector detail **N/A**

Average weekly wage: Subsector detail **N/A**

Annual receipts at nonemployer establishments: **N/A**

NAICS 56 - Administrative and Waste Services. The Administrative and Waste Services sector comprises establishments performing routine support activities for the day-to-day operations of other organizations. The establishments in this sector specialize in one or more of these support activities and provide these services to clients in a variety of industries and, in some cases, to households. Activities performed include: office administration, hiring and placing of personnel, document preparation and similar clerical services, solicitation, collection, security and surveillance services, cleaning, and waste disposal services.



State export data are not available for this sector.

Summary.

GDP contribution to state total: **2.8%**

GDP rank: **13 of 20**

Nonemployer to employer establishment ratio: **2.6 to 1**

Sector leaders. Industry subsectors with the majority of establishments, employees, payroll and receipts.

Establishments with employees: **Services to buildings and dwellings**

Nonemployer establishments: **Services to buildings and dwellings**

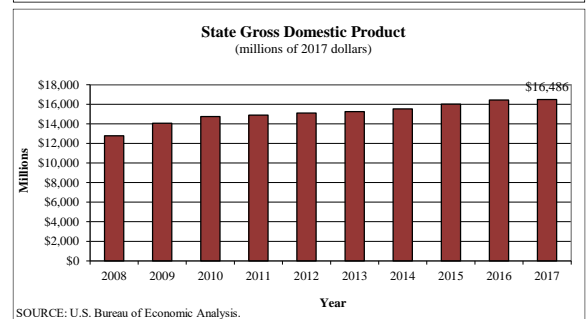
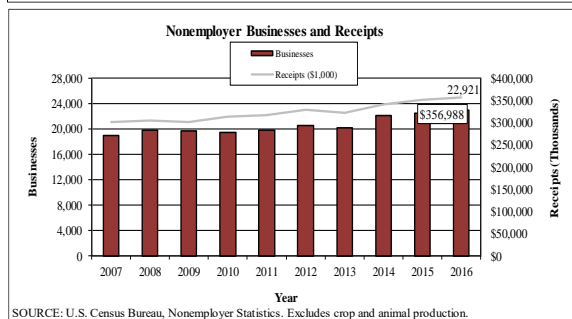
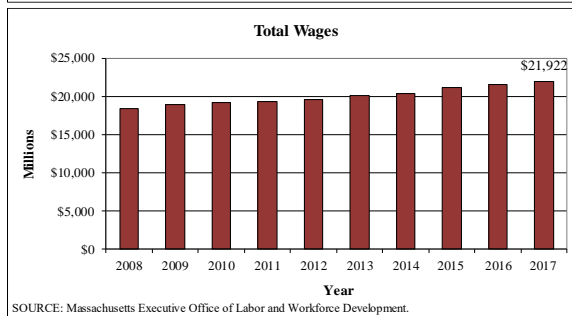
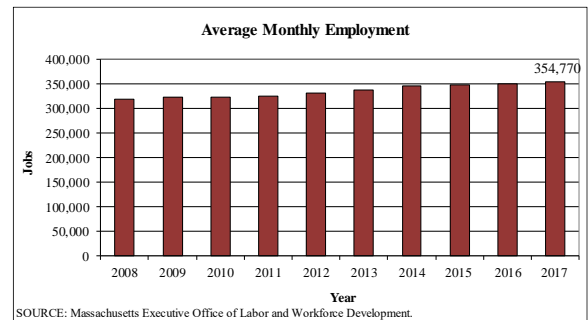
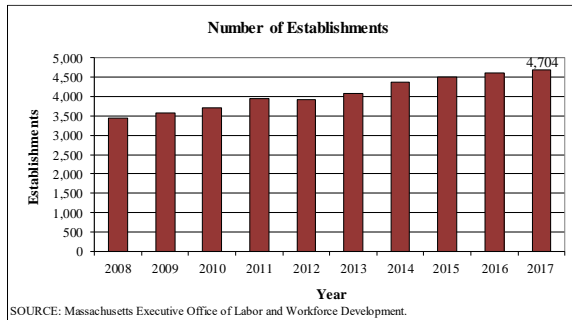
Employees: **Employment services**

Annual wages: **Employment services**

Average weekly wage: **Office administrative services**

Annual receipts at nonemployer establishments: **Services to buildings and dwellings**

NAICS 61 - Educational Services. The Educational Services sector comprises establishments that provide instruction and training in a wide variety of subjects. This instruction and training is provided by specialized establishments, such as schools, colleges, universities, and training centers. These establishments may be privately owned and operated for profit or not for profit, or they may be publicly owned and operated. They may also offer food and/or accommodation services to their students.



State export data are not available for this sector.

Summary.

GDP contribution to state total: **2.8%**

GDP rank: **12 of 20**

Nonemployer to employer establishment ratio: **4.9 to 1**

Sector leaders. Industry subsectors with the majority of establishments, employees, payroll and receipts.

Establishments with employees: **Other schools and instruction**

Nonemployer establishments: Subsector detail N/A

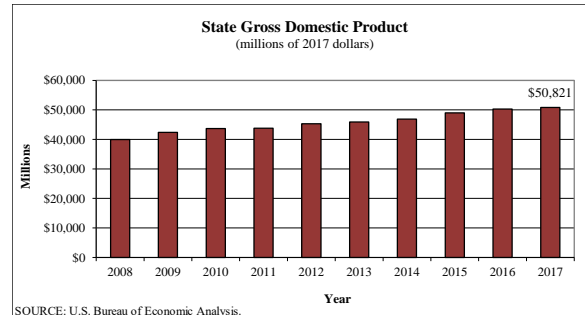
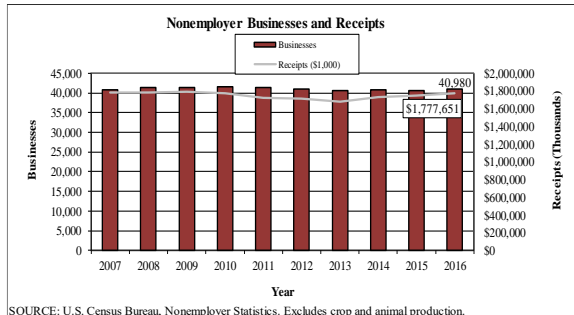
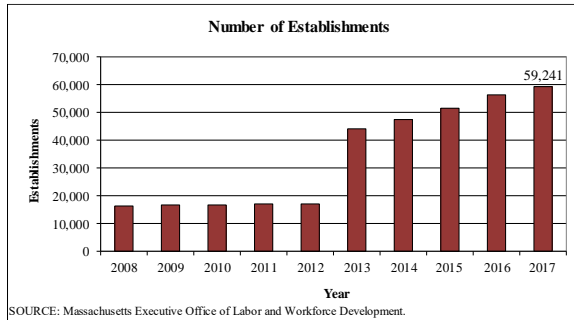
Employees: **Elementary and secondary schools**

Annual wages: **Elementary and secondary schools**

Average weekly wage: **Colleges and universities**

Annual receipts at nonemployer establishments: Subsector detail N/A

NAICS 62 - Health Care and Social Assistance. The Health Care and Social Assistance sector comprises establishments providing health care and social assistance for individuals. The sector includes both health care and social assistance because it is sometimes difficult to distinguish between the boundaries of these two activities. **Note:** Beginning with the first Quarter 2013, a code change for employees from private households (NAICS 814110) into services for the elderly and persons with disabilities (NAICS 624120) moved 33,960 employees in Massachusetts in January 2013.



State export data are not available for this sector.

Summary.

GDP contribution to state total: **9.2%**

GDP rank: **6 of 20**

Nonemployer to employer establishment ratio: **0.7 to 1**

Sector leaders. Industry subsectors with the majority of establishments, employees, payroll and receipts.

Establishments with employees: **Individual and family services**

Nonemployer establishments: **Offices of other health practitioners**

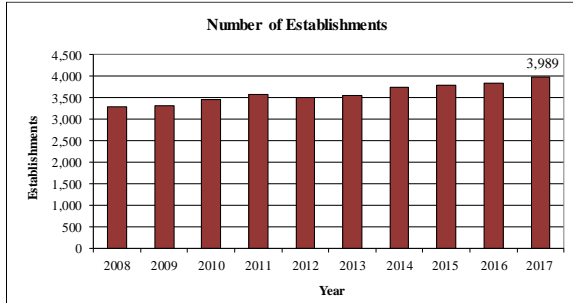
Employees: **General medical and surgical hospitals**

Annual wages: **General medical and surgical hospitals**

Average weekly wage: **Offices of physicians**

Annual receipts at nonemployer establishments: **Offices of other health practitioners**

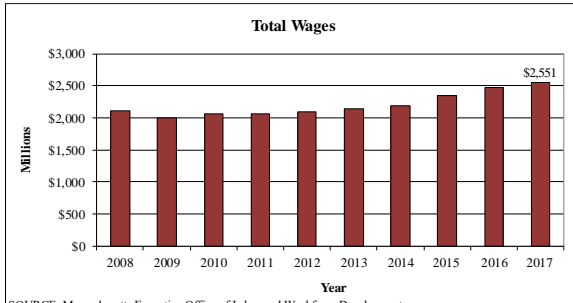
NAICS 71 - Arts, Entertainment, and Recreation. The Arts, Entertainment, and Recreation sector includes a wide range of establishments that: operate facilities or provide services to meet varied cultural, entertainment, and recreational interests of their patrons, are involved in producing, promoting, or participating in live performances, events, or exhibits intended for public viewing, preserve and exhibit objects and sites of historical, cultural, or educational interest and operate facilities or provide services that enable patrons to participate in recreational activities or pursue amusement, hobby, and leisure-time interests. See the appendix page six for travel and tourism information.



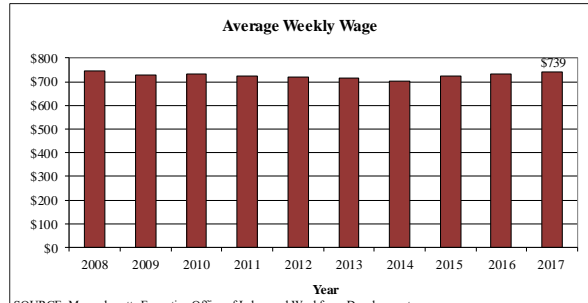
SOURCE: Massachusetts Executive Office of Labor and Workforce Development.



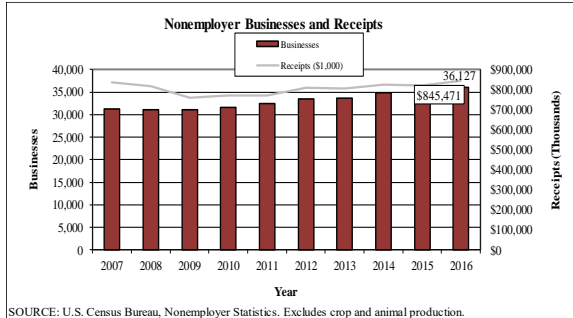
SOURCE: Massachusetts Executive Office of Labor and Workforce Development.



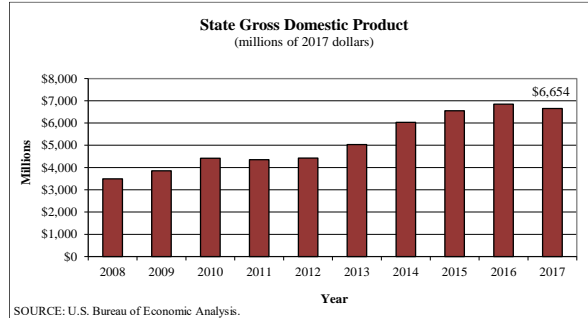
SOURCE: Massachusetts Executive Office of Labor and Workforce Development.



SOURCE: Massachusetts Executive Office of Labor and Workforce Development.



SOURCE: U.S. Census Bureau, Nonemployer Statistics. Excludes crop and animal production.



SOURCE: U.S. Bureau of Economic Analysis.

State export data are not available for this sector.

Summary.

GDP contribution to state total: **1.1%**

GDP rank: **18 of 20**

Nonemployer to employer establishment ratio: **9.1 to 1**

Sector leaders. Industry subsectors with the majority of establishments, employees, payroll and receipts.

Establishments with employees: **Other amusement & recreation industries**

Nonemployer establishments: **Independent artists, writers, and performers**

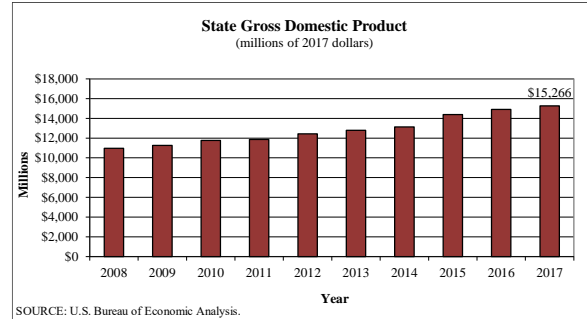
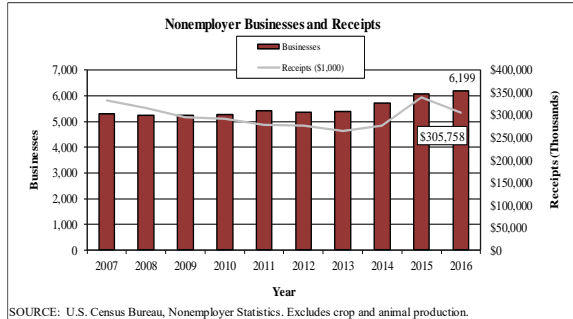
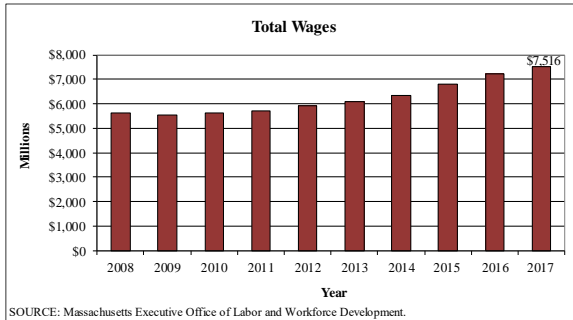
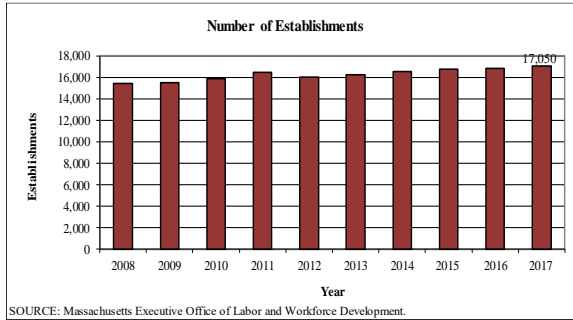
Employees: **Other amusement & recreation industries**

Annual wages: **Other amusement & recreation industries**

Average weekly wage: **Spectator sports**

Annual receipts at nonemployer establishments: **Independent artists, writers, and performers**

NAICS 72 - Accommodation and Food Services. The Accommodation and Food Services sector comprises establishments providing customers with lodging and/or preparing meals, snacks, and beverages for immediate consumption. The sector includes both accommodation and food services establishments because the two activities are often combined at the same establishment.



State export data are not available for this sector.

Summary.

GDP contribution to state total: **2.9%**

GDP rank: **11 of 20**

Nonemployer to employer establishment ratio: **0.4 to 1**

Sector leaders. Industry subsectors with the majority of establishments, employees, payroll and receipts.

Establishments with employees: **Restaurants and other eating places**

Nonemployer establishments: **Special food services**

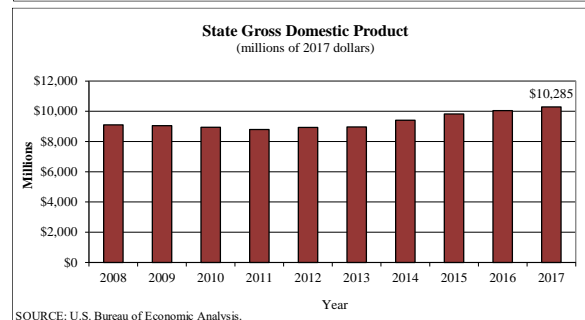
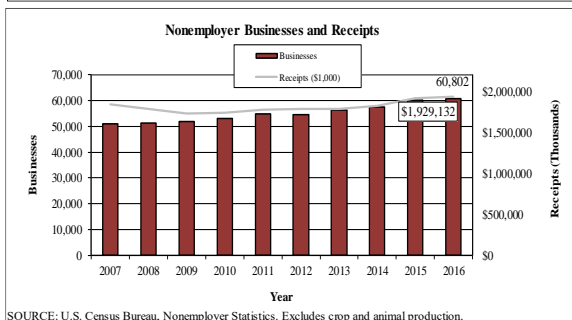
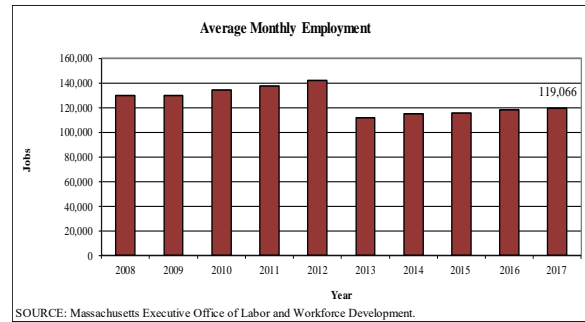
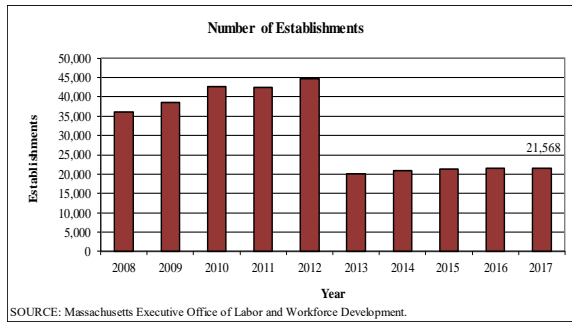
Employees: **Restaurants and other eating places**

Annual wages: **Restaurants and other eating places**

Average weekly wage: **Traveler accommodation**

Annual receipts at nonemployer establishments: **Restaurants and other eating places**

NAICS 81 - Other Services, Except Public Administration. The Other Services (except Public Administration) sector comprises establishments engaged in providing services not specifically provided for elsewhere in the classification system. Establishments in this sector are primarily engaged in activities such as equipment and machinery repairing, promoting or administering religious activities, grant-making, advocacy, providing dry cleaning and laundry services, personal care services, death care services, pet care services, photofinishing services, temporary parking services, and dating services. **Note:** Beginning with the first Quarter 2013, a code change for employees from private households (NAICS 814110) into services for the elderly and persons with disabilities (NAICS 624120) moved 33,960 employees in Massachusetts in January 2013.



State export data are not available for this sector.

Summary.

GDP contribution to state total: **1.9%**

GDP rank: **15 of 20**

Nonemployer to employer establishment ratio: **2.8 to 1**

Sector leaders. Industry subsectors with the majority of establishments, employees, payroll and receipts.

Establishments with employees: **Private households**

Nonemployer establishments: **Other personal services**

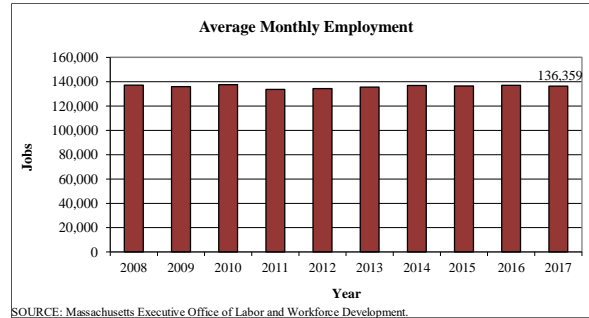
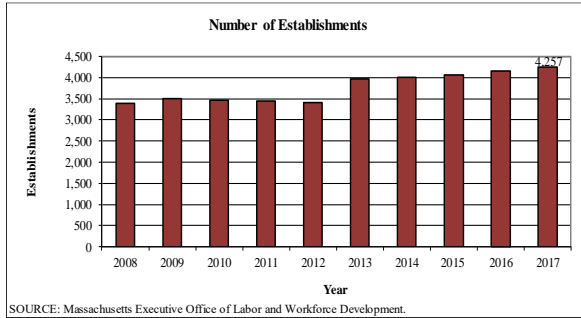
Employees: **Personal care services**

Annual wages: **Automotive repair and maintenance**

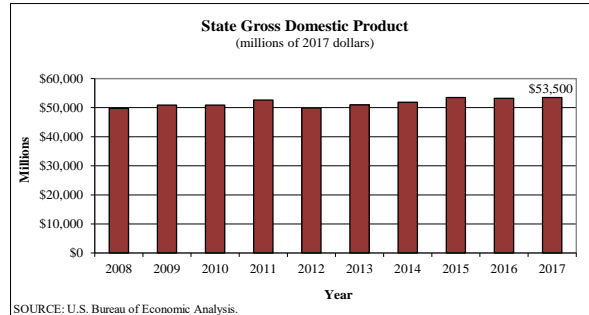
Average weekly wage: **Grantmaking and giving services**

Annual receipts at nonemployer establishments: **Other personal services**

NAICS 92 - Public Administration. The Public Administration sector consists of establishments of federal, state, and local government agencies that administer, oversee, and manage public programs and have executive, legislative, or judicial authority over other institutions within a given area. These agencies also set policy, create laws, adjudicate civil and criminal legal cases, and provide for public safety and national defense.



State nonemployer and export data are not available for this sector.



Summary.

GDP contribution to state total: **10.3%**

GDP rank: **3 of 20**

Nonemployer to employer establishment ratio: N/A

Sector leaders. Industry subsectors with the majority of establishments, employees, payroll and receipts.

Establishments with employees: **Justice, public order, and safety activities**

Nonemployer establishments: N/A

Employees: **Justice, public order, and safety activities**

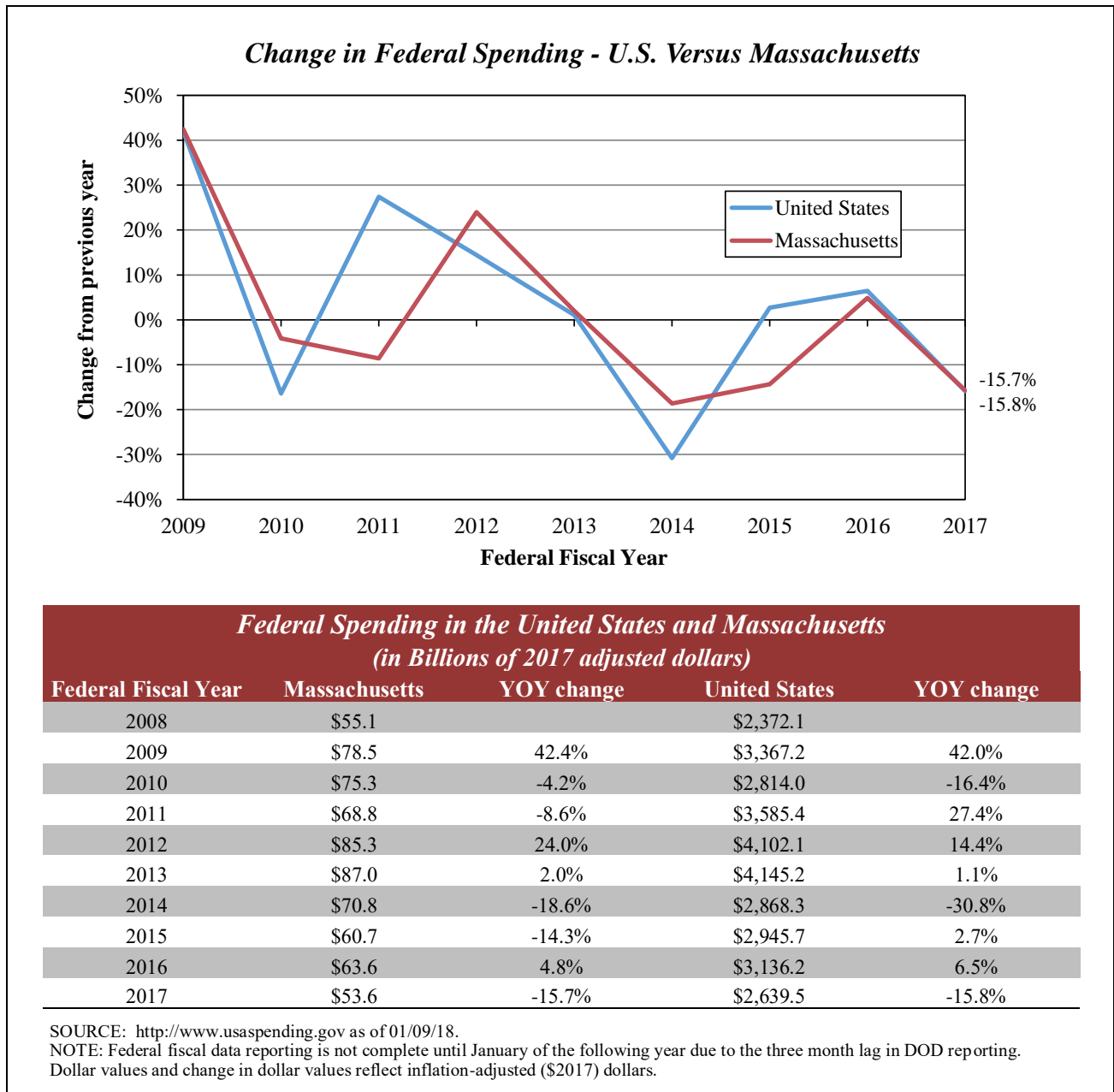
Annual wages: **Justice, public order, and safety activities**

Average weekly wage: **Justice, public order, and safety activities**

Annual receipts at nonemployer establishments: N/A

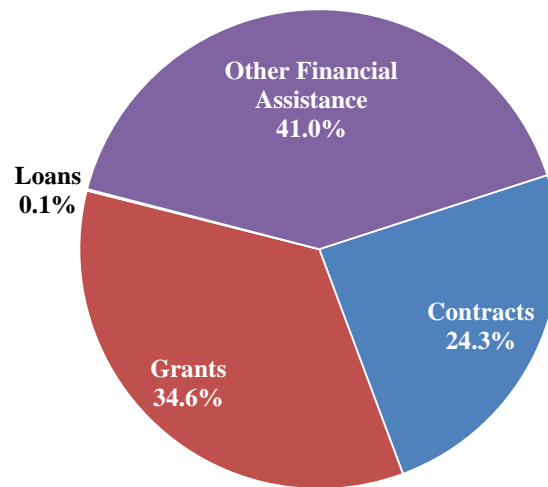
ECONOMIC BASE AND PERFORMANCE—GOVERNMENT REVENUES AND SPENDING

Federal Spending in Massachusetts. Massachusetts received approximately \$53.6 billion in contracts, grants, direct payments, insurance, loans and guarantees, and other spending from the federal government in federal fiscal year (FFY) 2017. Massachusetts received 2.0 percent of all federal spending in FFY 2017 versus 2.0 percent in FFY 2016. Federal dollars to Massachusetts have dropped since FFY 2012. Massachusetts federal contracts declined from FFY 2012 to FFY 2014, increased 5.2 percent in FFY 2015, declined 3.9 percent in FFY 2016, and declined 1.2 percent in FFY 2017. The proportion of all Massachusetts federal contracts has averaged 2.9 percent over the last ten years.

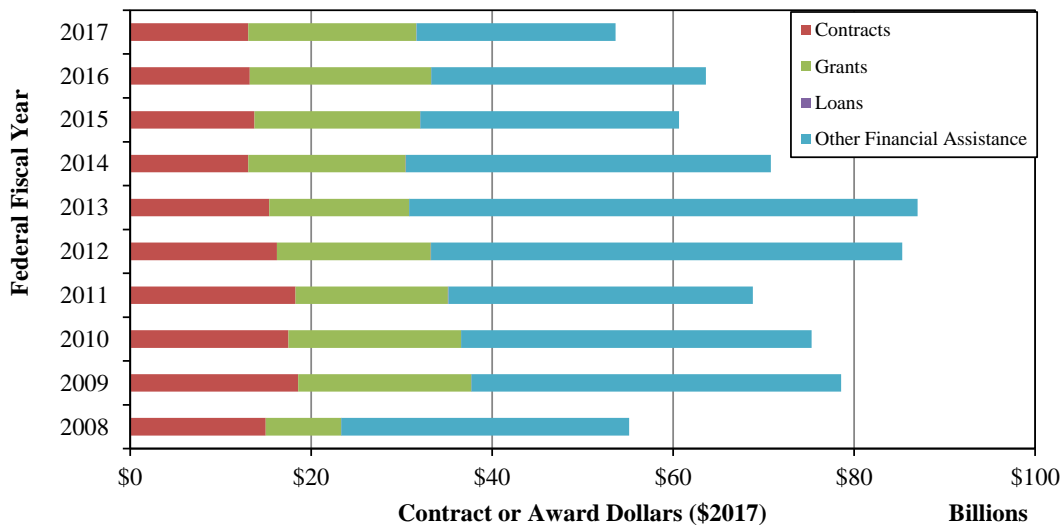


In FFY 2017, the largest portion of federal spending in Massachusetts, 41.0 percent, was for Other Financial Assistance. This includes direct payments to individuals (such as Medicare and food stamps), insurance payments (such as unemployment benefits, flood insurance), and other types of assistance payments (such as reimbursements for prescriptions for veterans). Other Financial Assistance decreased by 27.5 percent, Contracts decreased by 1.2 percent, and Grants increased by 628.3 percent from FFY 2016. The graphs below describe the most recent complete fiscal year and the last nine years of federal spending in Massachusetts, including the most recent data for the current fiscal year as reported by USASpending.gov.

Federal Spending in Massachusetts - Federal Fiscal Year 2017



**Composition of Federal Spending Awards to Massachusetts
FFY2008 - 2017**

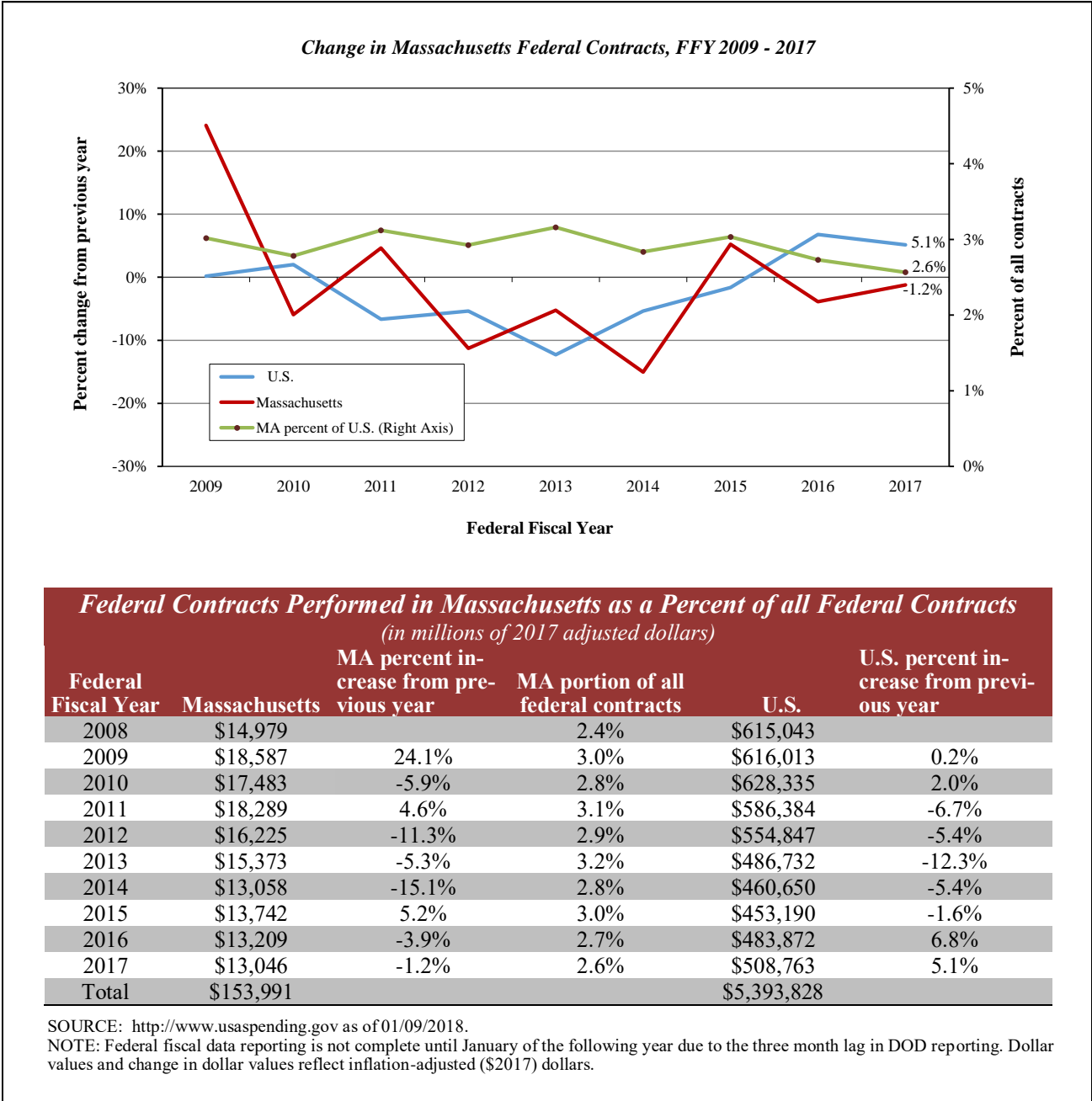


SOURCE: <http://www.usaspending.gov> as of 01/09/2018.

NOTE: Federal fiscal data reporting is not complete until January of the following year due to the three month lag in DOD reporting. Dollar values and change in dollar values reflect inflation-adjusted (\$2017) dollars.

Federal Contracts. The table and graph below compare the annual summary of federal contracts performed in Massachusetts to the total contracts awarded by the federal government. In FFY 2017, the latest full year available, 2.6 percent of all federal contract work was performed in Massachusetts. This is slightly less than the 2.9 percent average over the last ten years.

The following two pages summarize the federal contracts by top products or services, funding agencies and sub agencies, contractors and sub-awardees, over the long-term and the latest complete federal fiscal year. The work was primarily performed in Massachusetts and the vendors who were awarded the contracts may or may not have been located in Massachusetts.



Summary of Federal Contracts Performed in Massachusetts

FFY 2008 to FFY 2017

Total Dollars:	\$153,991,433,809
Number of Transactions:	1,256,077

Top 5 Prime Award Contractors

Raytheon Company	\$40,724,449,465
General Electric Company	\$13,822,379,724
Massachusetts Institute of Technology	\$10,708,158,080
General Dynamics Corporation	\$8,527,199,074
Coins 'N Things Inc.	\$6,169,406,702

Top 5 Contract Sub-Awardees

Cobham Plc	\$2,488,379,776
Bae Systems Information And Electronic Systems Integration, Inc.	\$907,074,932
General Dynamics Advanced Information Systems, Inc.	\$449,083,136
Raytheon Company	\$329,487,036
Charles Stark Draper Laboratory, Inc.	\$261,043,406

SOURCE: <http://www.usaspending.gov> as of 01/09/2018.

NOTE: Annual federal fiscal data reporting is not complete until January of the following year due to the three month lag in DOD reporting. Dollar values reflect inflation-adjusted (\$2017) dollars.

Federal Contracts Performed in Massachusetts

Federal Fiscal Year: 2017

Total Contract Funds Awarded:	\$13,046,218,551
Total Contract Funds to Sub-Awardees:	\$773,616,451
This amount is 2.6% percent of all dollars awarded nationally for the federal fiscal year.	

Number of Transactions: 113,249

Top 5 Prime Award Contractors

Raytheon Company	\$3,570,290,325
General Electric Company	\$1,405,951,812
Massachusetts Institute of Technology	\$1,071,413,627
Charles Stark Draper Laboratory, Inc.	\$365,002,441
General Dynamics C4 Systems, Inc.	\$333,531,675

Top 5 Contract Sub-Awardees

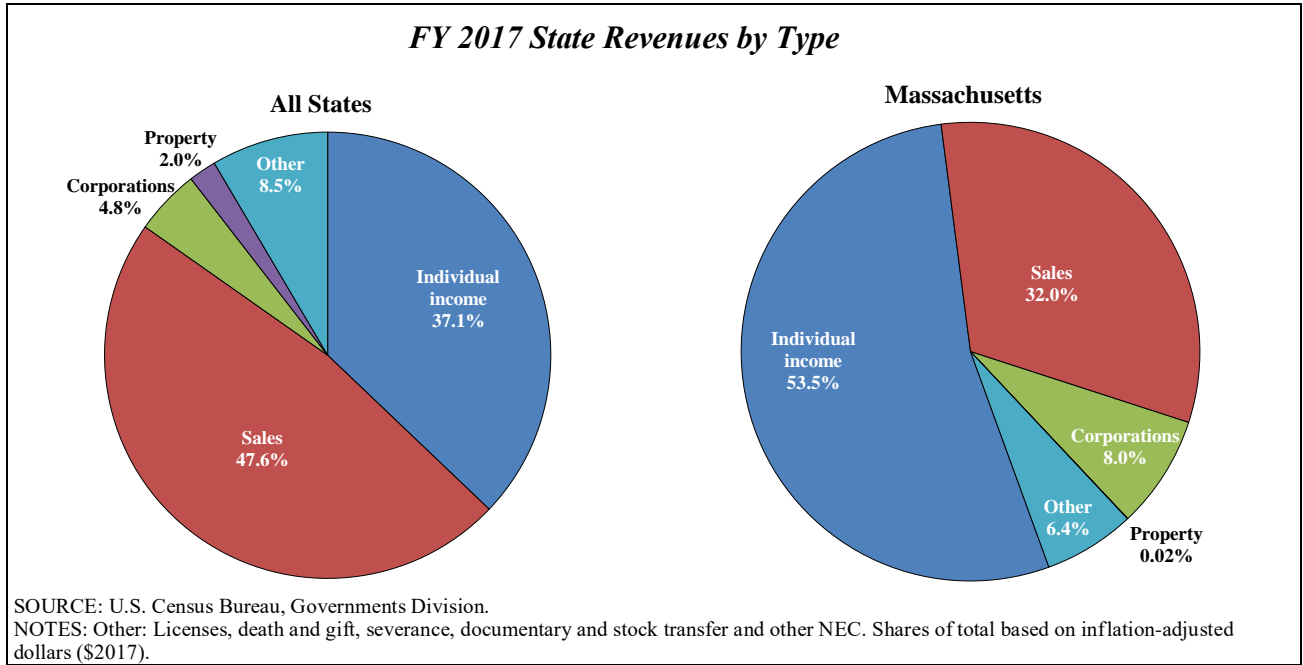
Charles Stark Draper Laboratory, Inc.	\$71,291,317
Rolls-Royce Holdings Plc	\$49,528,498
AECOM	\$40,682,429
Qinetiq Holdings Limited	\$39,575,123
Ultra Electronics Holdings Plc	\$29,767,778

SOURCE: <http://www.usaspending.gov> as of 01/09/2018.

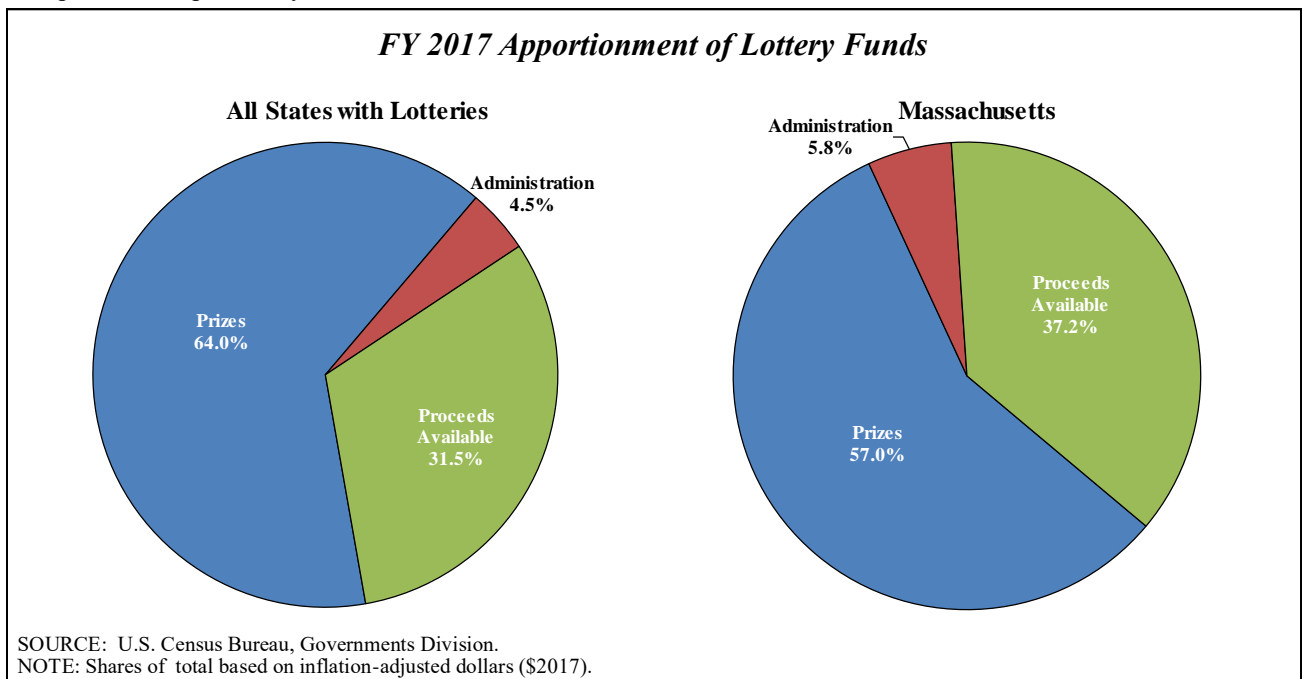
NOTE: Annual federal fiscal data reporting is not complete until January of the following year due to the three month lag in DOD reporting. Dollar values reflect inflation-adjusted (\$2017) dollars.

State Revenues. Taxes collected by all states in FY 2017 totaled \$950.5 billion, 0.05 percent more than in FY 2016. Massachusetts collected \$27.5 billion in FY 2017, 1.2 percent less than in FY 2016. Massachusetts ranked tenth in the nation in total taxes collected in 2017.

In FY 2017, the national average of tax collection from individual income tax and sales and gross receipts tax was 84.8 percent of total revenue. Massachusetts collected most of its revenue, 53.5 percent, from individual income taxes while overall states collected 37.1 percent of their revenue from individual income tax. Seven states do not have an individual income tax.



State Lottery Proceeds. Massachusetts ranked fourth in revenue, \$5.23 billion, and fourth in prize money awarded, \$272.9 million, among the 43 states with lotteries in FY 2016. Massachusetts lottery revenue decreased 2.1 percent compared to the previous year.



State Expenditures. The following tables and graph depict FY 2017 per capita state government general expenditures in inflation-adjusted dollars by category for the six New England states and the U.S. average state expenditures. Massachusetts ranked eighth in the nation in per capita expenditures, \$9,687 in 2017, while it ranked sixth and spent \$9,075 in 2012. This represents a 6.7 percent increase in per capita expenditures from 2012 levels, with the largest per capita dollar increase in the Highways function.

Massachusetts Per Capita State Government General Expenditures, by Type

General expenditures, by function	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Education	\$1,939	\$1,877	\$1,983	\$2,039	\$2,034	\$2,080	\$2,041	\$2,067	\$2,011	\$2,025	\$1,920
Public Welfare	\$2,219	\$2,222	\$2,319	\$2,364	\$2,427	\$2,439	\$2,440	\$2,555	\$2,864	\$3,005	\$3,264
Health & Hospitals	\$268	\$269	\$271	\$265	\$268	\$257	\$257	\$251	\$310	\$362	\$321
Highways	\$316	\$393	\$336	\$335	\$315	\$331	\$315	\$342	\$431	\$448	\$458
Police & Corrections	\$323	\$333	\$336	\$314	\$299	\$296	\$302	\$313	\$306	\$302	\$273
Natural Resource, Parks & Recreation	\$103	\$101	\$110	\$102	\$97	\$87	\$98	\$96	\$102	\$97	\$68
Administration, Insurance Trust & Other*	\$2,234	\$2,164	\$2,429	\$2,875	\$2,711	\$3,090	\$2,996	\$2,908	\$3,169	\$2,794	\$2,372
Interest on General Debt	\$612	\$635	\$641	\$587	\$516	\$496	\$455	\$412	\$443	\$430	\$432
Total	\$8,014	\$7,996	\$8,424	\$8,881	\$8,667	\$9,075	\$8,904	\$8,944	\$9,637	\$9,463	\$9,687

SOURCE: U.S. Census Bureau, Governments Division

Now in factfinder: <http://factfinder.census.gov/bkmk/table/1.0/en/SGF/2013/SGF003>

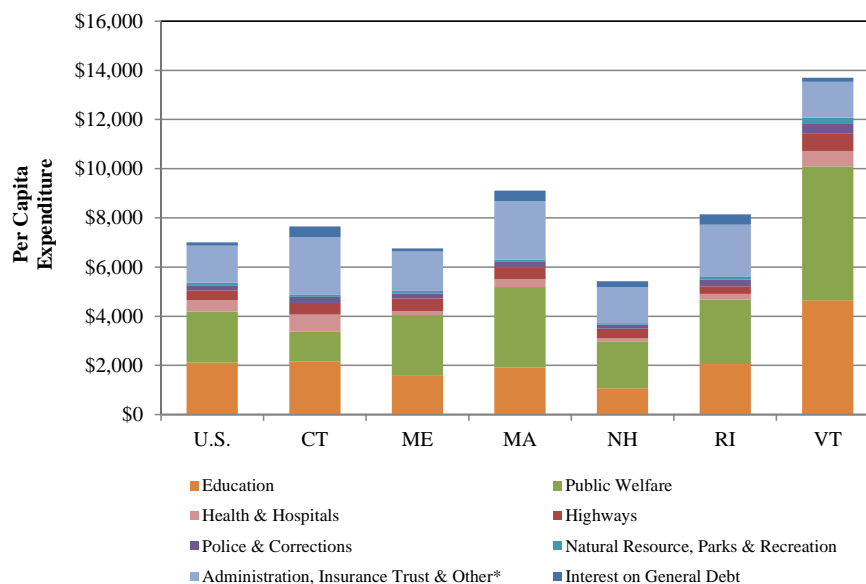
Source for population estimates: <http://factfinder.census.gov/bkmk/table/1.0/en/PEP/2013/PEPANNRES/0100000US/0100000US.04000>

*Fiscal Year 2017 Per Capita State Government General Expenditures, by Type
(for the U.S. and the New England States)*

General expenditures, by function	U.S.	CT	ME	MA	NH	RI	VT
Education	\$2,112	\$2,171	\$1,607	\$1,920	\$1,068	\$2,052	\$4,654
Public Welfare	\$2,080	\$1,192	\$2,440	\$3,264	\$1,915	\$2,622	\$5,444
Health & Hospitals	\$463	\$700	\$157	\$321	\$118	\$239	\$622
Highways	\$398	\$474	\$519	\$458	\$392	\$304	\$701
Police & Corrections	\$210	\$244	\$194	\$273	\$161	\$271	\$425
Natural Resource, Parks & Recreation	\$94	\$82	\$111	\$68	\$64	\$104	\$231
Administration, Insurance Trust & Other*	\$1,516	\$2,359	\$1,601	\$2,372	\$1,471	\$2,130	\$1,455
Interest on General Debt	\$135	\$431	\$126	\$432	\$236	\$425	\$162
Total	\$7,122	\$7,797	\$6,788	\$9,687	\$5,840	\$8,311	\$13,876
State's rank of total per capita expenditures		18	31	8	41	13	2

SOURCE: U.S. Census Bureau, Governments Division

*Fiscal Year 2017 Per Capita State Government General Expenditures, by Type
(U.S. and the New England States)*



SOURCE: U.S. Census Bureau, Governments Division.

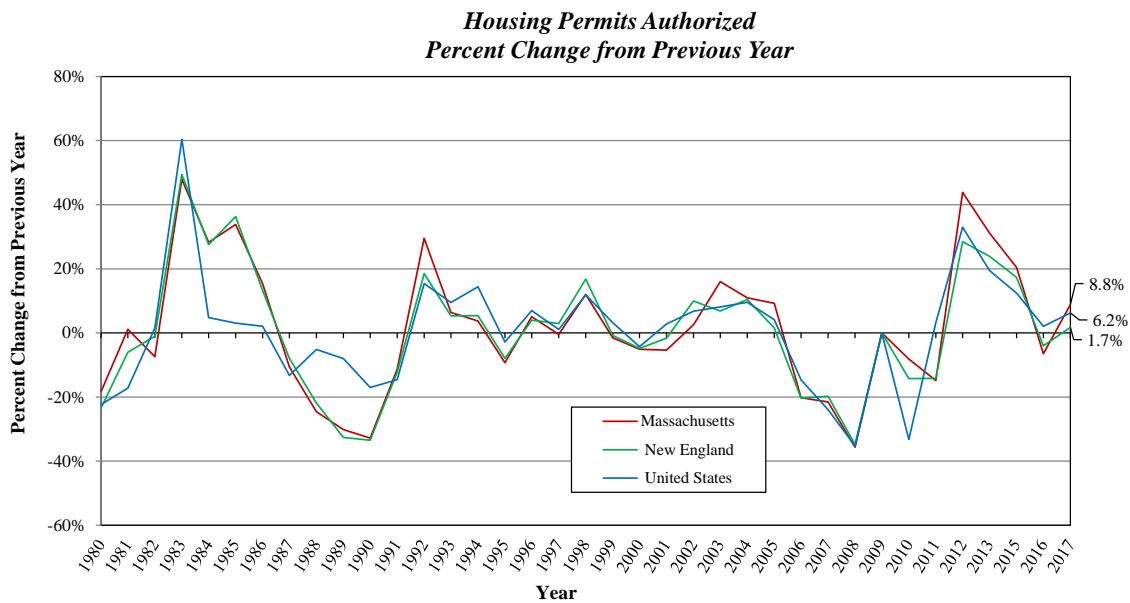
*Other includes utility, liquor store, other and un-allocated expenditures.

NOTE: Per capita dollars are adjusted for inflation (\$2017).

Supplementary Data Section. The following appendix contains more detailed data for industry sectors or subsectors.

Building Permits. The Census Bureau’s Residential Construction Branch Building Permits Survey is a leading economic indicator used to track the housing industry.

<i>Housing Permits Authorized</i>						
Year	Massachusetts		New England		United States	
	Total Units	Percent Change Previous Year	Total Units	Percent Change Previous Year	Total Units	Percent Change Previous Year
1975	17,697	-27.5%	41,645	-21.0%	934,511	-12.4%
1980	16,480	-18.3%	41,079	-23.4%	1,190,600	-22.4%
1985	39,196	33.8%	99,192	36.3%	1,733,266	3.1%
1990	14,290	-32.9%	36,169	-33.5%	1,110,766	-17.0%
1997	17,186	-0.4%	41,110	2.9%	1,441,136	1.1%
1998	19,254	12.0%	48,008	16.8%	1,612,260	11.9%
1999	18,967	-1.5%	47,632	-0.8%	1,663,533	3.2%
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%
2008	9,883	-35.6%	24,454	-34.8%	905,359	-35.3%
2009	9,883	0.0%	24,454	0.0%	905,359	0.0%
2010	9,075	-8.2%	20,964	-14.3%	604,610	-33.2%
2011	7,725	-14.9%	17,987	-14.2%	624,061	3.2%
2012	11,111	43.8%	23,109	28.5%	829,658	32.9%
2013	14,569	31.1%	28,635	23.9%	990,822	19.4%
2014	14,467	-0.7%	28,949	1.1%	1,052,124	6.2%
2015	17,424	20.4%	33,959	17.3%	1,182,582	12.4%
2016	16,288	-6.5%	32,595	-4.0%	1,206,642	2.0%
2017	17,728	8.8%	33,160	1.7%	1,281,977	6.2%

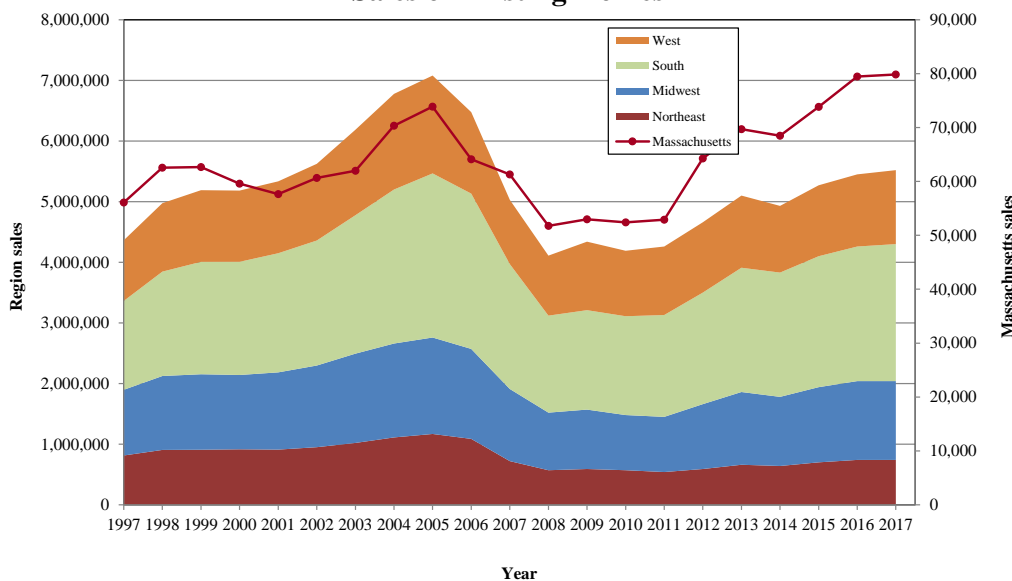


SOURCE: U.S. Census Bureau.
NOTE: Reported data plus data imputed for non-reporters & partial reporters.

Home Sales. Sales of existing single-family homes for Massachusetts and the U.S. are presented in the following table and graph. The state existing-home sales report includes single-family houses, condos and co-ops.

<i>Sales of Existing Homes United States, National Regions and Massachusetts</i>						
Year	U.S.	Northeast	Midwest	South	West	Massachusetts
1991	3,146,000	596,000	867,000	1,070,000	633,000	31,379
1992	3,431,000	667,000	967,000	1,127,000	680,000	38,847
1993	3,737,000	714,000	1,031,000	1,257,000	745,000	43,588
1994	3,884,000	728,000	1,031,000	1,313,000	822,000	45,238
1995	3,849,000	725,000	1,010,000	1,312,000	812,000	43,509
1996	4,167,000	776,000	1,056,000	1,393,000	942,000	51,857
1997	4,374,000	813,000	1,084,000	1,466,000	1,001,000	56,107
1998	4,965,000	905,000	1,219,000	1,722,000	1,129,000	62,549
1999	5,179,000	908,000	1,245,000	1,854,000	1,182,000	62,662
2000	5,173,000	915,000	1,226,000	1,867,000	1,175,000	59,602
2001	5,335,000	910,000	1,274,000	1,965,000	1,186,000	57,665
2002	5,634,000	950,000	1,347,000	2,062,000	1,265,000	60,661
2003	6,176,000	1,020,000	1,473,000	2,283,000	1,410,000	61,979
2004	6,778,000	1,111,000	1,549,000	2,540,000	1,578,000	70,342
2005	7,080,000	1,168,000	1,591,000	2,707,000	1,614,000	73,887
2006	6,477,000	1,087,000	1,484,000	2,562,000	1,344,000	64,126
2007	5,030,000	720,000	1,190,000	2,060,000	1,060,000	61,299
2008	4,110,000	570,000	950,000	1,600,000	990,000	51,766
2009	4,340,000	590,000	980,000	1,640,000	1,130,000	52,992
2010	4,190,000	570,000	910,000	1,630,000	1,080,000	52,413
2011	4,260,000	540,000	910,000	1,680,000	1,130,000	52,902
2012	4,660,000	590,000	1,070,000	1,840,000	1,160,000	64,254
2013	5,090,000	660,000	1,200,000	2,050,000	1,190,000	69,697
2014	4,940,000	640,000	1,140,000	2,050,000	1,100,000	68,503
2015	5,250,000	700,000	1,240,000	2,160,000	1,170,000	73,858
2016	5,450,000	740,000	1,300,000	2,220,000	1,190,000	79,459
2017	5,510,000	740,000	1,300,000	2,260,000	1,220,000	79,844

Sales of Existing Homes

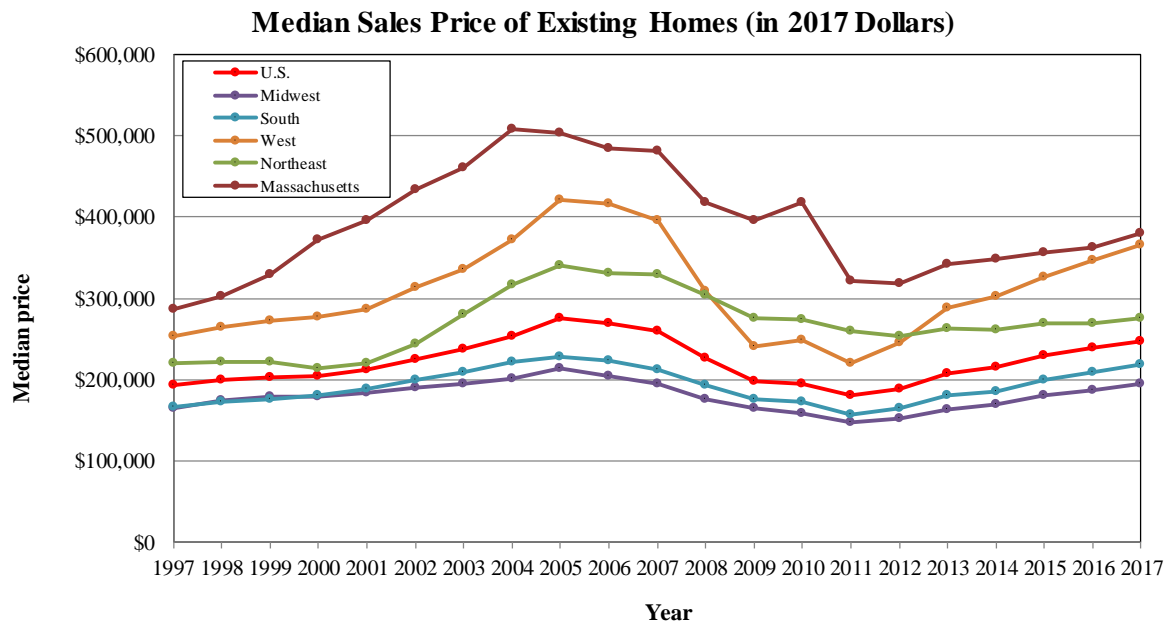


SOURCES: National Association of Realtors and Massachusetts Association of Realtors.

NOTE: Massachusetts sales price reflects only that of single-family homes. Sales prices of the other regions represent the average of both single- and multi-family homes.

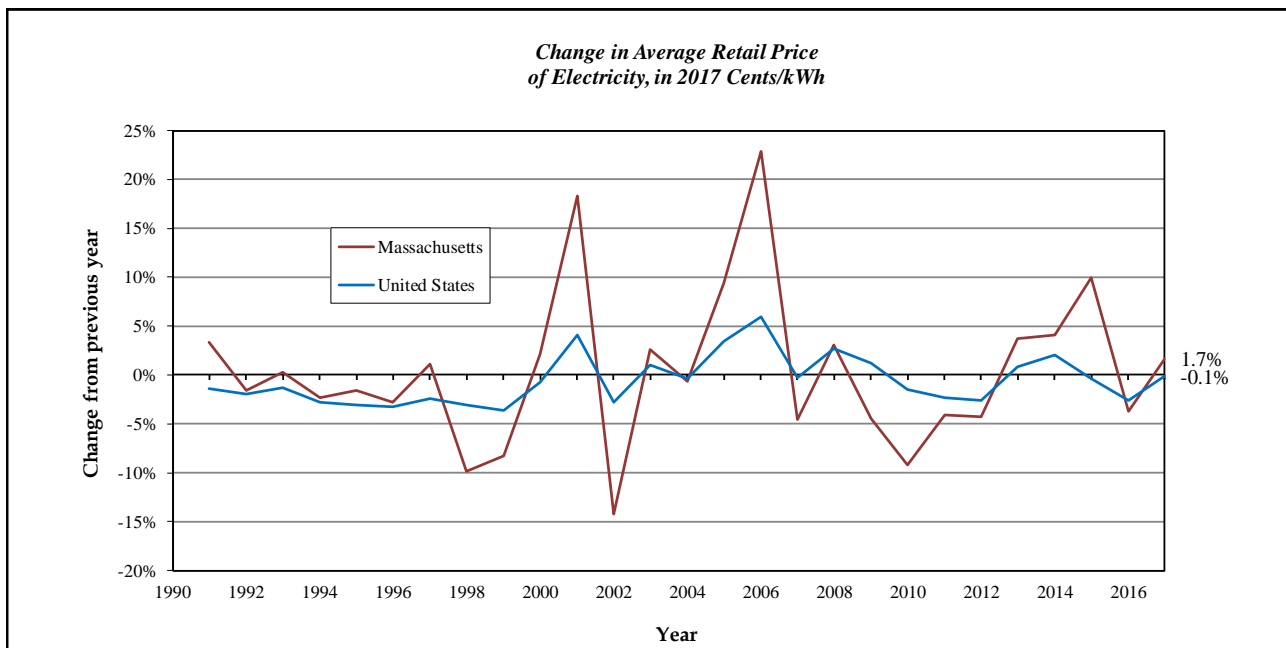
Home prices. Massachusetts sales prices are much higher than the national median but they are 25.3 percent less than the 2004 peak.

<i>Median Sales Price of Existing Homes (in 2017 dollars) United States, National Regions and Massachusetts</i>						
Year	U.S.	Northeast	Midwest	South	West	Massachusetts
1990	\$180,792	\$265,187	\$143,096	\$158,850	\$259,936	\$339,877
1991	\$182,490	\$258,438	\$144,876	\$158,554	\$260,058	\$303,961
1992	\$181,700	\$249,138	\$147,107	\$159,162	\$246,692	\$285,288
1993	\$181,847	\$241,049	\$147,581	\$158,946	\$240,540	\$276,254
1994	\$184,088	\$234,038	\$149,851	\$156,963	\$246,774	\$277,000
1995	\$184,323	\$222,763	\$154,567	\$155,854	\$242,225	\$276,165
1996	\$187,316	\$218,093	\$159,820	\$159,976	\$245,432	\$278,921
1997	\$192,583	\$219,310	\$165,246	\$165,551	\$253,062	\$285,917
1998	\$199,705	\$221,510	\$173,840	\$172,937	\$264,519	\$302,069
1999	\$203,041	\$221,432	\$178,028	\$174,939	\$272,781	\$328,974
2000	\$204,409	\$213,234	\$178,360	\$179,783	\$277,006	\$371,940
2001	\$211,902	\$219,653	\$183,390	\$187,542	\$286,504	\$396,229
2002	\$224,682	\$244,302	\$189,801	\$198,930	\$313,383	\$434,170
2003	\$238,193	\$279,757	\$193,965	\$208,752	\$335,441	\$461,212
2004	\$253,555	\$316,359	\$200,612	\$221,114	\$371,638	\$508,979
2005	\$275,619	\$340,507	\$214,119	\$228,051	\$420,833	\$503,981
2006	\$269,802	\$330,596	\$204,023	\$223,356	\$416,680	\$484,833
2007	\$258,902	\$329,952	\$195,181	\$211,969	\$396,156	\$482,132
2008	\$225,535	\$303,293	\$175,441	\$192,632	\$309,100	\$418,033
2009	\$197,090	\$274,784	\$164,642	\$174,811	\$241,193	\$396,376
2010	\$194,584	\$274,172	\$158,275	\$172,776	\$248,092	\$418,664
2011	\$181,002	\$258,808	\$147,548	\$157,137	\$219,360	\$321,467
2012	\$188,756	\$253,774	\$152,350	\$164,414	\$245,660	\$317,885
2013	\$207,391	\$262,106	\$162,672	\$179,612	\$287,359	\$341,969
2014	\$215,677	\$261,649	\$168,980	\$185,650	\$302,134	\$347,899
2015	\$230,003	\$269,096	\$180,362	\$198,667	\$326,803	\$356,795
2016	\$238,781	\$269,522	\$187,205	\$209,163	\$347,447	\$362,563
2017	\$247,200	\$275,000	\$194,900	\$218,000	\$366,400	\$380,000

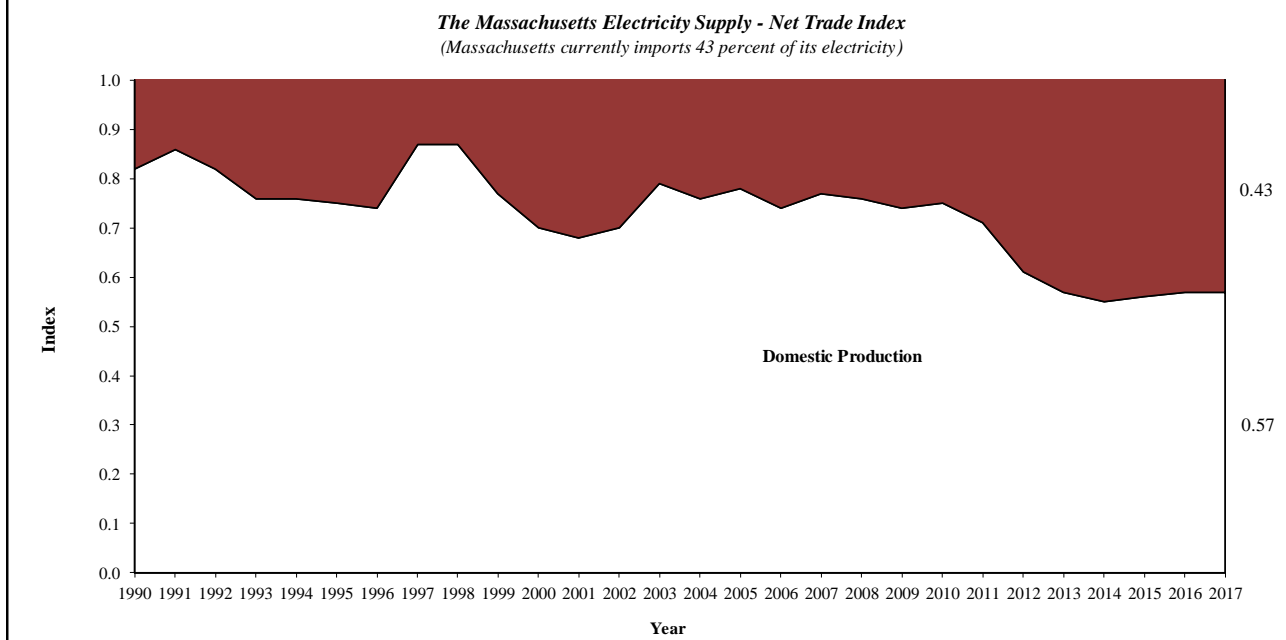


SOURCE: National Association of Realtors and Massachusetts Association of Realtors.
 NOTE: The Massachusetts sales price reflects only that of single-family homes. Sales prices of the other regions represent the average of both single- and multi-family homes.

Electricity Prices, Supply and Capacity by Source. Massachusetts had the fourth highest electric rate in the country in 2017, 17.12 cents per kilowatt hour in 2017 dollars, while the U.S. average was 10.48. Adjusted for inflation, this was an increase of 1.7 percent for Massachusetts and a decrease of 0.1 percent for the U.S. from the previous year. Massachusetts electric utilities generated \$9.0 billion in revenue in 2017. This was 0.1 percent less than in 2016, while they sold 1.8 percent less electricity. The Massachusetts Net Electricity Trade Index, which represents the state's electricity self-sufficiency, was 0.57 in 2017, the latest data available. In 2017, 68.8 percent of Massachusetts electricity was generated by burning natural gas, our top fuel source for power generation.

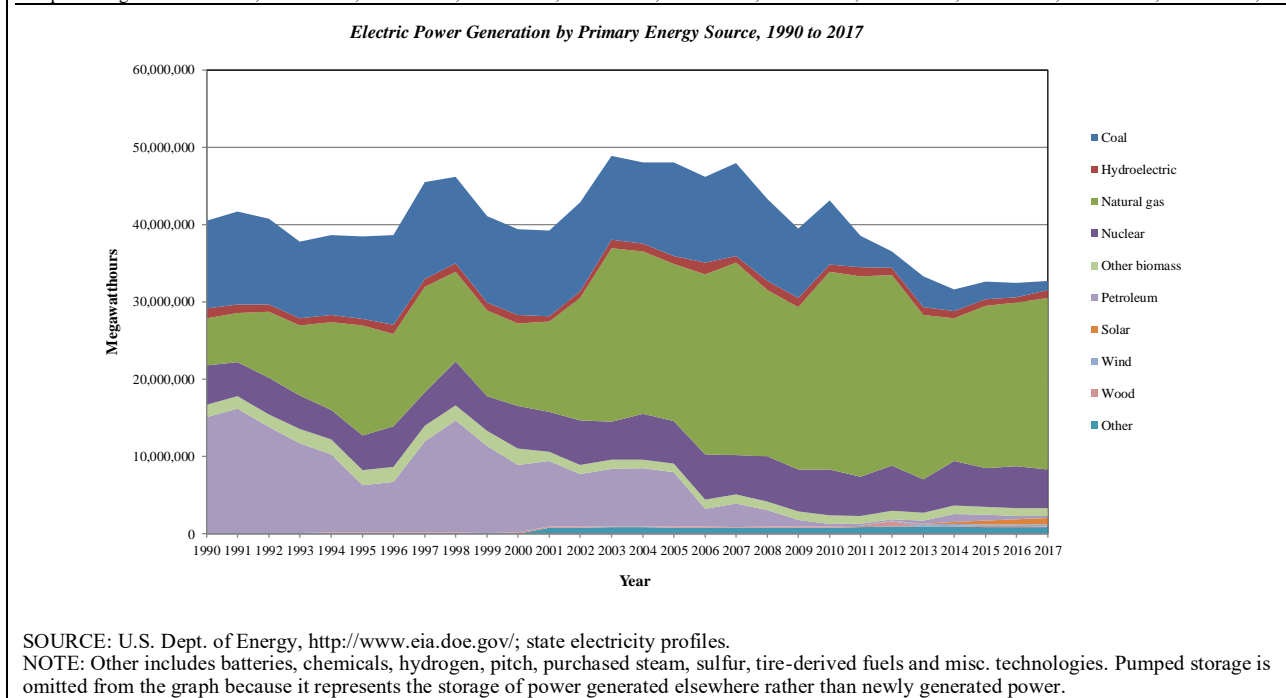


SOURCE: U.S. Department of Energy, http://www.eia.doe.gov/cneaf/electricity/st_profiles/massachusetts.html.
 NOTE: Massachusetts restructured the electric utility industry to establish consumer electricity rate savings by 03/01/98. <https://malegislature.gov/Laws/SessionLaws/Acts/1997/Chapter164>



SOURCE: U.S. Department of Energy, http://www.eia.doe.gov/cneaf/electricity/st_profiles/massachusetts.html.

<i>Electric Power Industry Generation by Primary Energy Source 2007 to 2017 (in Megawatt-hours)</i>											
Energy Source	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total electric industry	47,075,975	42,505,478	38,966,651	42,804,824	38,054,821	36,198,121	32,885,021	31,118,591	32,085,969	31,955,022	32,204,364
Coal	12,024,347	10,628,688	9,028,110	8,305,890	4,058,807	2,136,922	3,959,229	2,794,889	2,252,664	1,874,932	1,136,318
Hydroelectric	797,482	1,155,811	1,201,076	996,339	1,148,762	912,482	991,504	902,077	827,184	712,516	1,037,491
Natural gas	24,925,043	21,514,434	20,987,836	25,581,752	25,939,672	24,672,381	21,256,887	18,497,715	21,007,411	21,143,936	22,152,805
Nuclear	5,119,789	5,868,639	5,396,021	5,917,813	5,085,220	5,859,540	4,330,643	5,769,154	4,994,806	5,414,318	5,047,170
Other biomass	1,121,067	1,129,046	1,107,875	1,125,326	1,039,130	1,065,140	1,060,541	1,073,422	1,047,103	1,075,330	1,029,589
Petroleum	3,051,604	2,107,999	897,078	295,736	196,503	174,494	390,311	1,004,834	777,075	422,281	265,507
Solar	0	80	43	928	4,765	29,614	106,457	306,321	451,366	609,281	788,476
Wind	0	3,672	5,956	22,068	61,385	89,673	204,898	224,971	214,666	216,123	232,622
Wood	119,157	122,580	115,384	125,412	101,295	658,991	76,531	125,237	119,769	128,822	130,813
Other	748,033	772,928	760,909	770,629	859,514	906,429	875,926	878,130	867,806	857,932	826,584
Pumped storage	-830,547	-798,400	-533,636	-337,069	-440,231	-307,545	-367,906	-458,158	-473,881	-500,450	-443,012



Travel and Tourism. The Massachusetts Office of Travel and Tourism (MOTT) reported a 2.3 percent decrease in 2017 museum and attraction attendance compared to 2016, with 12.8 million visitors. Museum attendance was down 2.8 percent in July 2018 for the calendar year compared to June 2017. For October FY 2019 year-to-date, net room occupancy tax collections totaled \$29.0 million, a 3.8 percent increase from the same period in FY 2018.

Transportation and Warehousing. Massachusetts' major air and seaports are managed by the Massachusetts Port Authority (Massport), an independent public authority. Based on total passenger volume data for calendar year 2017, Logan Airport was the most active airport in New England and the 16th most active in the U.S. according to the Federal Aviation Authority. Massport reported that as of October 2018 year-to-date, total airport flight operations were up 7.6 percent and total airport passengers were up 7.2 percent from the same period in 2017. According to the FAA, in calendar year 2017, Logan Airport ranked 28th in the nation in total air cargo volume. As of October 2018 year-to-date, Massport reported the airport handled 581.8 million pounds of cargo; a 4.5 percent increase from the same period in 2017. Massport reported that total express mail was up 6.9 percent from the same period in 2017. Please refer to the Aviation Activity tables on the following page.

Massport's Port of Boston properties processed 298,036 full TEUs (twenty-foot equivalent units) of containerized cargo in 2018, an increase of 10.0 percent from calendar year 2017. It also processed 52,400 automobiles, an increase of 6.0 percent, and 389,619 cruise passengers, a 0.4 percent increase, compared to 2017.

The Army Corps of Engineers reported Massachusetts total waterborne cargo shipped or received in 2017 decreased by 6.7 percent to 17 million short tons from 2016. Waterborne cargo in New England decreased 4.5 percent while the U.S. increased 4.1 percent. Please refer to the Waterborne Tonnage by State charts on the following page.

Aviation Activity for Massachusetts Primary Airports

Passenger Boardings	2009	2010	2011	2012	2013	2014	2015	2016	2017
Logan International	12,566,797	13,561,814	14,180,730	14,293,695	14,810,153	15,507,561	16,290,362	17,759,044	18,759,742
Nantucket Memorial	204,981	201,390	169,352	179,128	183,557	170,361	155,952	126,197	113,009
Barnstable Municipal	138,858	124,560	100,596	95,717	87,648	85,184	65,790	31,027	29,455
Worcester Regional	17,241	35,833	53,541	10,750	8,007	57,818	59,624	57,800	53,931
Martha's Vineyard	42,248	43,904	49,095	50,484	56,313	52,362	49,853	54,084	49,767
Provincetown Municipal	10,747	11,450	10,967	11,580	11,288	10,410	10,841	10,074	8,900
New Bedford Regional	11,680	12,363	11,152	12,256	10,604	8,159	7,271	7,022	5,998
Hanscom Field	7,350	7,952	10,893	11,097	12,621	11,116	15,313	15,105	10,956
Total	12,999,902	13,999,266	14,586,326	14,664,707	15,180,191	15,902,971	16,655,006	18,060,353	19,031,758

Cargo - Gross Landed Weight (lb)	2009	2010	2011	2012	2013	2014	2015	2016	2017
Logan International	835,954,035	817,235,460	806,845,332	780,913,850	866,698,830	910,283,225	893,960,700	980,954,950	996,320,950

Change in Aviation Activity at Massachusetts Primary Airports

Passenger Boardings	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017
Logan International	-2.0%	7.9%	4.6%	0.8%	3.6%	4.7%	5.0%	9.0%	5.6%
Nantucket Memorial	-20.6%	-1.8%	-15.9%	5.8%	2.5%	-7.2%	-8.5%	-19.1%	-10.5%
Barnstable Municipal	-27.6%	-10.3%	-19.2%	-4.9%	-8.4%	-2.8%	-22.8%	-52.8%	-5.1%
Worcester Regional	441.8%	107.8%	49.4%	-79.9%	-25.5%	622.1%	3.1%	-3.1%	-6.7%
Martha's Vineyard	-6.1%	3.9%	11.8%	2.8%	11.5%	-7.0%	-4.8%	8.5%	-8.0%
Provincetown Municipal	-6.3%	6.5%	-4.2%	5.6%	-2.5%	-7.8%	4.1%	-7.1%	-11.7%
New Bedford Regional	-16.0%	5.8%	-9.8%	9.9%	-13.5%	-23.1%	-10.9%	-3.4%	-14.6%
Hanscom Field	-12.3%	8.2%	37.0%	1.9%	13.7%	-11.9%	37.8%	-1.4%	-27.5%
Total	-2.6%	7.7%	4.2%	0.5%	3.5%	4.8%	4.7%	8.4%	5.4%

Cargo	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017
Logan International	-24.0%	-2.2%	-1.3%	-3.2%	11.0%	5.0%	-1.8%	9.7%	1.6%

SOURCE: Federal Aviation Administration. http://www.faa.gov/airports/planning_capacity/passenger_allcargo_stats/passenger/.

Waterborne Tonnage by State - Percent Change from Previous Year

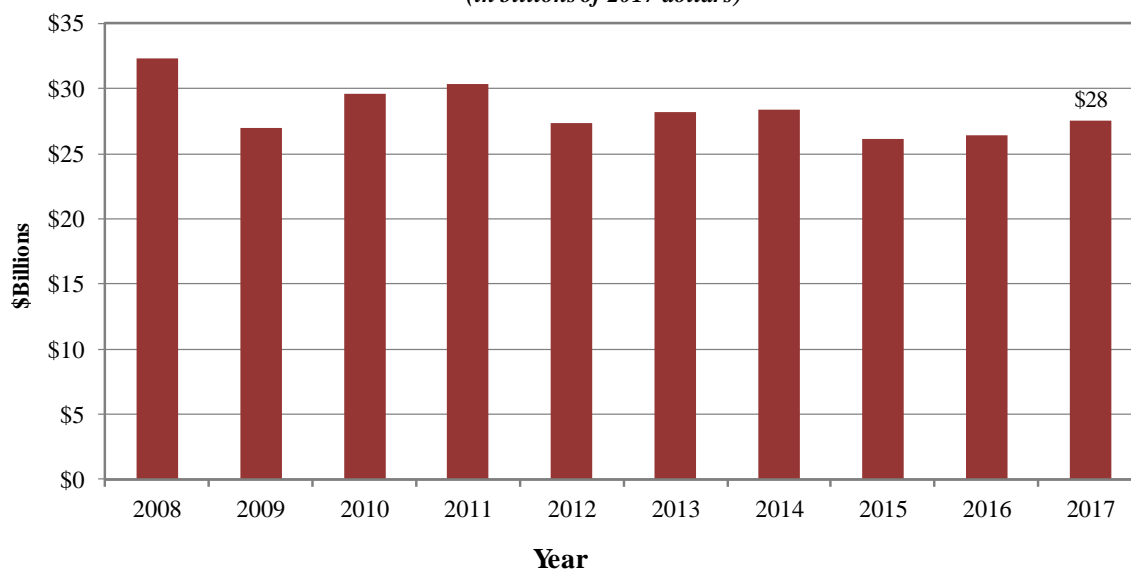
State	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017
U.S. total	-0.9%	-3.4%	-10.8%	5.6%	1.4%	-2.6%	-1.4%	3.1%	-2.8%	0.6%	4.1%
Massachusetts	2.3%	-7.3%	-3.8%	-9.4%	-8.9%	-16.2%	9.1%	-0.7%	-1.4%	-1.2%	-6.7%
Maine	-4.5%	-7.8%	-7.1%	-9.1%	-26.3%	-1.8%	-6.9%	-15.0%	-13.0%	-26.5%	-11.3%
Connecticut	4.2%	-9.7%	-7.9%	-3.2%	-20.0%	-18.0%	6.8%	17.1%	2.6%	-7.5%	-5.5%
Rhode Island	1.5%	-6.0%	-20.1%	-1.1%	0.8%	-9.7%	19.9%	-3.5%	2.5%	-1.9%	3.0%
New Hampshire	-16.5%	-4.8%	-6.5%	-17.3%	12.9%	-27.7%	10.7%	4.6%	-1.1%	-15.1%	11.6%
Vermont	-	-	-	-	-	-	-	-	-	-	-
New England	-0.5%	-7.7%	-7.8%	-7.4%	-14.5%	-12.7%	5.7%	-0.9%	-2.3%	-8.5%	-4.5%

Waterborne Tonnage by State (In Units of 1,000 Tons)

State	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
U.S. total	2,563,972	2,477,094	2,210,752	2,334,399	2,367,484	2,306,770	2,274,778	2,345,439	2,278,974	2,292,044	2,385,121
Massachusetts	28,043	25,993	25,018	22,661	20,646	17,298	18,866	18,733	18,464	18,241	17,024
Maine	26,839	24,747	22,996	20,907	15,411	15,127	14,078	11,964	10,414	7,657	6,795
Connecticut	20,148	18,196	16,767	16,229	12,977	10,645	11,368	13,313	13,664	12,633	11,933
Rhode Island	11,184	10,517	8,404	8,315	8,378	7,567	9,072	8,754	8,976	8,802	9,065
New Hampshire	4,026	3,833	3,583	2,964	3,347	2,419	2,679	2,803	2,771	2,353	2,627
Vermont	-	-	-	-	-	-	-	-	-	-	-
New England	90,240	83,286	76,768	71,076	60,759	53,056	56,063	55,567	54,289	49,686	47,444

SOURCE: Army Corps of Engineers, Waterborne Commerce Statistics Center (WCSC), <http://www.navigationdatacenter.us/wcsc/wcsc.htm>.

Massachusetts Annual Exports (in billions of 2017 dollars)



Massachusetts Top Export Partners

(top ten export destinations ranked by value of latest exports, in millions of 2017 dollars)

Country	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Canada	\$4,448	\$3,526	\$3,646	\$4,137	\$3,709	\$3,929	\$3,832	\$3,274	\$3,171	\$3,012
Mexico	\$1,324	\$1,031	\$1,431	\$1,566	\$1,718	\$1,959	\$2,400	\$2,712	\$2,524	\$2,562
China	\$1,780	\$1,567	\$2,468	\$2,275	\$2,003	\$2,083	\$2,375	\$2,125	\$2,214	\$2,304
United Kingdom	\$3,989	\$4,626	\$3,612	\$3,580	\$2,764	\$1,481	\$2,432	\$1,219	\$1,619	\$2,116
Germany	\$2,834	\$2,000	\$2,105	\$2,230	\$1,925	\$1,932	\$1,915	\$1,976	\$1,669	\$1,820
Hong Kong	\$672	\$600	\$751	\$818	\$757	\$1,854	\$997	\$960	\$919	\$1,321
Japan	\$2,764	\$1,961	\$2,299	\$2,227	\$2,128	\$1,854	\$1,915	\$1,526	\$1,430	\$1,279
Netherlands	\$3,045	\$2,264	\$1,905	\$1,206	\$1,149	\$1,358	\$1,376	\$1,447	\$1,399	\$1,255
Republic of Korea	\$758	\$713	\$1,003	\$1,123	\$1,099	\$949	\$1,022	\$1,040	\$999	\$1,219
Switzerland	\$508	\$414	\$529	\$614	\$464	\$1,348	\$832	\$1,060	\$1,806	\$1,119
Total Exports, Top Destinations	\$22,122	\$18,701	\$19,750	\$19,776	\$17,716	\$18,747	\$19,096	\$17,339	\$17,750	\$18,006
All other countries	\$10,176	\$8,255	\$9,820	\$10,595	\$9,630	\$9,465	\$9,258	\$8,815	\$8,695	\$9,559
Total Exports	\$32,298	\$26,957	\$29,570	\$30,371	\$27,346	\$28,212	\$28,354	\$26,154	\$26,445	\$27,566

Value of International Shipments from Massachusetts

(top ten industry groups ranked by value of latest exports, in millions of 2017 dollars)

Major Industry Group (3-Digit NAICS)	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Computer And Electronic Products	\$8,905	\$7,541	\$8,417	\$8,395	\$7,789	\$7,600	\$8,439	\$7,562	\$7,103	\$7,456
Machinery, Except Electrical	\$2,977	\$2,294	\$3,882	\$3,970	\$3,471	\$3,036	\$3,046	\$3,281	\$3,395	\$3,835
Chemicals	\$6,278	\$4,413	\$4,076	\$3,666	\$3,681	\$3,801	\$3,630	\$3,530	\$3,388	\$3,204
Miscellaneous Manufactured Commodities	\$3,552	\$3,127	\$3,424	\$3,472	\$3,263	\$3,457	\$3,177	\$3,290	\$3,185	\$2,940
Waste and Scrap	\$2,336	\$3,125	\$2,695	\$3,045	\$2,084	\$2,997	\$2,462	\$541	\$971	\$2,668
Electrical Equipment, Appliances, And Component	\$711	\$580	\$627	\$740	\$1,037	\$1,176	\$1,230	\$1,223	\$1,264	\$1,452
Transportation Equipment	\$1,408	\$1,264	\$1,190	\$1,219	\$1,113	\$1,149	\$1,355	\$1,279	\$1,087	\$1,022
Waste And Scrap	\$1,563	\$761	\$735	\$1,200	\$837	\$785	\$792	\$1,299	\$2,110	\$903
Plastics And Rubber Products	\$668	\$643	\$844	\$883	\$725	\$709	\$755	\$855	\$831	\$824
Fabricated Metal Products, Nesoi	\$821	\$692	\$910	\$942	\$718	\$780	\$816	\$805	\$632	\$675
Total Exports, Top Massachusetts Industries	\$29,218	\$24,441	\$26,801	\$27,531	\$24,718	\$25,491	\$25,702	\$23,664	\$23,967	\$24,979
All other exports	\$3,080	\$2,516	\$2,769	\$2,841	\$2,628	\$2,721	\$2,652	\$2,490	\$2,479	\$2,587
Total Exports	\$32,298	\$26,957	\$29,570	\$30,371	\$27,346	\$28,212	\$28,354	\$26,154	\$26,445	\$27,566

SOURCE: WISERTrade.org.

Sources

Listed below are the websites of the original data sources used to compile Exhibit A. For more information, contact the UMass Donahue Institute Economic and Public Policy Research unit.

Web: <http://www.donahue.umassp.edu/business-groups/economic-public-policy-research>, Tel: 413-577-2415

Introduction

American Human Development Project

<http://www.measureofamerica.org/>

Population Characteristics

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

<http://www.census.gov>

U.S. Internal Revenue Service

<http://www.irs.gov>

Personal Income, Consumer Prices, and Poverty

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

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

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

<http://www.bls.gov>

The Conference Board, Inc.

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

MassInsight 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/national/index.htm#gdp>

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>

U.S. Census Bureau, Nonemployer Statistics

<https://www.census.gov/econ/nonemployer/index.html>

Statistics

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

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.navigationdatacenter.us/wcsc/wcsc.htm>

Federal Reserve Bank of Philadelphia

<https://www.phil.frb.org/>

U.S. Department of Commerce

<http://www.census.gov>

National Association of Realtors

<http://www.realtor.org/>

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, Consolidated Federal Funds Report

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

Federal Spending award data

<http://www.usaspending.gov>

Large employers by sector

<http://www.mass.gov/comptroller/docs/reports-audits/cafr/2016-cafr.pdf>

Human Resources and Infrastructure

U.S. Census Bureau

<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>

U.S. Department of Education, National Center for Education Statistics

<http://nces.ed.gov>

Institute of International Education

<http://www.iee.org>

U.S. Patent Office

<http://www.uspto.gov>

Exhibit B

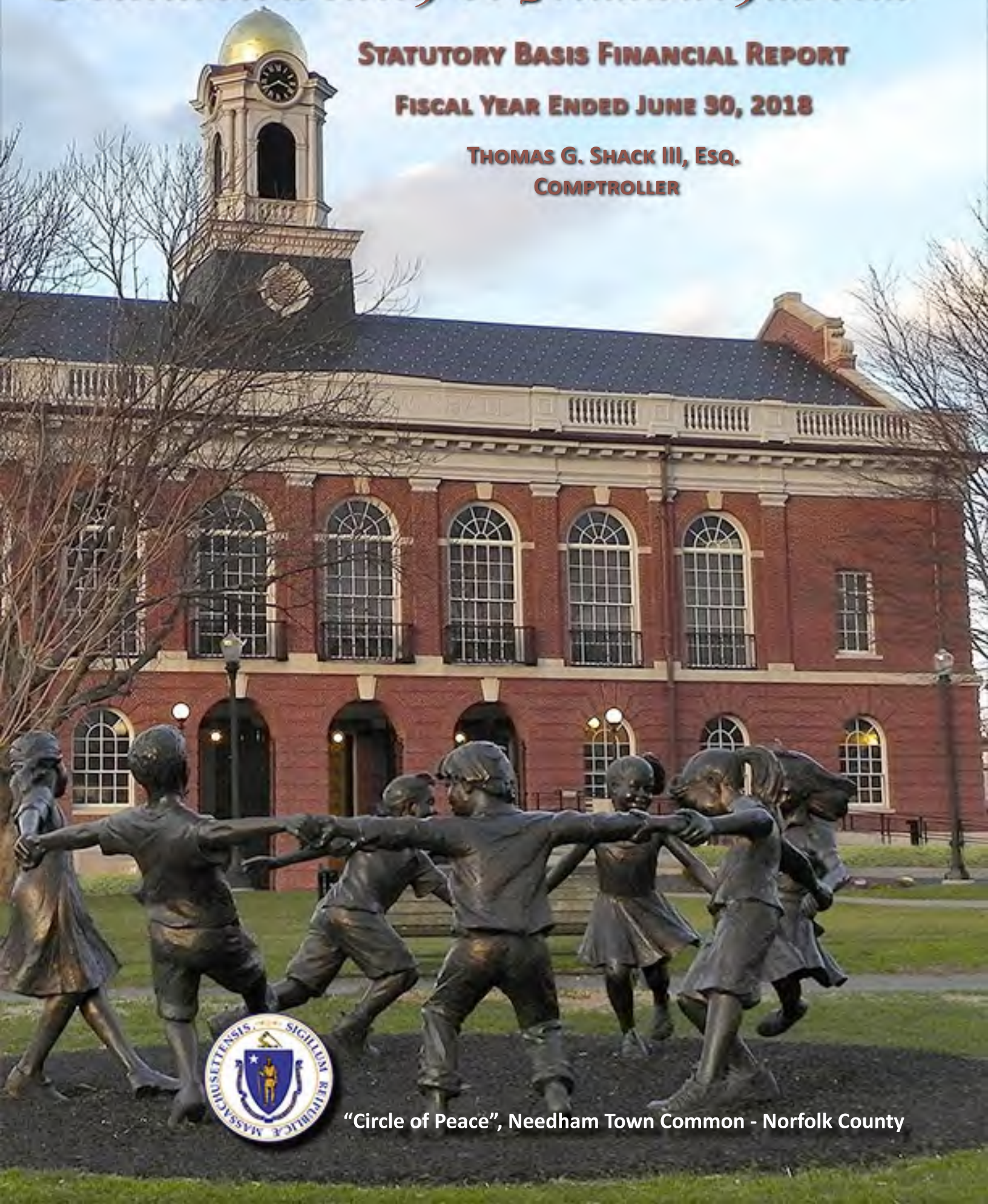
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Commonwealth of Massachusetts

STATUTORY BASIS FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2018

**THOMAS G. SHACK III, ESQ.
COMPTROLLER**



"Circle of Peace", Needham Town Common - Norfolk County

Commonwealth of Massachusetts



Statutory Basis Financial Report

For the Fiscal Year Ended June 30, 2018

Thomas G. Shack III, Esq.
Comptroller of the Commonwealth

Prepared by
The Financial Reporting and Analysis Team
Office of the Comptroller

This document is available at the Comptroller's website: www.macomptroller.org

“Circle of Peace” Statue - Needham Town Common - Norfolk County

The “Circle of Peace” is a life-size statue by artist Gary Lee Price. It sits in the center of Needham Town Common and represents children from all walks of life playing together.

According to artist Gary Lee Price, “The circle that the children form represents the continuum of humanity. The clasped hands represent the interaction and cooperation, together with compassion and respect, which engenders humanity. Respect for each other’s uniqueness bridges the gap between any indifference.”

Photo courtesy of flickr user I. Drizik

Statutory Basis Financial Report

For the Fiscal Year Ended June 30, 2018

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The Commonwealth of Massachusetts
Office of the Comptroller

November 6, 2018

The People of Massachusetts
His Excellency Charles D. Baker, Governor
Senator Joan Lovely, Vice Chair of the Senate Committee on Ways and Means
Representative Jeffrey Sánchez, Chair of the House Committee on Ways and Means
Secretary Michael J. Heffernan, Executive Office for Administration and Finance

The Office of the Comptroller is pleased to provide the Commonwealth's Statutory Basis Financial Report (SBFR) for the fiscal year ended June 30, 2018. In our opinion, the SBFR provides an independent and unbiased accounting of Commonwealth revenues and expenditures for Fiscal Year 2018. It has also been reviewed in accordance with professional standards established by the American Institute of Certified Public Accountants.

Under M.G.L. c. 7A, s. 7, the Comptroller is responsible for interpreting and implementing accounting standards through the establishment of a statewide accounting system and corresponding accounting rules for all Commonwealth departments. Pursuant to M.G.L. c. 7A, s. 12, the Comptroller is also required to file the SBFR with the Governor, the Secretary of Administration and Finance, the House and Senate Committees on Ways and Means, the Clerks of the House and Senate, and any other Parties specified in general or special law by October 31st of each year.

The delayed enactment of the final FY18 Supplemental Appropriation Act and a technical corrections bill on October 29, 2018 created an inherent dilemma. To the extent that the late enactment of the FY18 supplemental budget conflicted with the statutory filing deadline, we were compelled to choose completeness over expediency. Therefore, the issuance of the SBFR on or before October 31, 2018 was delayed until today.

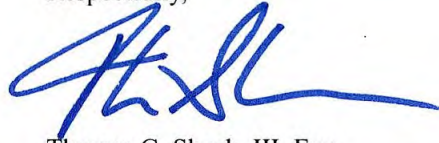
Once the Final Supplemental technical corrections bill was enacted, we immediately closed the Commonwealth's books for FY18. In the ensuing days, our statewide audit team implemented the requisite transactions in the state's accounting system, recorded those transactions in the SBFR, finalized and submitted the SBFR for review to our external auditors, and today filed the SBFR pursuant to M.G.L. c. 7A. I strongly encourage earlier action as part of the FY19 closing so that we are not put in this unenviable position next year.

We remind you that the two month period between August 31 and October 31 are necessary for completion of reporting, reconciliation, and independent auditor review of the statements, including certification of the Consolidated Net Surplus (CNS). The issued SBFR then serves as the basis for the FY18 Comprehensive Annual Financial Report (CAFR) required pursuant to M.G.L. c. 7A, s.12, and it becomes increasingly more difficult to accurately complete the CAFR in a timely manner if the SBFR deadline is not met.

We strongly encourage all involved to take the necessary actions to enact final supplemental appropriations earlier and consistent with Massachusetts' own statutory obligations to prevent the possibility of unnecessary negative repercussions. Delays may jeopardize the Commonwealth's ability to qualify for the Governmental Finance Officers Association (GFOA) Certificate of Excellence in Financial Reporting. The Commonwealth's adherence to its own SBFR and CAFR statutory filing deadlines and the high standards required to achieve GFOA Certificate of Excellence status are monitored by rating agencies and the investment community.

As we conclude our review of Fiscal Year 2018, we would like to take the opportunity to acknowledge the remarkable effort and dedication of the Office of the Comptroller staff, who continually support our mission to promote accountability, integrity, and clarity in Commonwealth business, fiscal, and administrative enterprises. We would also like to express additional appreciation to Deputy Comptroller Howard Merkowitz and the Statewide Financial Reporting and Analysis Team led by Michael Rodino and Pauline Lieu for their tireless effort.

Respectfully,

A handwritten signature in blue ink, appearing to read 'T. Shack, III', with a long horizontal flourish extending to the right.

Thomas G. Shack, III, Esq.
Comptroller of the Commonwealth

A handwritten signature in blue ink, appearing to read 'J. Shapiro', with a long horizontal flourish extending to the right.

Jeffrey S. Shapiro, Esq.
First Deputy Comptroller

Report Summary

As of June 30, 2018, the Commonwealth had a budgeted fund balance of approximately \$2.387 billion and completed FY18 with a budget surplus according to state finance law (see below for the definition of a balanced budget and surplus of \$229 million under state finance law). During the fiscal year, the balance of the Commonwealth's Stabilization (or rainy day) Fund increased by \$701 million, to \$2.001 billion, as a result of transfers of capital gains tax revenues, abandoned property, investment earnings, and statutorily required deposits of the FY18 budget surplus. No funds were drawn from the Stabilization Fund in FY18. (The Budgeted Funds – Operations table on page 8 displays the FY18 summary of budgeted funds compared to FY17. Details of FY18 Stabilization Fund activity are provided on pages 11 and 116.) The total budgeted fund balance of \$2.387 billion reflects a gain (revenues and other financing sources greater than expenditures and other financing uses) of approximately \$939 million, added to the FY18 beginning balance of \$1.448 billion. This follows an FY17 operating loss of \$34 million. In addition to the \$2.001 billion reserved in the Stabilization Fund, \$371 million is reserved for continuing appropriations and debt service in fiscal year 2019. The remaining undesignated balance of \$14 million is made up of smaller budgeted fund balances.

During FY18, budgeted fund tax revenues increased by \$2.078 billion, or 8.7%, from FY17, as tax revenue growth due to the accelerating expansion of the Massachusetts economy and strength of asset markets resulted in growth in the Commonwealth's most significant tax revenue sources -- income taxes (including capital gains taxes), sales taxes, and corporate/business taxes. Before transfers between budgeted funds (which do not affect total budgeted fund balances), total budgeted fund revenues and other financing sources increased by \$2.652 billion, or 6.4%. Budgeted fund expenditures and other financing uses increased by \$1.679 billion, or 4.1%, primarily due to increases in Medicaid spending, additional payments to hospitals that care for the uninsured, and higher contributions to the state pension system to pay down the Commonwealth's unfunded pension liability. A more detailed analysis of revenue and spending changes, as well as the economic factors that affected the budget, is included in the sections that follow.

Overview of the Financial Statements

This report focuses primarily on the Commonwealth's budgeted funds. For the budgeted funds, the activity (inflows and outflows) and balances (assets and liabilities) of each fund are presented separately. For all other funds included in this report, the activity – inflows and outflows – is presented in tabular form, but per statute, the full balance sheets for each fund are not shown.

The financial operations of these funds are maintained in the Massachusetts Management Accounting and Reporting System, (MMARS). The statewide accounting system is operated by the Commonwealth and contains detailed information summarized in this report.

The SBFR is intended to satisfy the requirements of state finance law and to present the results of FY18 activity in the Commonwealth's funds. The report contains computations required by state finance law, including the certification of, transfers to, and balances in, the Stabilization Fund.

Basis of Accounting and Definition of the Consolidated Net Surplus

The statutory (or budgetary) basis of accounting, as defined in Massachusetts law, is used to budget and control the Commonwealth's fiscal operations. The statutory basis of accounting is not in conformity with accounting principles generally accepted in the United States of America (GAAP) as defined for governments by the Governmental Accounting Standards Board (GASB). In addition, Fiduciary Funds are not included in this presentation. The Comptroller's Office will report the Commonwealth's financial position on a GAAP basis in December, in the State's Comprehensive Annual Financial Report (CAFR). That report provides a basis for comparison with other jurisdictions, as the accounting rules for the CAFR are the same for all governments, whereas the statutory basis of accounting may differ across states. There are significant differences between what is contained in the SBFR and what will be presented in the GAAP-based CAFR. The major differences are that the CAFR reflects capital assets and depreciation expense, all types of long-term obligations – including debt, pensions, and other-post employment benefits (or OPEB, which are mainly retirees' health insurance benefits) – and in the CAFR the financial statements are presented in an all-encompassing, net position and net expense format.

The Commonwealth's statutory basis of accounting defines the “consolidated net surplus” as the ending “undesignated”, or unreserved, balances in the budgeted funds, that is, those funds subject to the state's annual appropriation process,

though by statute several budgeted funds are excluded from the consolidated net surplus calculation. State finance law defines a “balanced budget” as a consolidated net surplus of \$0 or greater. The largest of the budgeted funds are the General Fund and the Commonwealth Transportation Fund, which in FY18 accounted for approximately 93.9% and 4.7%, respectively, of total budgeted fund expenditures and other financing uses. The remaining approximately 1.4% of budgeted fund activity is comprised of nine smaller funds, seven of which by statute are excluded from the consolidated net surplus calculations.

In accordance with Section 12 of Chapter 7A of the Massachusetts General Laws, the Office of the Comptroller is required to transmit the SBFR by October 31st. However, due to the fact that the final FY18 supplemental budget bill and related technical correction legislation were not enacted and signed into law until October 29, 2018, this SBFR is being transmitted on November 6, 2018 in order to provide sufficient time to accurately incorporate the bill’s provisions into this report and have the report reviewed by the Commonwealth’s independent auditor.

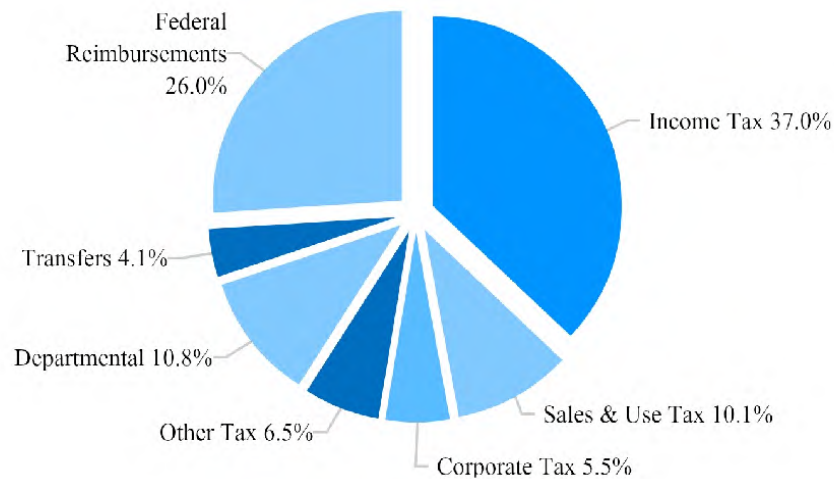
The SBFR for the fiscal year ended June 30, 2018 is reviewed, not audited, by KPMG LLP and represents the closing of the Commonwealth’s books for the fiscal year.

The Economic Context

The funding available to the Commonwealth to finance its programs is determined largely by the performance of the state’s economy, particularly growth in employment, which drives the personal income tax, the state’s largest revenue source. In FY18, the Commonwealth’s economy continued to perform better than the nation as a whole. Between June 2017 and June 2018, employment grew by approximately 63,000 jobs, or 1.7%, compared to employment growth of 1.6% for the United States as a whole over the same period. As of June 2018, the Massachusetts unemployment rate was 3.5%, compared to 4.0% nationally.

The Budgeted Funds

**Budgeted Fund Revenues and Other Sources
Before Transfers Between Budgeted Funds (Total of \$43.8 billion)**



The FY18 budget enacted by the Legislature (the General Appropriation Act) included an FY18 tax revenue estimate of \$26.422 billion (a reduction from the FY18 consensus estimate of \$27.072 billion, which had been adjusted downward by \$650 million after tax revenue was below forecast at the end of FY17), further adjusted upward by \$321 million to \$26.743 billion as a result of \$196 million in tax law changes and \$125 million in tax settlements included in the budget. \$24.864 billion of that revenue was to be deposited in the budgeted funds and \$1.879 billion was to be deposited directly into non-budgeted funds for transfers of sales tax revenue dedicated to the Massachusetts Bay Transportation Authority (\$1.007 billion) and the Massachusetts School Building Authority (\$847 million), and revenue deposited in the non-budgeted Workforce Training Fund (\$25 million). (However, the Governor, in signing the FY18 budget, notified the

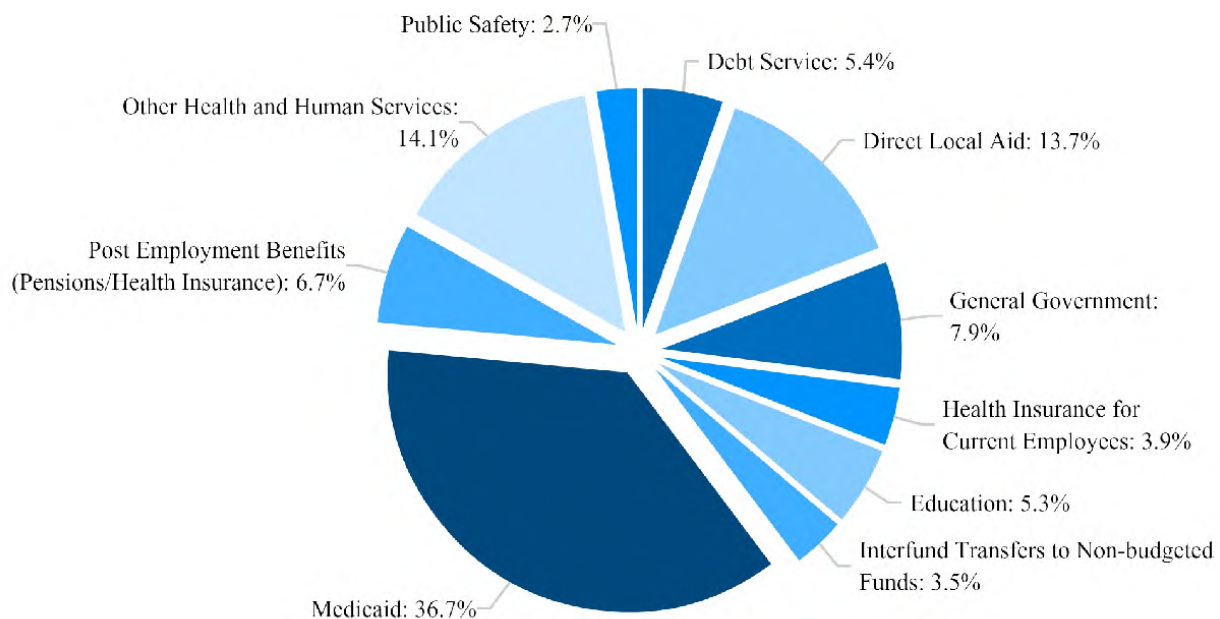
Legislature that his administration assumed that FY18 tax revenues would be \$26.629 billion (including \$125 million in tax settlement revenues), \$114 million lower than in the Legislature’s enacted budget, primarily because he believed that the consensus tax revenue estimate should be reduced by approximately \$750 million, not \$650 million.) The FY18 budget appropriations also reflected the assumption that a reduction in the personal income tax rate would not be triggered during FY18, as had been previously projected in the FY18 consensus tax revenue estimate.

In October 2017, with tax revenues tracking estimates assumed in the FY18 enacted budget, the Secretary of Administration and Finance affirmed the FY18 tax revenue estimate. In January 2018, the Secretary of Administration and Finance revised the Fiscal Year 2018 state tax revenue estimate upward to \$26.761 billion (including \$100 million in projected judgment and settlement revenue), to reflect strong growth in year-to-date income tax withholding.

FY18 tax revenues upon which the FY18 General Appropriation Act was based ended the year at \$27.788 billion (including \$11 million in tax settlements exceeding \$10 million each -- the Commonwealth also received \$26 million in non-tax settlements), of which \$25.907 billion was deposited in the budgeted funds. Tax revenue deposited in the budgeted funds grew by \$2.078 billion, or 8.7%, from FY17, and was \$1.024 billion above the final FY18 tax estimate.

The FY18 General Appropriation Act (GAA) authorized approximately \$40.877 billion in spending, exclusive of approximately \$2.395 billion in required pension contributions and \$109 million in FY17 spending authorized to be continued into FY18 as part of FY17 end-of-year supplemental budgets.

**Budgeted Expenditures and Other Uses
Before Transfers Between Budgeted Funds (Total of \$42.9 billion)**



Approximately \$947 million in supplemental appropriations were authorized during FY18, \$464 million of which were enacted prior to June 30, 2018. Subsequent to year end, a supplemental budget was enacted totaling approximately \$483 million in new appropriations, \$135 million of which was to fund FY18 Medicaid expenses, \$40 million of which supplemented local road and bridge capital spending, \$33 million of which was for snow and ice removal costs incurred by the Massachusetts Department of Transportation in FY18, \$29 million of which was to fund county Sheriffs' FY18 payroll expenses in FY18, with virtually all of the remainder continued to FY19 and reappropriated. In addition to the year-end FY18 supplemental appropriations just described, the year’s significant supplemental appropriation activity included:

- \$295 million for transfers to the Medical Assistance Trust Fund;
- \$116 million to fund collective bargaining contracts (\$101 million to be paid in FY19);
- \$26 million for transitional aid to families with dependent children;
- \$20 million for the Underground Storage Tank Program;
- \$19 million for emergency housing assistance to low-income families.

FY18 budgeted revenues and other financing sources (before transfers between the budgeted funds, which are included in both spending and revenue and thus have no effect on fund balances) totaled \$43.819 billion, an increase of \$2.652 billion, or 6.4%, from FY17. As the Massachusetts economy continued to expand robustly, tax revenue grew by \$2.078 billion, or 8.7%. Personal income tax withholding increased by \$762 million, or 6.4%, capital gains revenue (part of the personal income tax) increased by \$498 million, or 42.0%, from FY17, sales and use tax grew by \$196 million, or 4.4%, corporate taxes grew by \$199 million, or 9.1%, and estate taxes increased by \$136 million, or 33.9%. Federal reimbursements totaled \$11.377 billion, an increase of \$519 million, or 4.8%, primarily due to growth in reimbursements for increased Medicaid program spending and for Medical Assistance Trust payments to local hospitals that care for Medicaid-eligible patients. Departmental revenue, which consists primarily of assessments and fees for state licenses and state services, totaled \$4.742 billion, an increase of \$360 million, or 8.2%, from FY17, driven largely by an increase of \$165 million in revenues from a new universal health insurance assessment, a \$58 million, or 60.3%, increase in payments from the University of Massachusetts Medical Center to the Commonwealth's General Fund, and a \$57 million, or 10.3%, increase in payments from Massachusetts cities and towns to the Group Insurance Commission to reimburse the Commonwealth for local health insurance programs managed by the GIC. Interfund transfers from non-budgeted funds totaled \$1.793 billion, a decrease of \$306 million, or 14.6%, from FY17, due primarily to reduced trust fund closeouts and other non-budgeted fund transfers to the General Fund.

The Commonwealth continues to receive revenues, as it will in perpetuity, from the Master Settlement Agreement (MSA) between the states and the tobacco industry to recover health care costs for tobacco-related illnesses. In FY18, the Commonwealth received \$243 million in tobacco settlement funds, a decrease of \$11 million compared to FY17. The \$243 million represented approximately 66.9% of the estimated amounts shown in the MSA. Statute requires that a portion of tobacco settlement proceeds be transferred directly to the State Retiree Benefits Trust Fund (SRBTF) to fund the Commonwealth's liability for retiree health care, with the percentage of proceeds transferred increasing by 10% each year until 100% of such proceeds is to be deposited in the SRBTF in FY2022 and after. For FY18, the statutorily required transfer was 60% of tobacco settlement revenues; however, the FY18 budget actions reduced the percentage of tobacco settlement revenues deposited to the SRBTF from 60% to 30%. That action reduced the FY18 transfer to approximately \$73 million, compared to the statutorily required transfer of \$146 million.

FY18 budgeted expenditures and other financing uses, including transfers to non-budgeted funds (but before transfers between the budgeted funds) totaled \$42.880 billion, an increase of \$1.679 billion, or 4.1%, from FY17, with the increase primarily attributable to higher spending on Medicaid and other health care spending, pension contributions, and Local Aid.

Spending on programs and services totaled \$36.132 billion, an increase of \$1.165 billion, or 3.3%, from FY17. Medicaid expenditures totaled \$15.745 billion, an increase of \$493 million, or 3.2%, from FY17, with the growth primarily due to increased medical services utilization, Medicare premium increases, and health care cost growth, especially pharmacy costs for emerging drugs. Spending for direct local aid (both education aid and unrestricted aid), at \$5.886 billion, was up \$182 million, also up 3.2%, from FY17.

Spending on state employee health benefits paid through the Group Insurance Commission (excluding benefits paid to retirees) decreased by \$29 million, or 1.7%, declining from \$1.663 billion to \$1.634 billion. Budgeted debt service totaled \$2.323 billion, up \$39 million, or 1.7%, from FY17.

Interfund transfers to non-budgeted funds (primarily the Universal Health Care funds) totaled \$1.534 billion, an increase of \$243 million or 18.9%, primarily due to an increase in transfers to the Medical Assistance Trust Fund (where expenditures vary greatly from year-to-year, depending on the timeliness of federal government approval of certain reimbursements), which grew by \$177 million, or 43.8% from FY17, and growth in post-employment benefits (for pension contributions and retiree health insurance), which totaled \$2.891 billion, an increase of \$232 million, or 8.7%,

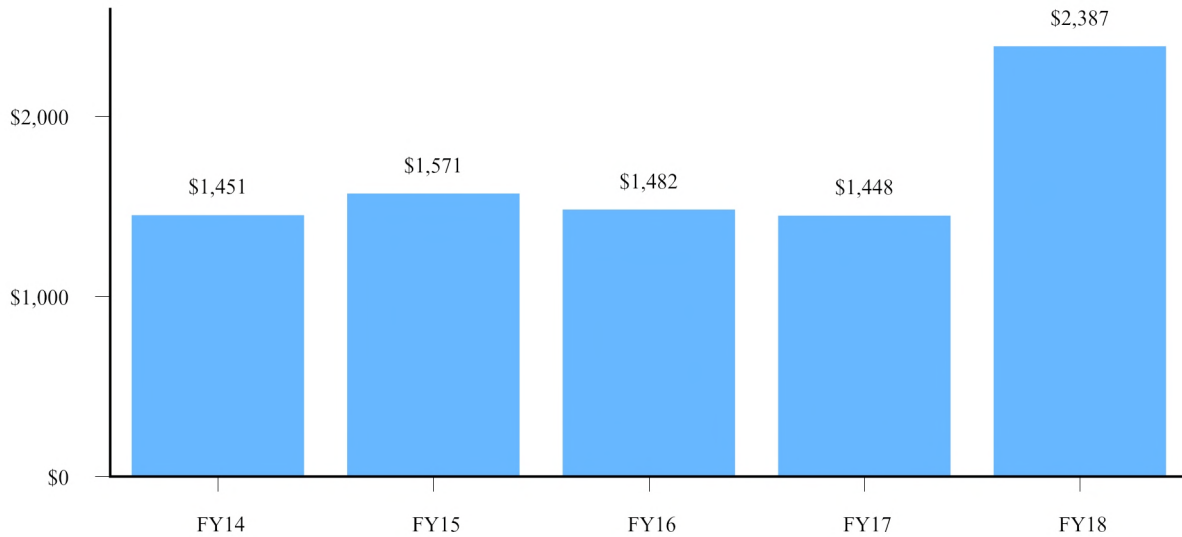
as the Commonwealth increased its pension contribution by \$196 million, or 8.9%, from FY17 and increased its transfer to the State Retiree Benefits Trust Fund (to fund retiree health insurance benefits) by \$48 million, from \$25 million to \$73 million.

In conducting the budget process, the Commonwealth excludes from its forecast those “interfund” transactions within the budgeted funds that are included in this report; these transactions by their nature have no impact on the combined fund balance of the budgeted funds. The Budgeted Funds - Operations table isolates this “interfund” activity from the budgeted sources and subtracts this revenue and spending to align forecasts prepared during the budget process and in bond disclosure documents to actual amounts in this report. In FY18, transfers among the Budgeted Funds totaled \$1.217 billion, an increase of \$600 million, or 97.1%, from FY17, primarily due to transfers from the General Fund and other budgeted funds to the Stabilization Fund resulting from increased capital gains taxes and the end of fiscal year’s budget surplus, both of which are statutorily required to be deposited in the Stabilization Fund. A detailed list of these interfund transfers is included in [Note 3](#) of the financial statements and [Schedule C](#) of the Supplemental Information section of this report.

Budgeted Funds - Operations
(Amounts in thousands)

	2018	2017
<u>Beginning fund balances:</u>		
Reserved and designated	\$ 117,396	\$ 126,018
Reserved for Stabilization Fund	1,300,678	1,291,514
Undesignated	29,661	64,461
Total	<u>1,447,735</u>	<u>1,481,993</u>
<u>Revenues and other financing sources:</u>		
Taxes	25,906,660	23,828,296
Federal reimbursements	11,376,956	10,857,830
Departmental and other revenues, including tobacco settlement	4,742,182	4,382,133
Interfund transfers from non-budgeted funds and other financing sources	1,793,423	2,099,068
Budgeted revenues and other financing sources	<u>43,819,221</u>	<u>41,167,327</u>
Intragovernmental Service Fund revenues	437,226	417,935
Interfund transfers among budgeted funds and other financing sources	779,788	199,481
Total revenues and other financing sources	<u>45,036,235</u>	<u>41,784,743</u>
<u>Expenditures and other financing uses:</u>		
Programs and services	36,131,642	34,966,817
Debt service	2,323,361	2,284,677
Post employment benefits	2,891,491	2,659,709
Interfund transfers to non-budgeted funds and other financing uses	1,533,793	1,290,382
Budgeted expenditures and other financing uses	<u>42,880,287</u>	<u>41,201,585</u>
Intragovernmental Service Fund expenditures	437,226	417,935
Interfund transfers among budgeted funds and other financing uses	779,788	199,481
Total expenditures and other financing uses	<u>44,097,301</u>	<u>41,819,001</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	938,934	(34,258)
<u>Ending fund balances:</u>		
Reserved and designated	371,472	117,396
Reserved for Stabilization Fund	2,001,299	1,300,678
Undesignated	13,898	29,661
Total	<u>\$ 2,386,669</u>	<u>\$ 1,447,735</u>

Budgeted Funds – Fund Balance (Including Stabilization Fund)
(Amounts in millions)



The graph of Budgeted Funds - Fund Balance above portrays the combined fund balance in the budgeted funds for the past five years.

As of June 30, 2018, the ending balance is comprised mainly of the fund balance of the General Fund and the Stabilization Fund. Due to designations of fund balances, \$371 million of the total budgeted fund balance, exclusive of the Stabilization Fund, is reserved for appropriations and debt service in FY19. The remaining \$14 million is undesignated in the budgeted environmental funds that are not included in the consolidated net surplus calculation.

Lottery and Gaming

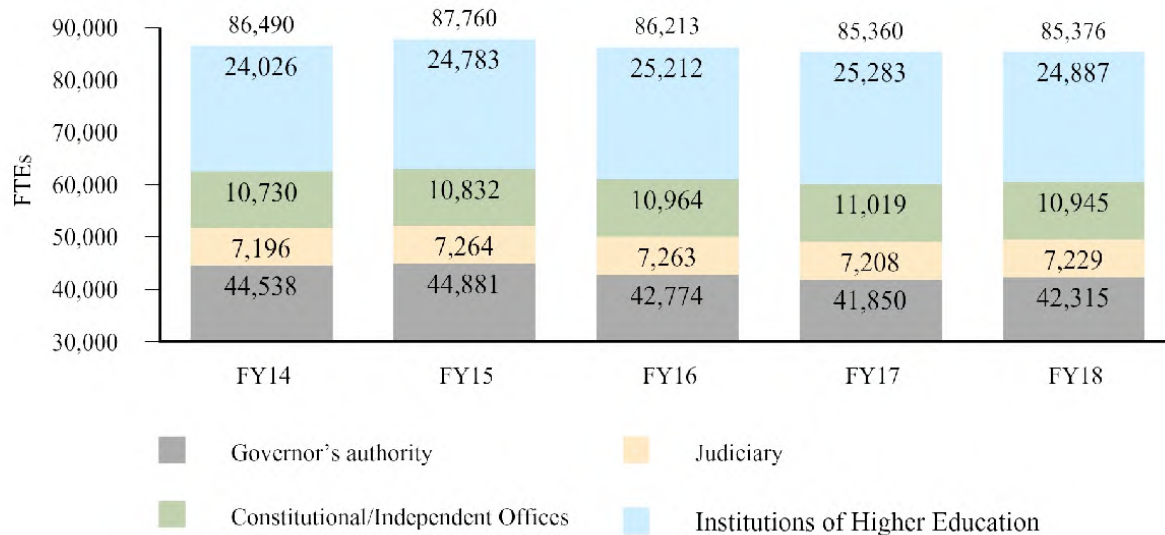
Gross Lottery revenues (including revenues from the Arts Lottery) grew from \$5.258 billion in FY17 to \$5.442 billion in FY18, an increase of \$184 million, or 3.5%. Despite the increase in gross revenues, Lottery profits, after deducting administrative expenses and fringe benefit charges to reimburse the Commonwealth’s General Fund for pension and employee health insurance benefits, but prior to distributions to reimburse the Massachusetts Cultural Council appropriation as mandated in the FY18 budget, declined to \$997 million, a decrease of \$43 million, or 4.1%, from FY17, as prize payments increased. Of that \$997 million in profits, and as mandated in the FY18 General Appropriation Act, approximately \$982 million was transferred to the General Fund to reimburse it for so-called Unrestricted General Government Aid (formerly Lottery Local Aid), \$14 million reimbursed the Massachusetts Cultural Council appropriation, and \$1 million reimbursed a compulsive gambling prevention program appropriation.

FY18 was the third fiscal year in which tax revenues were collected on profits generated by slot machines at the Plainridge slots parlor. FY18 budgeted fund tax revenues remitted to the Commonwealth, which are equal to 40% of gross profits (or “gross gaming revenues”) from the slot machines, totaled approximately \$68 million, an increase of \$1 million from FY17, which was earmarked for local aid; an additional \$15 million in non-budgeted fund revenue, equal to 9% of gross gaming revenue from the slot machines, was earmarked for advancement of horse racing. The FY19 budget relies on \$66 million in budgeted fund revenue from taxes on slots parlor profits.

Full-Time Equivalent Employment

The chart below shows the Commonwealth’s full-time equivalent employment, including the Massachusetts Department of Transportation (MassDOT) for all state funding sources (budgetary, non-budgetary, capital, federal, and trust) over the past five fiscal years. As of June 30, 2018, the number of Commonwealth employees was virtually the same as on June 30, 2017, increasing over the year by a net of approximately 16 full-time equivalent employees (FTEs), to a total of 85,376.

**Full Time Equivalent Workforce
Including Higher Education
June 2014 – June 2018**

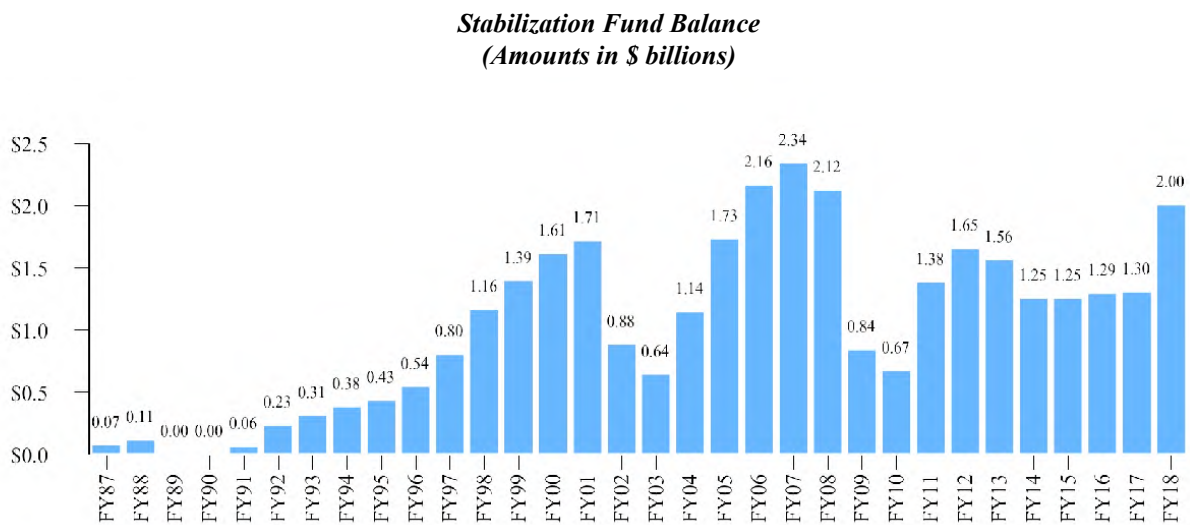


The Stabilization Fund

The Stabilization (or rainy day) Fund provides a reserve to be used in the event of an economic downturn or other fiscal emergency. The balance of the Stabilization Fund increased by \$701 million, to \$2.001 billion, between FY17 and FY18, with the main sources of growth being transfers of certain capital gains tax revenues and the end of fiscal year surplus.

Massachusetts state finance law includes a statutory requirement to transfer tax revenue attributable to capital gains above an annual threshold to the Stabilization Fund, State Pension Liability Fund, and State Retiree Benefits Trust Fund. The FY18 capital gains tax threshold, as determined by the Department of Revenue, was \$1.169 billion. In July 2018, the Department of Revenue certified that FY18 tax collections attributable to capital gains totaled \$1.683 billion, resulting in a \$514 million transfer of above-threshold capital gains tax revenue from the General Fund, with \$463 million going to the Stabilization Fund and \$26 million being transferred to both the State Pension Liability Fund and the State Retiree Benefits Trust Fund. In closing the books on FY18, the Comptroller transferred \$209 million of the consolidated net surplus to the Stabilization Fund per state finance law. During the fiscal year, the Fund also earned \$15 million in investment income and received a small amount of tax revenue, and at the end of the fiscal year, an additional \$13 million was transferred to the Stabilization Fund from an increase in FY18 net abandoned property collections, as required by state finance law. The Commonwealth made no withdrawals from the Stabilization in FY18, other than the statutorily required transfers of capital gains tax revenue to Pension and Retiree Benefits Funds. (Detail on transfers to and from the Stabilization Fund is shown in the table on [page 116](#)).

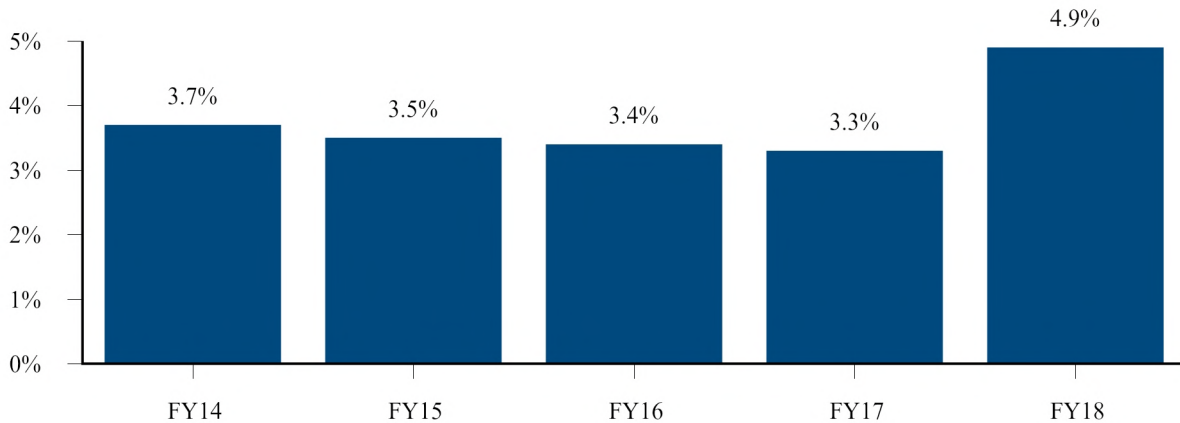
The following chart shows the end of fiscal year Stabilization Fund balances since the Fund's inception in 1986.



Rainy day fund balances are typically measured both in terms of the absolute size of those funds and the funds' balances as a percentage of General Fund expenditures, with the latter calculation taking into account a state's level of spending that stabilization funds are required to cover when economic downturns cause unanticipated declines in states' tax revenues and increases in demand for state services. According to The National Association of State Budget Officers' (NASBO) [Spring 2018 Fiscal Survey of the States](#), at the close of FY17 (the most recent year for which final rainy day fund balances were available for all states), the Commonwealth Stabilization Fund's balance of \$1.301 billion, or 3.3% of General Fund expenditures, was the thirteenth largest in the nation in absolute terms. (Five states had a zero stabilization fund balance at the end of FY17.) According to the *Survey* and the Commonwealth's results shown in this report, at the end of FY18 Massachusetts, with a Stabilization Fund balance of \$2.001 billion, or 4.9% of the Commonwealth's General Fund expenditures, will have the sixth largest stabilization fund balance at the end of FY18 in absolute size.

The following chart shows the Commonwealth's Stabilization Fund balance as a percentage of General Fund expenditures over the past five fiscal years. Prior years' financial reports have shown this measure of Stabilization Fund balance in comparison to the median percentage of other states; however, many other states account for federally reimbursed spending not in the General Fund, but in a separate fund established for that purpose, while Massachusetts accounts for such expenditures (equal to more than \$11 billion in FY18, most of which is for Medicaid) in the General Fund. This difference in accounting practice between Massachusetts and other states results in the Commonwealth having a lower Stabilization Fund balance as a percentage of General Fund expenditures than would be the case if such expenditures were accounted for identically to other states. Therefore, this percentage measure is not strictly comparable to other states and has been excluded from this year's SBFR.

Stabilization Fund Balance as a Percentage of General Fund Expenditures



With the \$701 million added to the Stabilization Fund balance in FY18, the Fund’s balance has risen close to a level not seen since FY08, though the balance is still more than \$340 million below its highest point in FY07, prior to the most recent recession. The FY19 General Appropriation Act assumes that a deposit of more than \$400 million will be made to the Fund in FY18 from above-threshold capital gains tax revenue and interest earnings.

The Non-Budgeted Funds

The Non-Budgeted Funds represent operations in which the government has imposed its sovereign authority but has excluded these operations from the annual budget process. During FY18, the Commonwealth maintained 101 non-budgeted funds, while another 23 were inactive.

The largest non-budgeted funds in terms of operating revenues include the State Lottery and Gaming Fund, the Federal Grants Fund, the MBTA State and Local Contribution Trust Fund (which accounts for sales tax revenue dedicated to and transferred to the MBTA), the School Modernization Trust Fund (which accounts for sales tax revenue dedicated to and transferred to Massachusetts School Building Authority), the Medical Assistance Trust Fund, and the Commonwealth Care Trust Fund. Other funds that show large inflows include the Grant Anticipation Notes Trust Fund, which is funded by federal highway spending reimbursements.

The table on the following page, Non-Budgeted Special Revenue Funds - Operations, summarizes the FY18 non-budgeted funds. A Statement of Revenues, Expenditures and Changes in Fund Balance is presented in a table within this report for each of the individual non-budgeted funds in the financial section of this report. The table includes the State Lottery Funds, where Lottery revenues and expenditures occur prior to Lottery profits being transferred to the General Fund to reimburse it for local aid and other appropriations.

Non-Budgeted Special Revenue Funds - Operations
(Amounts in thousands)

	2018	2017
Beginning fund balance.....	\$ 1,891,339	\$ 2,066,899
Revenues and other financing sources:		
Taxes.....	2,269,843	2,214,074
Assessments.....	806,095	754,577
Federal grants and reimbursements.....	3,488,353	3,255,134
Departmental and miscellaneous.....	6,779,993	6,415,100
Transfers and other financing sources.....	1,519,517	1,334,082
Total revenues and other financing sources	14,863,801	13,972,967
Expenditures and other financing uses:		
Programs and services	12,527,983	11,749,567
Debt service.....	195,607	193,876
Transfers and other financing uses	1,962,804	2,205,084
Total expenditures and other financing uses	14,686,394	14,148,527
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	177,407	(175,560)
Ending fund balance.....	\$ 2,068,746	\$ 1,891,339

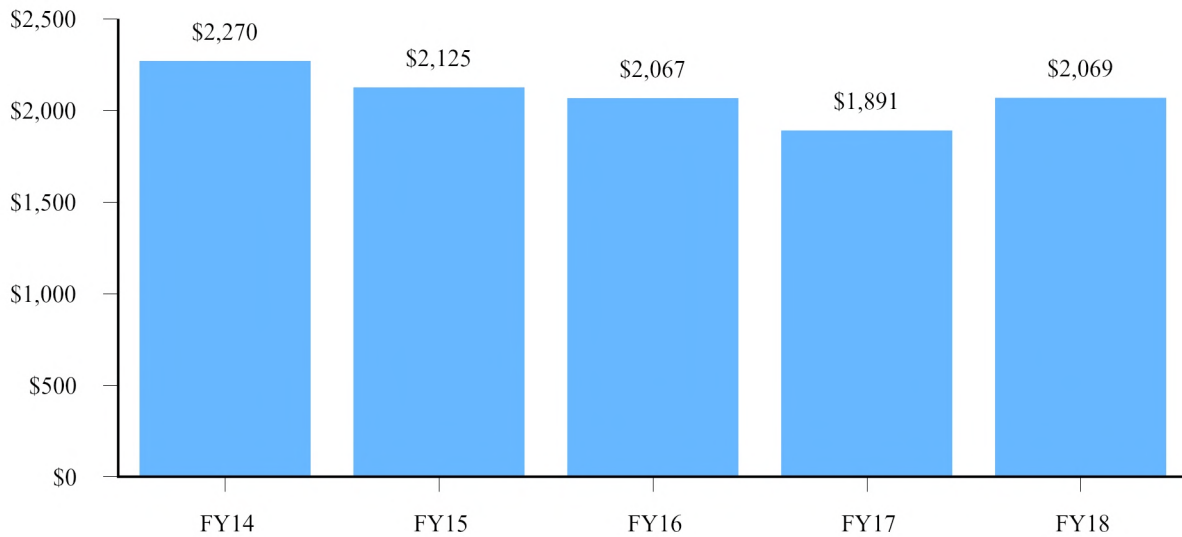
In FY18, four Non-Budgeted Special Revenue Funds had operating deficits in excess of \$10 million. They were:

- \$25 million – Health Safety Net Trust Fund;
- \$31 million – MassHealth Delivery System Reform Trust;
- \$17 million – Distressed Hospital Trust Fund;
- \$12 million – Enhanced 911 Fund.

In FY18, \$61 million of the Commonwealth’s federal transportation funds were used to repay prior year expenditures, which were financed through Federal Grant Anticipation Notes (GANs). In addition, approximately \$37 million in interest payments for the GANs were funded by a General Fund appropriation.

For the fifteen active Universal Health Care funds, revenues and other financing sources were \$2.295 billion in FY18, an increase of approximately \$531 million from FY17. This increase was due primarily to growth in transfers to the Medical Assistance Trust Fund (MATF) and the Massachusetts Health System Delivery Reform Trust Fund. Expenditures from the Universal Health Care funds totaled \$2.335 billion, an increase of \$548 million from FY17, due primarily to growth in spending from those same two funds. The following chart, Non-Budgeted Special Revenue Funds - Fund Balance, shows the combined fund balance in the Non-Budgeted Special Revenue funds for the past five years.

Non-Budgeted Special Revenue Funds – Fund Balance
(Amounts in millions)



Individual non-budgeted funds that represent approximately 92% of total non-budgeted fund balances include:

- \$843 million – Massachusetts Transportation Trust Fund;
- \$379 million – Central Artery/Tunnel Project Repair and Maintenance Trust Fund;
- \$196 million – Convention and Exhibition Center Fund;
- \$111 million – Enhanced 911 Fund;
- \$93 million – Grant Anticipation Note Trust Fund;
- \$83 million – Commonwealth Care Trust Fund;
- \$78 million – Health Safety Net Trust Fund;
- \$41 million – Workforce Training Trust Fund;
- \$26 million – MassHealth Delivery System Reform Trust Fund;
- \$21 million – Community Preservation Trust Fund;
- \$18 million – Medical Marijuana Trust Fund;
- \$17 million – Distressed Hospital Trust Fund.

As noted in previous reports, the Government Land Bank Fund has a continuing structural fund deficit. The FY18 deficit balance of approximately \$35 million remains an unbudgeted drain on the Commonwealth's cash pool. While steps have been taken to stop the growth in this deficit, the Fund should be abolished and the deficit transferred to the General Fund. More consolidation and elimination is needed for the non-budgeted special revenue funds generally.

The Capital Projects Funds

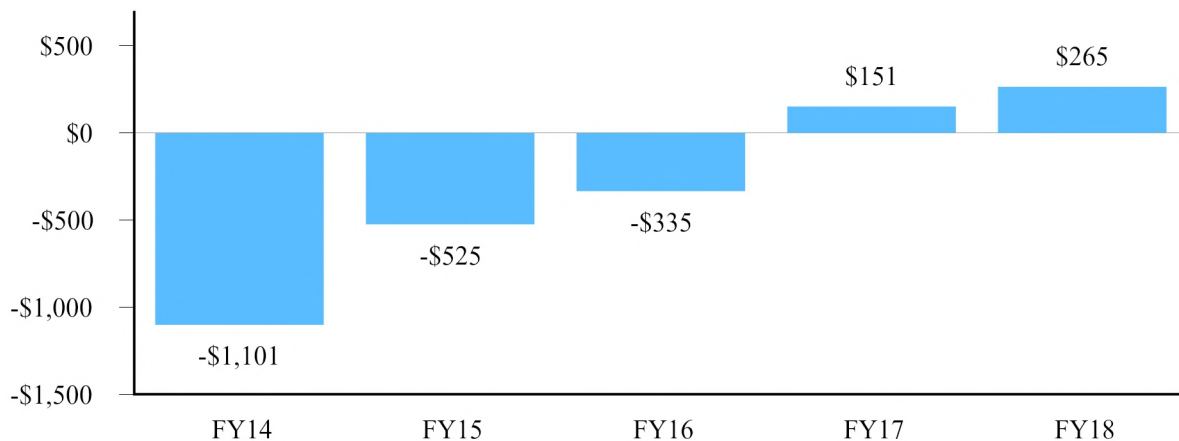
The purpose of the capital project funds is to account for the construction or acquisition of capital assets. The Governor may propose capital outlay budgets which, upon enactment by the Legislature and approval by the Governor, become capital outlay acts. Capital outlay acts financed through the sale of debt require a two-thirds vote of the Legislature. Numerous acts may be combined for reporting in an individual Capital Projects Fund, but each act is accounted for separately within the fund. These accounts record authorizations for expenditures in itemized capital appropriation accounts and equivalent authorizations to issue bonds or notes.

The structure of these funds is such that each capital outlay authorization is in balance, creating authorization for inflows (which may be from sales of bonds, federal reimbursements or other revenues) and expenditures. Imbalances due to timing differences develop when the expenditure precedes the inflow of funds from the sale of bonds or federal reimbursements. Due to restrictions imposed by federal tax arbitrage rules, tax exempt bonds are not routinely sold in anticipation of expenditures.

To fund the FY18 capital budget, the Commonwealth borrowed by issuing \$2.384 billion in long-term bonds, \$1.734 billion of which was general obligation debt and \$650 million was special obligation debt secured by motor fuels taxes and motor vehicle license and registration fees. In addition, the Commonwealth issued \$993 million in debt to refund already existing obligations, taking advantage of continued low interest rates in FY18. Finally, MassDOT issued approximately \$136 million in bonds to refund outstanding Metropolitan Highway System Revenue Bonds.

The following graph Capital Projects Funds - Fund Balance (Deficit) shows the combined fund balance in Capital Projects Funds for the past five years. Typically, the combined ending balance in the Capital Projects Funds is negative, as capital spending occurs prior to bonds being issued by the Commonwealth. However, at the end of FY18, the Capital Projects Funds had a \$265 million positive balance, as Commonwealth issued debt at the end of the fiscal year to take advantage of favorable interest rates and to reimburse itself for previous capital expenditures and those anticipated for July 2018.

Capital Projects Funds – Fund Balance (Deficit)
(Amounts in millions)



The Capital Projects Funds - Operations table on the next page includes the FY18 Capital Projects Funds, summarized and compared to FY17. Financial statements for each of the individual funds are included in the financial section of this report.

Capital Projects Funds - Operations
(Amounts in thousands)

	2018	2017
Beginning fund balance (deficit)	\$ 150,555	\$ (334,694)
Revenues and other financing sources:		
Federal grants and reimbursements	99,001	58,354
Departmental and miscellaneous	10,537	4,081
Proceeds of general and special obligation bonds	2,727,039	3,136,222
Proceeds of refunding bonds	1,310,616	2,269,192
Transfers and other financing sources	599,840	600,302
Total revenues and other financing sources.....	4,747,033	6,068,151
Expenditures and other financing uses:		
Acquisition and maintenance of capital assets.....	3,185,685	3,187,010
Payments to advance refunding escrow agent/principal repayment.....	1,310,616	2,269,192
Transfers and other financing uses	136,027	126,700
Total expenditures and other financing uses.....	4,632,328	5,582,902
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses.....	114,705	485,249
Ending fund balance (deficit)	\$ 265,260	\$ 150,555

The Administration oversees a coordinated fiscal strategy for the management of Capital Projects Funds. This strategy includes a five-year capital budget linked to debt management and capital management. The focus of this strategy is to manage capital spending within outstanding debt levels and debt service obligations the Administration considers appropriate for the Commonwealth. An important part of the strategy is to control capital spending within an administrative “cap.”

During FY18, significant capital spending included:

- \$414 million for state owned facilities including higher education campuses, trial courts, and state health care facilities;
- \$286 million in support for Rail Enhancement Projects/MBTA projects, including investment in reducing the MBTA’s State of Good Repair backlog, acquisition of new vehicles for the Red and Orange Lines, and the Green Line Extension;
- \$241 million for affordable housing development and public housing;
- \$196 million in Chapter 90 reimbursements to municipalities for local road and bridge projects;
- \$191 million for economic development initiatives, including the MassWorks infrastructure grants to municipalities and the Workforce Skills capital grants to educational institutions;
- \$158 million in bridge repair projects under the Commonwealth’s Accelerated Bridge Program;
- \$128 million in spending for the Department of Conservation and Recreation, including improvements to roadways, parks, and for environmental spending;

- \$30 million for grants from the Massachusetts Life Sciences Center to foster economic development in the life sciences sector;
- \$20 million for construction and planning grants from the Board of Library Commissioners to public library systems;
- \$10 million for aid to towns in western Massachusetts to extend high-speed broadband networks.

During FY18, the Commonwealth passed or agreed to terms for approximately \$444 million in bond authorizations. There were no deauthorizations of previously enacted bond bills in FY18.

The Non-Appropriated Funds of Higher Education

The statistical section of this SBFR includes data on the financial operations of the non-appropriated funds of the 25 institutions of higher education as reported on MMARS. Each institution of higher education is authorized and directed in its enabling statute to collect, retain and expend certain fees, rents, sales, donations, federal financial participation and other types of revenue through campus-based systems. These financial resources are integral parts of the total financial activity of each campus. They also represent resources in addition to amounts made available from Commonwealth appropriations.

**Non-Appropriated Funds Of Higher Education - Operations
(Amounts in thousands)**

	2018	2017
Beginning fund balance	\$ 1,833,417	\$ 1,726,669
Revenues and other financing sources:		
Federal grants and reimbursements.....	517,513	515,589
Departmental revenues.....	2,479,663	2,296,093
Transfers and other financing sources.....	1,932,448	1,930,299
Total revenues and other financing sources	4,929,624	4,741,981
Expenditures and other financing uses:		
Programs and services.....	4,702,780	4,635,233
Excess/(deficiency) of revenues and other financing sources over/(under) expenditures and other financing uses	226,844	106,748
Ending fund balance.....	<u>\$ 2,060,261</u>	<u>\$ 1,833,417</u>

The Non-Appropriated Funds of Higher Education – Operations table above includes the FY18 activity in Higher Education funds, summarized and compared to FY17. Financial statements for each of the individual funds are included in the statistical section of this report. The following chart, Non-Appropriated Funds of Higher Education - Fund Balance, shows the combined fund balance for the past five years. The combined balance represents an approximate \$1.069 billion fund balance for the University of Massachusetts, an approximate \$586 million fund balance for the State University (formerly the State College) system and an approximate \$405 million fund balance for the Community Colleges.

*Non-Appropriated Funds of Higher
Education – Fund Balance
(Amounts in Millions)*



* Fund balances were restated due to amounts previously unreported

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Deborah B. Goldberg
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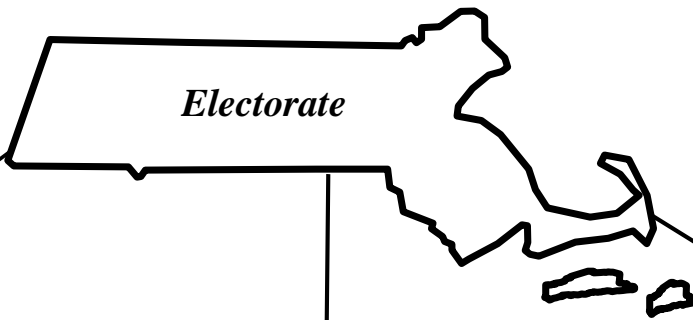
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Speaker of the House

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Chief Justice, Supreme Judicial Court

Mark Green
Chief Justice, Appeals Court

Jonathan Williams
Court Administrator, Trial Court



<i>Legislative Branch</i>	<i>Executive Branch</i>	<i>Judicial Branch</i>
House of Representatives Senate	Governor and Lieutenant Governor [#] Governor's Council Attorney General Sheriffs State Auditor Secretary of the Commonwealth Treasurer and Receiver-General District Attorneys Independent Offices and Commissions*	Supreme Judicial Court Appeals Court Trial Court Committee for Public Counsel Board of Bar Examiners Commission on Judicial Conduct Mental Health Legal Advisors

<i>Executive Branch Independent Offices and Commissions*</i>		
Board of Library Commissioners Campaign and Political Finance Cannabis Control Commission Center for Health Information & Analysis Commission Against Discrimination	Commission on the Status of Women Disabled Persons Protection Commission Massachusetts Gaming Commission Office of the Child Advocate Office of the Comptroller	Office of the Inspector General State Ethics Commission State Retiree Benefits Trust Fund Board University of Massachusetts System

<i>Executive Departments Under Gubernatorial Authority[#]</i>		
<p><u>Administration and Finance</u> Executive Office for Administration and Finance Appellate Tax Board Bureau of the State House Civil Service Commission Department of Revenue Developmental Disabilities Council Division of Administrative Law Appeals Division of Capital Asset Management and Maintenance George Fingold Library Group Insurance Commission Health Policy Commission Human Resource Division Massachusetts Office on Disability Massachusetts Teachers' Retirement System Operational Services Division Public Employee Retirement Administration Commission</p> <p><u>Education</u> Executive Office of Education Department of Early Education and Care Department of Elementary and Secondary Education Department of Higher Education Community Colleges State Universities</p>	<p><u>Housing and Economic Development</u> Executive Office of Housing and Economic Development Department of Business Development Office of Consumer Affairs & Business Regulations Massachusetts Marketing Partnership Department of Housing & Community Development Department of Telecommunications and Cable Division of Banks Division of Insurance Division of Professional Licensure Division of Standards</p> <p><u>Energy and Environmental Affairs</u> Executive Office of Energy and Environmental Affairs Department of Agricultural Resources Department of Conservation and Recreation Department of Energy Resources Department of Environmental Protection Department of Fish and Game Department of Public Utilities State Reclamation Board</p> <p><u>Technology and Security</u> Executive Office of Technology Services and Security</p> <p><u>Transportation and Public Works</u> Executive Office of Transportation and Public Works</p>	<p><u>Executive Office of Labor and Workforce Development</u></p> <p><u>Health and Human Services</u> Executive Office of Health and Human Services Executive Office of Elder Affairs Department of Children and Families Department of Developmental Services Department of Mental Health Department of Public Health Department of Transitional Assistance Department of Veterans' Services Department of Youth Services Massachusetts Commission for the Blind Massachusetts Commission for the Deaf and Hard of Hearing Massachusetts Rehabilitation Commission Office for Refugees and Immigrants Soldiers' Home, Holyoke Soldiers' Home, Massachusetts</p> <p><u>Public Safety</u> Executive Office of Public Safety and Security Chief Medical Examiner Department of Criminal Justice Information Services Department of Correction Department of Fire Services Department of State Police Massachusetts Emergency Management Agency Military Division/ Massachusetts National Guard Municipal Police Training Committee Parole Board Sex Offender Registry</p>

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Office of the Inspector General
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Chief of Strategic Communications



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Financial Section



Independent Accountants' Review Report
Combined Financial Statements - Statutory Basis
Notes to Combined Financial Statements - Statutory Basis
Combining and Individual Fund Financial Statements - Statutory Basis



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KPMG LLP
Two Financial Center
60 South Street
Boston, MA 02111

Independent Accountants' Review Report

Mr. Thomas G. Shack III, Comptroller
Commonwealth of Massachusetts:

We have reviewed the accompanying combined financial statements – statutory basis of the Commonwealth of Massachusetts as of and for the year ended June 30, 2018, and the related notes as listed in the accompanying table of contents. A review includes primarily applying analytical procedures to management's financial data and making inquiries of management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the combined financial statements – statutory basis as a whole. Accordingly, we do not express such an opinion.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the combined financial statements – statutory basis in accordance with Section 12 of Chapter 7A of the Massachusetts General Laws, as amended, and the budgetary principles of the Commonwealth of Massachusetts (hereafter referred to as the Statutory Basis of Accounting) as described in notes 1 and 2, and is not intended to be a presentation in conformity with U.S. generally accepted accounting principles. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the combined financial statements – statutory basis that are free from material misstatement, whether due to fraud or error.

Accountants' Responsibility

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the combined financial statements – statutory basis for them to be in accordance with the Statutory Basis of Accounting. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Accountants' Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying combined financial statements – statutory basis in order for them to be in conformity with the basis of accounting described in notes 1 and 2.

Basis of Accounting

The accompanying combined financial statements – statutory basis were prepared on the basis of accounting that demonstrates compliance with the Statutory Basis of Accounting as described in notes 1 and 2, and is not intended to be a presentation in accordance with U.S. generally accepted accounting principles.

Other Matters

The combining and individual fund financial statements - statutory basis and supplemental information listed in the accompanying table of contents are presented for purposes of additional analysis and are not required parts of the combined financial statements – statutory basis. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the combined financial statements – statutory basis. Such information has been subjected to the



review procedures applied in our review of combined financial statements – statutory basis. We are not aware of any material modifications that should be made to combining and individual fund financial statements- statutory basis and supplemental information. We have not audited the combining and individual fund financial statements – statutory basis and supplemental information and accordingly, do not express an opinion on such information.

The introductory and statistical sections listed in the accompanying table of contents are presented for purposes of additional analysis and are not required parts of the combined financial statements – statutory basis. Such information is the responsibility of management. We have not audited or reviewed such information and we do not express an opinion, a conclusion, nor provide any assurance on such information.

Restriction of Use

This report is intended solely for the information and use of management and elected and appointed officials of the Commonwealth of Massachusetts and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

Boston, Massachusetts
November 6, 2018

Combined Financial Statements - Statutory Basis

Budgeted Funds
 Combined Balance Sheet - Statutory Basis

As of June 30, 2018
 (Amounts in thousands)

	Totals (Memorandum only)	
	2018	2017
ASSETS		
Cash and short-term investments.....	\$ 2,496,151	\$ 1,368,250
Cash with fiscal agent.....	19,373	18,080
Investments.....	272,468	272,224
Receivables, net of allowance for uncollectibles:		
Due from federal government.....	476,376	646,986
Other receivables.....	184,466	18,501
Due from cities and towns.....	34,647	12,143
Total assets.....	<u>\$ 3,483,481</u>	<u>\$ 2,336,184</u>
LIABILITIES AND FUND EQUITY		
Liabilities:		
Accounts payable.....	\$ 997,490	\$ 810,363
Accrued payroll.....	99,322	78,086
Total liabilities.....	<u>1,096,812</u>	<u>888,449</u>
Fund equity:		
Combined fund balance:		
Reserved for:		
Continuing appropriations.....	352,099	99,316
Commonwealth Stabilization.....	2,001,299	1,300,678
Debt service.....	19,373	18,080
Unreserved:		
Undesignated.....	13,898	29,661
Total fund equity.....	<u>2,386,669</u>	<u>1,447,735</u>
Total liabilities fund equity.....	<u>\$ 3,483,481</u>	<u>\$ 2,336,184</u>

See accompanying notes to financial statements and accountants' review report

Budgeted Funds

Combined Statements Of Revenues, Expenditures And Changes In Fund Balances - Statutory Basis - Budget and Actual

Fiscal Year Ended June 30, 2018

(Amounts in thousands)

	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES AND OTHER FINANCING SOURCES			
Revenues:			
Taxes.....	\$ 24,864,400	\$ 25,906,660	\$ 1,042,260
Assessments	464,509	439,686	(24,823)
Federal grants and reimbursements.....	11,286,123	11,376,956	90,833
Tobacco settlement revenue	257,500	243,313	(14,187)
Departmental	3,655,017	4,071,620	416,603
Miscellaneous.....	294,856	424,789	129,933
Total revenues	<u>40,822,405</u>	<u>42,463,024</u>	<u>1,640,619</u>
Other financing sources:			
Fringe benefit cost recovery.....	435,041	434,924	(117)
Lottery reimbursements.....	90,888	103,136	12,248
Lottery distributions	994,754	983,108	(11,646)
Operating transfers in	350,804	315,398	(35,406)
Stabilization transfer	85,341	736,645	651,304
Total other financing sources	<u>1,956,828</u>	<u>2,573,211</u>	<u>616,383</u>
Total revenues and other financing sources.....	<u>42,779,233</u>	<u>45,036,235</u>	<u>2,257,002</u>
EXPENDITURES AND OTHER FINANCING USES			
Expenditures:			
Legislature.....	103,532	67,850	35,682
Judiciary	929,008	919,016	9,992
Inspector General	4,371	4,370	1
Governor and Lieutenant Governor	7,602	6,574	1,028
Secretary of the Commonwealth.....	43,086	39,339	3,747
Treasurer and Receiver-General.....	219,374	215,183	4,191
Auditor of the Commonwealth.....	18,723	18,610	113
Attorney General	49,256	47,993	1,263
Ethics Commission.....	2,094	2,042	52
District Attorney	119,703	119,206	497
Office of Campaign & Political Finance.....	1,618	1,594	24
Sheriffs' Departments.....	621,940	620,318	1,622
Disabled Persons Protection Commission.....	3,131	3,131	—
Board of Library Commissioners.....	25,453	25,443	10
Comptroller	14,405	13,877	528
Administration and Finance	2,641,365	2,305,871	335,494
Energy and Environmental Affairs.....	244,535	230,956	13,579
Health and Human Services	6,369,091	6,035,926	333,165
Executive Office of Technology Services and Security.....	151,555	73,456	78,099
Massachusetts Department of Transportation	127,000	127,000	—
Office of the Child Advocate.....	800	706	94
Cannabis Control Commission.....	6,999	2,241	4,758
Executive Office of Education	2,351,178	2,289,929	61,249
Center for Health Information and Analysis.....	32,044	21,452	10,592
Public Safety and Security	1,226,536	1,166,779	59,757
Housing and Economic Development.....	553,578	533,168	20,410
Labor and Workforce Development	60,670	46,785	13,885
Direct local aid	5,890,434	5,885,520	4,914
Medicaid program expenses.....	15,609,522	15,744,534	(135,012)
Post employment benefits	2,826,904	2,891,491	(64,587)
Debt service:			
Principal retirement.....	1,340,701	1,299,705	40,996
Interest and fiscal charges.....	1,046,843	1,023,656	23,187
Total expenditures	<u>42,643,051</u>	<u>41,783,721</u>	<u>859,330</u>
Other financing uses:			
Fringe benefit cost assessment	—	4,952	(4,952)
Operating transfers out	900,976	954,099	(53,123)
State Retiree Benefits transfer.....	—	25,695	(25,695)
State Pension transfer	—	25,695	(25,695)
Stabilization transfer	51,500	723,195	(671,695)
Medical assistance transfer.....	747,100	579,944	167,156
Total other financing uses	<u>1,699,576</u>	<u>2,313,580</u>	<u>(614,004)</u>
Total expenditures and other financing uses.....	<u>44,342,627</u>	<u>44,097,301</u>	<u>245,326</u>
Excess (deficiency) of revenues and other financing sources over/(under) expenditures and other financing uses	<u>\$ (1,563,394)</u>	<u>938,934</u>	<u>\$ 2,502,328</u>
Fund balance (deficit) at beginning of year		1,447,735	
Fund balance (deficit) at end of year		<u>\$ 2,386,669</u>	

See accompanying notes to financial statements and accountants' review report

Non-Budgeted Special Revenue and Capital Projects Funds
 Combined Statements Of Revenues, Expenditures And Changes In Fund Balances - Statutory Basis

Fiscal Year Ended June 30, 2018
 (Amounts in thousands)

	Non-Budgeted Special Revenue	Capital Projects	Totals (Memorandum only)	
			2018	2017
REVENUES AND OTHER FINANCING SOURCES				
Revenues:				
Taxes.....	\$ 2,269,843	\$ —	\$ 2,269,843	\$ 2,214,074
Assessments.....	806,095	—	806,095	754,577
Federal grants and reimbursements.....	3,488,353	99,001	3,587,354	3,313,488
Departmental.....	6,731,084	7,178	6,738,262	6,371,654
Miscellaneous.....	48,909	3,359	52,268	47,527
Total revenues.....	<u>13,344,284</u>	<u>109,538</u>	<u>13,453,822</u>	<u>12,701,320</u>
Other financing sources:				
Issuance of general obligation bonds.....	—	1,734,443	1,734,443	2,408,675
Bond premiums/(discounts) on general obligation bonds.....	—	233,292	233,292	210,424
Issuance of special obligation bonds.....	—	650,000	650,000	461,975
Bond premiums/(discounts) on special obligation bonds.....	—	109,304	109,304	55,148
Issuance of current refunding bonds.....	—	602,425	602,425	188,490
Bond premiums/(discounts) on current refunding bonds.....	—	80,193	80,193	—
Issuance of advance refunding bonds.....	—	526,180	526,180	1,664,790
Bond premiums/(discounts) on advance refunding bonds.....	—	101,818	101,818	415,912
Operating transfers in.....	939,573	490,981	1,430,554	1,230,696
Medical assistance transfer.....	579,944	—	579,944	403,367
State share of federal highway construction.....	—	108,859	108,859	111,172
Delivery system transformation initiatives trust transfer.....	—	—	—	189,149
Lottery deficit support.....	—	—	—	—
Total other financing sources.....	<u>1,519,517</u>	<u>4,637,495</u>	<u>6,157,012</u>	<u>7,339,798</u>
Total revenues and other financing sources.....	<u>14,863,801</u>	<u>4,747,033</u>	<u>19,610,834</u>	<u>20,041,118</u>
EXPENDITURES AND OTHER FINANCING USES				
Expenditures:				
Judiciary.....	1,764	12,302	14,066	20,515
Inspector General.....	387	—	387	258
Governor and Lieutenant Governor.....	73	—	73	132
Secretary of the Commonwealth.....	5,710	1,501	7,211	6,394
Treasurer and Receiver-General.....	6,369,962	45,643	6,415,605	6,111,487
Auditor of the Commonwealth.....	—	1,299	1,299	2,936
Attorney General.....	48,675	973	49,648	25,458
Ethics Commission.....	—	6	6	87
District Attorney.....	3,108	—	3,108	3,047
Sheriffs' Departments.....	14,362	3,027	17,389	14,433
Disabled Persons Protection Commission.....	571	—	571	159
Board of Library Commissioners.....	2,791	19,936	22,727	15,289
Massachusetts Gaming Commission.....	44,238	—	44,238	36,749
Comptroller.....	2,128	—	2,128	2,159
Administration and Finance.....	423,701	439,483	863,184	1,012,326
Energy and Environmental Affairs.....	123,529	210,408	333,937	318,964
Health and Human Services.....	2,517,235	62,810	2,580,045	2,010,842
Executive Office of Technology Services and Security.....	8,754	55,627	64,381	—
Massachusetts Department of Transportation.....	1,041,745	1,811,028	2,852,773	2,989,191
Executive Office of Education.....	1,009,933	53,081	1,063,014	1,045,954
Center for Health Information and Analysis.....	5	4	9	208
Public Safety and Security.....	223,318	39,218	262,536	286,623
Housing and Economic Development.....	539,198	428,192	967,390	862,894
Labor and Workforce Development.....	146,796	1,147	147,943	170,472
Debt service:				
Principal retirement.....	87,857	—	87,857	76,797
Interest and fiscal charges.....	107,750	—	107,750	117,079
Total expenditures.....	<u>12,723,590</u>	<u>3,185,685</u>	<u>15,909,275</u>	<u>15,130,453</u>
Other financing uses:				
Payments to advance refunding bonds escrow.....	—	627,998	627,998	2,080,702
Principal on current refundings.....	—	682,618	682,618	188,490
Fringe benefit cost assessment.....	185,564	27,157	212,721	204,965
Lottery operating reimbursements.....	103,136	—	103,136	100,392
Lottery distributions.....	983,108	—	983,108	1,025,411
Operating transfers out.....	690,996	11	691,007	813,292
Commonwealth care trust transfer.....	—	—	—	76,552
State share of federal highway construction.....	—	108,859	108,859	111,172
Total other financing uses.....	<u>1,962,804</u>	<u>1,446,643</u>	<u>3,409,447</u>	<u>4,600,976</u>
Total expenditures and other financing uses.....	<u>14,686,394</u>	<u>4,632,328</u>	<u>19,318,722</u>	<u>19,731,429</u>
Excess/(deficiency) of revenues and other financing sources over/(under) expenditures and other financing uses.....	177,407	114,705	292,112	309,689
Fund balance/(deficit) at beginning of year.....	1,891,339	150,555	2,041,894	1,732,205
Fund balance/(deficit) at end of year.....	<u>\$ 2,068,746</u>	<u>\$ 265,260</u>	<u>\$ 2,334,006</u>	<u>\$ 2,041,894</u>

See accompanying notes to financial statements and accountants' review report

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1. FINANCIAL STATEMENT PRESENTATION

A. INTRODUCTION

The accompanying combined financial statements (Statutory Basis Financial Report or SBFR) of the Commonwealth of Massachusetts (the Commonwealth) are presented in accordance with the requirements of Section 12 of Chapter 7A as amended by Section 4 of Chapter 88 of the Acts of 1997 of the Massachusetts General Laws, as amended most recently by Chapter 26, Section 4 of the Acts of 2009. The Office of the Comptroller also publishes the Commonwealth's Comprehensive Annual Financial Report (CAFR), which is prepared in accordance with Generally Accepted Accounting Principles (GAAP) in the United States of America for governments.

The SBFR includes the budgeted, non-budgeted, special revenue, and capital projects funds of the Commonwealth, as recorded by the Office of the Comptroller in compliance with Massachusetts General Laws and in accordance with the Commonwealth's budgetary principles.

The SBFR's financial statements are not intended to include independent authorities, non-appropriated funds of higher education, or other organizations included in the Commonwealth's reporting entity as it would be defined under GAAP.

B. GOVERNMENTAL FUND TYPES

The fund types are organized as follows:

Governmental fund types account for the general governmental activities of the Commonwealth.

Budgeted Funds - are the primary operating funds of the Commonwealth. They account for all budgeted governmental transactions, i.e., those subject to the annual appropriation process. Major budgeted funds include the General, Stabilization, and Commonwealth Transportation Funds, which are identified by the Comptroller as the operating funds of the Commonwealth. In addition, there are eight smaller budgeted funds, the Intragovernmental Services Fund, the Inland Fisheries and Game Fund, the Marine Recreational Fisheries Development Fund, the Public Safety Training Fund, the Community First Trust Fund, the Gaming Local Aid Fund, the Local Aid Stabilization Fund and the Marijuana Regulation Fund.

Non-Budgeted Special Revenue Funds - are established by law to account for revenue sources that have been segregated from the budgeted funds to support specific governmental activities such as federal grants, the operations of the state lottery and funds related to the Massachusetts Gaming Commission.

Capital Projects Funds - account for financial resources used to acquire or construct major capital assets and to finance local capital projects. These resources are derived almost entirely from proceeds of bonds and other obligations, which are generally received after related expenditures have been incurred, operating transfers authorized by the Legislature, and from federal reimbursements. Deficit balances in Capital Projects Funds represent amounts to be financed, primarily through future bond sales.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. STATUTORY BASIS OF ACCOUNTING

The SBFR is prepared from the Commonwealth's books and records and other official reports that are maintained on the basis of accounting used in the preparation of the Commonwealth's legally adopted annual budget (statutory basis). The statutory basis emphasizes accountability and budgetary control of appropriations. The SBFR is not intended to present the Commonwealth's financial condition and results of operations in conformity with GAAP.

Under the statutory basis of accounting, revenues generally are recognized when cash deposits are received by the Treasury. However, revenues receivable for federal grants and reimbursements generally are recognized when related

expenditures are incurred, provided that the related revenues are received by the Commonwealth by August 31, the end of the statutory accounts receivable period. Amounts due from political subdivisions of the Commonwealth are recognized when considered measurable and available. These are largely payments from municipalities reimbursing for pension costs paid by the Commonwealth on their behalf, authorized under Section 3(8)c of Chapter 32 of the Massachusetts General Laws, provided that the revenues are received by August 31.

Under the statutory basis of accounting, expenditures are generally recorded when the related cash disbursement occurs. At year-end, payroll is accrued and payables are recognized, to the extent of approved encumbrances, for goods or services received by June 30, and payment made by August 31. Costs incurred under the federally-sponsored Medicaid program, amounts required to settle claims and judgments against the Commonwealth, and certain other liabilities are not recognized until they are encumbered or otherwise processed for payment. In some cases the liabilities will have been incurred prior to June 30, but recorded when paid in the following fiscal year, not as statutory payables.

The accounting policies followed in preparing the accompanying statutory basis financial report are described in the remainder of this section.

B. CASH, SHORT-TERM INVESTMENTS AND INVESTMENTS

The Commonwealth follows the practice of pooling cash and cash equivalents, except for balances in the Commonwealth Stabilization Fund, which are sequestered. Cash equivalents consist of short-term investments with an original maturity of three months or less and are stated at cost. Interest earned on pooled cash is allocated to the General Fund and, when so directed by law, to certain other Governmental Funds.

The Office of the Treasurer and Receiver-General (Treasury) manages the Commonwealth's short-term external mixed investment pool, the Massachusetts Municipal Depository Trust (MMDT). MMDT is comprised of two portfolios, a Cash Portfolio and a Short Term Bond Fund. The Cash Portfolio is a money-market-like investment pool; its investments are carried at amortized cost, which approximates fair value. The Short Term Bond Fund investments are carried at fair value.

Investors in MMDT are not allowed to overdraw their shares. For a complete copy of MMDT's separately issued financial statements, please contact the Office of the State Treasurer's Cash Management Department, at (617) 367-9333. The statements can also be downloaded from the Cash Management section of the Office of the State Treasurer's website at www.mass.gov/treasury. General Law Chapter 29, Section 38 enumerates the Commonwealth's investment policy for non-pension assets.

C. DEDICATED REVENUE AND PLEDGES

The Commonwealth has a number of bond programs in which bonds are secured by a pledge of dedicated revenues provided to bondholders, pursuant to trust agreements, as well as pledges of revenue for general operations. Like the Commonwealth, certain state authorities have also issued special obligation bonds secured by specific Commonwealth revenues. These other authorities' debts are not included in the SBFR, but are included in the CAFR.

All federal highway reimbursements are dedicated to funding the principal portion only of federal grant anticipation notes (GANs) issued in fiscal 2011, 2014, 2015, 2017 and 2018. During FY18, the Commonwealth issued approximately \$75 million in GANs for new money needs and \$68 million in refunding bonds under the Commonwealth's Accelerated Bridge Program. As of June 30, 2018, total principal remaining to be paid was approximately \$748 million. Maturities are from FY19 through FY27. Debt service paid during FY18 was approximately \$96 million.

In FY18, the Commonwealth issued approximately \$65 million in new money special obligation bonds under the Accelerated Bridge Program (ABP), \$510 million in new money special obligation bonds under the Rail Enhancement Program (REP) and \$243 million in special obligation refunding bonds. These bonds mature from FY19 to FY48 and are secured by a senior lien on 17 cents of the total 24 cents per gallon gasoline tax, the full 24 cents per gallon of special fuels taxes (comprised primarily of taxes on diesel fuel), and the full 19.1% of the average price per gallon tax on liquefied natural gas and all Registry of Motor Vehicle fees deposited into the Commonwealth Transportation Fund (CTF). These bonds also have a subordinate lien on 6.86 cents of the 24 cent per gallon gasoline tax not included in

the senior lien. As of June 30, 2018, approximately \$1.681 billion and \$1.131 billion in principal was outstanding on the ABP and REP bonds, respectively, and approximately \$1.192 billion and \$1.019 billion of interest (net of the federal subsidy) was expected to be paid through maturity related to the ABP and REP bonds, respectively.

The ABP projected interest costs are net of federal subsidies under the Build America Bond (BABs) program. BABs is a temporary program under which the Commonwealth and other state and local governments issued taxable bonds in calendar 2009 and 2010 in return for a subsidy from the federal government equal to 35% to 45% (depending on whether the proceeds are used for projects in economically distressed areas) of the interest costs on the bonds.

Other special obligation bonds for highway construction purposes are secured by a pledge of 6.86 cents of the 24 cent per gallon gasoline tax, with no new debt issued during FY18. As of June 30, 2018, bonds secured by these pledged funds totaled approximately \$105 million of principal. These bonds mature from FY19 to FY22 and were issued in multiple series. Principal and interest paid during FY18 amounted to approximately \$23 million and \$7 million, respectively. The lien on these bonds has been closed, meaning that no additional new-money bonds can be issued against these revenues under this trust agreement.

A portion of the Commonwealth's receipts from the sales tax (other than the tax on meals) is dedicated through non-budgeted special revenue funds to the Massachusetts Bay Transportation Authority (MBTA) and the Massachusetts School Building Authority (MSBA). The amount dedicated to the MBTA is the amount raised by a 1.0% sales tax (not including meals), subject to an inflation-adjusted floor. A comparable amount, though without the floor, is dedicated to the MSBA beginning in fiscal 2010, with lesser amounts having been dedicated to the MSBA from fiscal 2005 through fiscal 2009.

Legislation approved by the Governor on October 31, 2014 increased the amount statutorily required to be credited to the MBTA by \$160 million annually, starting in fiscal 2015. The \$160 million increase in the dedicated sales tax revenue amount and the amount included in the inflation-adjusted floor were intended to replace the \$160 million annual state appropriation the MBTA received from fiscal 2010 through fiscal 2014. In FY18, total dedicated sales tax revenue that was directed to the MBTA was approximately \$1.008 billion. Dedicated revenues to the MBTA increase by the lesser of the annual increase in the Boston consumer price index or prior calendar year annual sales taxes, with a floor of 0% and a ceiling of 3.0%.

The MSBA also receives a pledge starting in FY11 of a 1.0% sales tax (not including meals) but with no annual floor or ceiling. In FY18, approximately \$848 million of the dedicated sales tax revenue stream was directed to the MSBA.

The Commonwealth has also pledged sales tax revenue and rooms tax surcharges from areas contiguous to convention centers and the Worcester DCU Arena and Convention Center to support such centers' operations. As of June 30, 2018, taxes within the Convention Center districts support approximately \$552 million of outstanding principal and approximately \$291 million of interest on debts related to these Convention Centers. Taxes collected in FY18 were approximately \$147 million, while debt service on the bonds was approximately \$54 million.

The Transportation Modernization Act of 2009, as amended, eliminated the pledges of sales tax revenue to MassDOT through the Commonwealth Transportation Fund (CTF). Beginning in FY14, motor vehicle sales tax collections were shifted from the General Fund to the CTF while also eliminating the 0.385% pledge of regular and meals sales tax. During FY18, approximately \$565 million in motor vehicle sales tax revenue was transferred to MassDOT. From the Commonwealth Transportation Fund, \$127 million was dedicated to funding the operations of the MBTA while an additional \$80 million was dedicated to funding the operations of the regional transit authorities. These amounts are transferred through the CTF.

D. INTERFUND/INTRAFUND TRANSACTIONS

Transactions of a buyer/seller nature between departments within a fund are not eliminated.

Transfers in and out net to approximately \$13 million due to higher education non-appropriated fund activity, which is not included in the combined statements - statutory basis.

E. CURRENT EMPLOYEE BENEFITS

Employees are granted vacation and sick leave in varying amounts based on collective bargaining agreements and state laws. Upon retirement, termination or death, certain employees are compensated for unused vacation and sick leave (subject to certain limitations) at their current rate of pay (not accrued on a statutory basis).

F. FRINGE BENEFIT COST RECOVERY

The Commonwealth pays the fringe benefit costs of its employees and retirees through the General Fund. These fringe benefits include the costs of employees' health insurance, pensions, unemployment compensation, and other costs necessary to support the state work force. As directed by Chapter 29, Sections 5D and 6B(f) of the Massachusetts General Laws, these costs are assessed to other funds based on their payroll costs, net of credits for direct payments.

Since these fringe benefit costs and pensions are not appropriated in the budget, the required assessment creates a variance between budget and actual expenditures at year-end. The fringe benefit cost recoveries of approximately \$435 million into the General Fund results from cost assessments from the other budgeted funds, non-budgeted special revenue funds, capital projects funds, non-appropriated activities of higher education, expendable trust, and agency funds.

G. LOTTERY REVENUE AND PRIZES

Ticket revenues are recognized when sold and prizes awarded by the Massachusetts State Lottery Commission are recognized as drawings are held. Games expenditures are accrued at year-end only for open jackpots for Mega Millions, Powerball and Megabucks.

H. RECEIVABLES

Reimbursements due to the Commonwealth for its expenditures on federally funded reimbursement and grant programs are reported as "Due from federal government." Other receivables include reimbursement of fringe benefit assessments from authorities and the institutions of higher education along with other departmental receivables.

I. DUE FROM CITIES AND TOWNS

"Due from Cities and Towns" represents reimbursements due to the Commonwealth for its expenditures on certain programs for the benefit of cities and towns.

J. RISK MANAGEMENT

The Commonwealth is self-insured for state employees' workers' compensation, casualty, theft, tort claims and other losses. Such liabilities are not recognized in the governmental funds on the statutory basis until encumbered and/or processed for payment. For employees' workers' compensation, the Commonwealth assumes the full risk of claims filed under a program managed by the Human Resources Division.

For personal injury or property damages, Chapter 258 of the Massachusetts General Laws limits the risk assumed by the Commonwealth to \$100,000 per occurrence, in most circumstances.

The Group Insurance Commission administers contributory health care and other insurance programs for the Commonwealth's employees and retirees.

K. ENCUMBRANCES

Encumbrance accounting is utilized in the Governmental Funds as a significant aspect of budgetary control. The full amounts of purchase orders, contracts and other commitments of appropriated resources are encumbered and recorded as deductions from appropriations prior to actual expenditure, ensuring that such commitments do not exceed appropriations. Encumbrances outstanding at year-end for goods or services received on or before June 30, but paid after, are reported as expenditures and statutory basis liabilities as a component of accounts payable.

L. FUND BALANCES

Fund balance has been reserved as follows:

“Reserved for continuing appropriations” - are unexpended amounts in appropriations, which the Legislature has specifically authorized to be carried into the next fiscal year.

“Reserved for Commonwealth Stabilization” - are amounts set aside in the Commonwealth Stabilization Fund in accordance with Section 5C of Chapter 29 of the Massachusetts General Laws.

“Reserved for debt service” - are amounts held by fiscal agents or the Commonwealth to fund future debt service obligations.

The remainder of fund balance is unreserved and undesignated and consists of cumulative surplus or deficits of the fund not otherwise designated.

M. TOTAL COLUMN - MEMORANDUM ONLY

Total and subtotal columns on the combined financial statements - statutory basis are captioned “Memorandum Only” to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present consolidated financial position, results of operations, or changes in financial position. Interfund eliminations have not been made in the aggregation of these data.

The financial statements include certain prior year summarized comparative information in total but not by fund. Such information does not include sufficient detail to constitute a full comparative presentation. Accordingly, such information should be read in conjunction with the Commonwealth’s financial statements for the year ended June 30, 2017, from which the summarized information was derived.

N. ESTIMATES

The preparation of the SBFR requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures at the date of the financial report. Estimates also affect the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

3. BUDGETARY CONTROL

State finance law requires that a balanced budget be approved by the Governor and the Legislature. The Governor presents an annual budget to the Legislature, which includes estimates of revenues and other financing sources and recommended expenditures and other financing uses. The Legislature, which has full authority to amend the budget, adopts an expenditure budget by appropriating monies at the individual appropriation account level in an annual appropriations act.

Before signing the appropriations act, the Governor may veto or reduce any specific item, subject to legislative override. Further changes to the budget established in the annual appropriations act may be made via supplemental appropriation acts or other legislative acts. These must also be signed by the Governor and are subject to the line item veto.

In addition, Massachusetts General Laws authorize the Secretary of Administration and Finance, with the approval of the Governor, upon determination that available revenues will be insufficient to meet authorized expenditures, to withhold allotments of appropriated funds, which effectively reduce the affected accounts' expenditure budgets.

The majority of the Commonwealth's appropriations are non-continuing accounts which lapse at the end of each fiscal year. Others are continuing accounts for which the Legislature has authorized that an unspent balance from the prior year be carried forward and made available for spending in the current fiscal year. In addition, the Legislature may direct that certain revenues be retained and made available for spending within an appropriation. Fringe benefits, pension costs, and certain other costs that are mandated by state finance law are not itemized in the appropriation process and are not separately budgeted.

Because revenue budgets are not updated subsequent to the original appropriation act, the comparison of the initial revenue budget to the subsequent, and often modified, expenditure budget can be misleading. Also, these financial statements portray fund accounting with gross inflows and outflows, thus creating a difference from separately published budget documents, which eliminate some interfund activity. In conducting the budget process, the Commonwealth excludes those interfund transactions that by their nature have no impact on the combined fund balance of the budgeted funds.

Generally, expenditures may not exceed the level of spending authorized for an appropriation account. However, the Commonwealth is required to pay certain Medicaid expenses regardless of appropriations, due to superseding federal law.

The FY04 General Appropriation Act (Chapter 26, Section 167 of the Acts of 2003) amended Section 9C, of Chapter 29, directing the Governor to notify the Legislature in writing as to the reasons for and the effect of any reductions in spending. This proposal must be delivered to the Legislature 15 days before any reductions take effect. Alternatively, funds from the Stabilization Fund may be used to cure the deficiency, subject to appropriation.

The following table summarizes budgetary activity for FY18 (amounts in thousands):

	<u>Revenues</u>	<u>Expenditures</u>
General Appropriation Act, Chapter 47 of the Acts of 2017:		
Direct appropriations	\$ 40,293,200	\$ 39,585,757
Estimated revenues, transfers, retained revenue appropriations, and appropriations carried forward from FY2017	—	1,291,699
Total original budget	<u>40,293,200</u>	<u>40,877,456</u>
Supplemental Acts of 2017:		
Chapter 110	—	297,776
Chapter 142	—	2,700
Supplemental Acts of 2018:		
Chapter 24	—	17,214
Chapter 90	—	146,025
Chapter 273	—	483,433
Total budgeted revenues and expenditures per Legislative action	<u>—</u>	<u>947,148</u>
Plus: Pension contributions and revenue authorized outside of General Appropriation Act, and other transfers of revenue and spending	2,486,034	2,518,023
Budgeted revenues and expenditures as reported	<u>\$ 42,779,234</u>	<u>\$ 44,342,627</u>

The following table identifies the interfund activity from budgeted sources and uses to reconcile forecasts prepared during the budget process to the results presented in these statements (amounts in thousands):

	<u>Revenues and Other Financing Sources</u>	<u>Expenditures and Other Financing Uses</u>
Actual as presented in the combined budget and actual statement - statutory basis	\$ 45,036,235	\$ 44,097,301
Adjustments to revenues and expenditures:		
Transfer of revenues to the Intragovernmental Service Fund	(437,226)	(437,226)
Adjustments to other financing sources and uses:		
Fringe benefit cost assessments	(4,952)	(4,952)
Transfer of surplus revenues from the Intragovernmental Service Fund to the General Fund	(7,416)	(7,416)
RMV license plates	(4,026)	(4,026)
Transfers from General Fund to the Commonwealth Transportation Fund	(40,000)	(40,000)
Transfers from budgeted funds to the Stabilization Fund	(723,195)	(723,195)
Other	(199)	(199)
Actual as presented on budgetary documents	<u>\$ 43,819,221</u>	<u>\$ 42,880,287</u>

The section divider for the budgeted funds contains a list of budgeted funds grouped by categories.

The Office of the Comptroller has the responsibility to ensure that budgetary control is maintained on an individual appropriation account basis. Budgetary control is exercised through the state accounting system, the Massachusetts

Management Accounting and Reporting System (MMARS). Encumbrances and expenditures are not allowed to exceed the appropriation account's spending authorization.

4. MASSACHUSETTS DEPARTMENT OF TRANSPORTATION (MassDOT)

MassDOT is a legally separate entity from the Commonwealth. MassDOT operations are reported separately in the non-budgeted special revenue funds section of this report, which includes all of the Commonwealth's highway and turnpike-related operations as well as the activity of the Registry of Motor Vehicles. MassDOT capital spending and revenue activity are reported in the capital funds section of this report, in the Central Artery Statewide Road and Bridge Infrastructure Fund, the Highway Capital Projects Fund, and the Federal Highway Construction Program Fund.

MassDOT financial activity is included in this report in order to reflect all activity reported on the Commonwealth's MMARS accounting system. For the SBFR, MassDOT is treated as an agency or department of the Commonwealth, as specified in Massachusetts General Laws. However, for GAAP reporting purposes, as reflected in the Commonwealth's CAFR, MassDOT is reported as a discretely presented component unit of the Commonwealth.

5. INDIVIDUAL FUND DEFICITS

The following Non-Budgeted Special Revenue and Capital Projects Funds are included in the combined totals and have individual fund deficits at June 30, 2018, as follows (amounts in thousands) (excludes MassDOT):

Non-Budgeted Special Revenue:	
Federal Grants Fund.....	\$ (38,763)
Other:	
Health Information Technology Trust Fund	(2,406)
Government Land Bank Fund	(35,033)
Total Non-Budgeted Special Revenue Funds	<u>(76,202)</u>
Capital Projects:	
Highway Capital Projects Fund	(4,450)
Total.....	<u>\$ (80,652)</u>

None of the funds detailed above were in deficit due to finance-related contractual provisions and all were allowed to be in deficit by General Law.

6. MEDICAID COSTS

Approximately 43.6% of the Commonwealth's budgeted fund spending for programs and services is devoted to Medicaid. It is the largest and has been one of the fastest growing items in the Commonwealth's budget. For the fiscal year ended June 30, 2018, the General Fund includes approximately \$15.745 billion in expenditures for Medicaid claims. The combined financial statements - statutory basis includes Medicaid claims processed but unpaid at June 30, 2018 of approximately \$27 million as accounts payable.



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***Combining and Individual
Fund Financial Statements -
Statutory Basis***



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Individual Budgeted Funds

Budgeted funds are those funds subject to appropriation in either the annual General Appropriation Act (GAA) or other appropriations bills. Unless otherwise specified, budgeted funds are also subject to Section 5C of Chapter 29 of the Massachusetts General Laws (MGL), which defines the “consolidated net surplus” calculation (and determines whether the annual budget is in balance) as well as year-end transfers to eliminate deficits in budgeted funds.

MAJOR BUDGETED FUNDS:

The General Fund - The General Fund is the Commonwealth’s primary Governmental Fund. All governmental activities not specifically directed to another fund are accounted for in the General Fund. As a result, most budgeted expenditures of the Executive secretariats, the Legislature, constitutional offices, Judiciary, institutions of higher education and independent commissions are paid from the General Fund. It similarly receives a significant portion of sales, individual income and corporate taxes and the full amount of most other governmental taxes.

Commonwealth Transportation Fund - to account for revenues from motor fuels taxes and all fees and fines received by the Registry of Motor Vehicles relating to the use and operation of motor vehicles and trailers. Spending is for debt service on general and special obligation debt, as well as for amounts, subject to appropriation, to fund the programs and services of the Massachusetts Department of Transportation. This fund also includes activity of the Infrastructure Fund, which was a subfund of the Highway Fund.

The Commonwealth Stabilization Fund - to account for amounts calculated in accordance with state finance law and to maintain a reserve to enhance the Commonwealth’s fiscal stability. Tax revenues from certain lottery winners selling their stream of future winnings in exchange for current payments are recorded in this fund. In addition, transfers are required for fiscal year capital gains tax revenues exceeding \$1 billion (adjusted annually for economic growth) and judgments and settlements of more than \$10 million that exceed the previous 5 year’s average of judgments and settlements. These transfers were suspended for fiscal year 2017. Any excess undesignated fund balance as calculated by Section 5C of Chapter 29 of the MGL, are also transferred to this fund.

ADMINISTRATIVE CONTROL FUND:

This fund accounts for the revenues generated by certain administrative functions of government, for which the Legislature has required a separate fund be established. Budgeted funds are subject to Section 5C of Chapter 29 of the MGL, calculation of year-end transfers, unless specified otherwise.

Intragovernmental Service Fund - to account for the charges of any state agency for services provided to another state agency.

BUDGETED ENVIRONMENTAL FUNDS:

The Environmental funds are exempt from Section 5C of Chapter 29 of the MGL, calculation of year-end transfers.

Inland Fisheries and Game Fund - to account for revenues from license and permit fees for inland fishing, hunting, trapping, and sporting licenses and revenue producing stamps or the sales of land, rights and properties, gifts, interest, and federal grant reimbursements; used for developing, maintaining and operating the Division of Fisheries and Wildlife.

Marine Recreational Fisheries Development Fund - to account for salt water permit fees collected, funds, grants and gifts received as authorized, including investment income; used for development and administration of recreational saltwater fishing improvement programs.

OTHER BUDGETED FUNDS:

These funds account for a variety of miscellaneous taxes, fees, fines and other revenues, which are restricted to the financing of specific Commonwealth programs.

Public Safety Training Fund - to account for all surcharge revenues imposed by Section 12 of Chapter 89 and the seventh paragraph of Section 20 of Chapter 90 of the MGL. The fund shall be used for the instruction of public safety personnel including, but not limited to, the recruitment of additional state police classes and for the municipal police training committee, to preserve and promote public safety. The fund is not subject to the requirements of Section 5C of Chapter 29 of the MGL.

Community First Trust Fund - The secretary of health and human services may expend amounts in excess of the \$16 million collected from federal reimbursements in the nonbudgeted Community First Trust Fund to ensure compliance with the state balancing incentive payment program. Monies deposited in the fund are used for non-institutionally-based long-term services and support. The fund is not subject to the requirements of Section 5C of Chapter 29 of the MGL.

Gaming Local Aid Fund - to account for gaming tax revenues generated by the tax on casino revenues. The fund is used to finance local aid distributions.

Local Aid Stabilization Fund - to account for gaming tax revenues generated by casinos. Monies are used to supplement local aid distributions to cities and towns. The fund is not subject to the requirements of Section 5C of Chapter 29 of the MGL. Even though this fund did not have FY17 activity, it is presented here for comparative purposes as there was FY16 activity.

Marijuana Regulation Fund - to account for tax, application, civil penalties and interest revenues generated by the applications for licensing and regulation of marijuana establishments. The fund is used to administer the operations of the Cannabis Control Commission and other departments to carry out marijuana regulations.

The following funds have been enacted in legislation but had no activity in FY18 and are not presented in this report:

Temporary Holding Fund - to account for cumulative tax revenues during the fiscal year in excess of permissible tax revenues as defined in Chapter 62F, Section 6A of the MGL. The fund balance in the fund closes annually to the Stabilization Fund to the extent of expenditures from that fund. Any remaining balance transfers to the General Fund. The mechanism transferring tax revenues to the fund was repealed effective January 1, 2013, but the fund itself was not repealed.

Tax Reduction Fund - to account for the maintenance of a reserve, which shall be used only to reduce personal income taxes.

Collective Bargaining Reserve Fund - to account for transfers from the General Fund which may be used to fund negotiated contracts for state employees.

Substance Abuse Prevention and Treatment Fund - to account for sales tax revenues (non-dedicated) collected from the sale of alcoholic beverages, with the funds used for substance abuse treatment and prevention services. In November 2010, the sales tax on alcoholic beverages was repealed via referendum, effective January 1, 2011, but the fund itself was not repealed.

International Educational and Foreign Language Grant Program Fund - to account for appropriations, bond proceeds or other monies authorized to be used by the Commissioner of Education to increase the number of Massachusetts students, teachers, administrators and education policymakers to support programs and activities that advance cultural awareness through grants to local and regional high schools to support international education programs and promote the study of foreign languages.

Dam Safety Trust Fund - to account for all receipts and revenues generated through agreements executed between the department of environmental management and public or private entities for dam safety purposes, and all fines, costs, expenses and interest imposed. Revenues over \$250,000 in a fiscal year shall be credited to the General Fund.

Children and Families Protection Fund - to account for any penalties collected for violations of the Massachusetts Pesticide Control Act under Chapter 132B, Sections 6C to 6I of the MGL. Amounts credited to the fund are used for the implementation and enforcement of said Sections 6C to 6I.

Home and Community-based Services Policy Lab Fund - to account for any appropriations authorized by the general court and specifically designated to be credited to the fund and any additional nonstate-sourced funds as designated by the secretary of elder affairs including, but not limited to, federal or private grants or donations. The fund is used to support research and analysis which would enhance the development, evaluation, design and continued improvement of programs rendering home and community-based services to individuals who need long-term services and support.

Regional Water Entity Reimbursement Fund - to account for amounts to reimburse the Massachusetts Water Resources Authority for its costs in providing cities and towns financial assistance in the form of interest free grants and loans to rehabilitate collection systems. Such reimbursement shall be in addition to the contract assistance amounts in section 6 of chapter 29C, but not be greater than 10 % of the maximum amount set forth in chapter 29C.

Massachusetts Tourism Fund - to account for revenues received from hotel taxes; used to fund the Office of Travel and Tourism promotions and the Massachusetts Convention Center Authority.

Local Capital Projects Fund - to account for funds generated by the casino license fees and by the tax on revenues generated by casinos (but not the slots parlor), once they are operational.

Education Fund - to account for a portion of the funds generated by the tax on casino (but not slots parlor) revenue. 35% of the funds received are to be appropriated for higher education purposes, and that any appropriations for either higher education or K-12 education from this fund are required to supplement, not offset, General Appropriation Act spending.

Gaming Economic Development Fund - to account for a portion of the funds generated by the tax on casino (but not slots parlor) revenue. Expenditures from the are to be used to support economic development and job growth.

Manufacturing Fund - To account for a portion of gaming facility license fees.

Community College Fund - to account for a portion of gaming license fees.

Agricultural Reserve and Security Fund - to account for gifts, grants, donations, federal reimbursements and grants plus any interest earned from the Fund. Expenditures are to be used to foster agriculture in the Commonwealth and other purposes of the Department of Agricultural Resources.

Budgeted Funds
Combining Balance Sheet - Statutory Basis
As of June 30, 2018
(Amounts in thousands)

	General	Commonwealth Transportation	Commonwealth Stabilization	Administrative Control Intragovernmental Service
ASSETS				
Cash and short-term investments	\$ 697,815	\$ 693	\$ 1,728,831	\$ 51,811
Cash with fiscal agent	—	19,373	—	—
Investments	—	—	272,468	—
Receivables, net of allowance for uncollectibles:				
Due from federal government	476,377	—	—	—
Other receivables	184,466	—	—	—
Due from cities and towns.....	34,647	—	—	—
Total assets.....	<u>\$ 1,393,305</u>	<u>\$ 20,066</u>	<u>\$ 2,001,299</u>	<u>\$ 51,811</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable.....	\$ 956,051	\$ 693	\$ —	\$ 40,021
Accrued payroll	96,520	—	—	2,597
Due to other funds	—	—	—	—
Total liabilities	<u>1,052,571</u>	<u>693</u>	<u>—</u>	<u>42,618</u>
Fund balance/(deficit):				
Reserved for:				
Continuing appropriations	340,734	—	—	9,193
Commonwealth Stabilization.....	—	—	2,001,299	—
Debt service	—	19,373	—	—
Unreserved:				
Undesignated	—	—	—	—
Total fund equity/(deficit).....	<u>340,734</u>	<u>19,373</u>	<u>2,001,299</u>	<u>9,193</u>
Total liabilities and fund equity	<u>\$ 1,393,305</u>	<u>\$ 20,066</u>	<u>\$ 2,001,299</u>	<u>\$ 51,811</u>

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Environmental		Budgeted Other				
Inland Fisheries and Game	Marine Recreational Fisheries Development	Public Safety Training	Community First Trust	Gaming Local Aid	Local Aid Stabilization	Marijuana Regulation
\$ 11,719	\$ 3,975	\$ 1,256	\$ —	\$ —	\$ 50	\$ —
—	—	—	—	—	—	—
—	—	—	—	—	—	—
—	—	—	—	—	—	—
—	—	—	—	—	—	—
—	—	—	—	—	—	—
<u>\$ 11,719</u>	<u>\$ 3,975</u>	<u>\$ 1,256</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 50</u>	<u>\$ —</u>
\$ 610	\$ 114	\$ —	\$ —	\$ —	\$ —	\$ —
192	13	—	—	—	—	—
802	127	—	—	—	—	—
—	1,000	1,173	—	—	—	—
—	—	—	—	—	—	—
—	—	—	—	—	—	—
10,917	2,848	83	—	—	50	—
10,917	3,848	1,256	—	—	50	—
<u>\$ 11,719</u>	<u>\$ 3,975</u>	<u>\$ 1,256</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 50</u>	<u>\$ —</u>

continued

Budgeted Funds
Combining Balance Sheet - Statutory Basis
As of June 30, 2018
(Amounts in thousands)

	Totals (Memorandum only)	
	2018	2017
ASSETS		
Cash and short-term investments.....	\$ 2,496,151	\$ 1,368,250
Cash with fiscal agent.....	19,373	18,080
Investments.....	272,468	272,224
Receivables, net of allowance for uncollectibles:		
Due from federal government.....	476,376	646,986
Other receivables.....	184,466	18,501
Due from cities and towns.....	34,647	12,143
Total assets.....	<u>\$ 3,483,481</u>	<u>\$ 2,336,184</u>
LIABILITIES AND FUND BALANCES		
Liabilities:		
Accounts payable.....	\$ 997,490	\$ 810,363
Accrued payroll.....	99,322	78,086
Total liabilities.....	<u>1,096,812</u>	<u>888,449</u>
Fund balance/(deficit):		
Reserved for:		
Continuing appropriations.....	352,099	99,316
Commonwealth Stabilization.....	2,001,299	1,300,678
Debt service.....	19,373	18,080
Unreserved:		
Undesignated.....	13,898	29,661
Total fund equity/(deficit).....	<u>2,386,669</u>	<u>1,447,735</u>
Total liabilities and fund equity.....	<u>\$ 3,483,481</u>	<u>\$ 2,336,184</u>

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Budgeted Funds

Combining Statements Of Revenues, Expenditures And Changes In Fund Balances - Statutory Basis

Fiscal Year Ended June 30, 2018

(Amounts in thousands)

	General	Commonwealth Transportation	Commonwealth Stabilization	Administrative Control
				Intragovernmental Service
REVENUES AND OTHER FINANCING SOURCES				
Revenues:				
Taxes.....	\$ 24,573,613	\$ 1,331,772	\$ 272	\$ —
Assessments.....	417,483	22,204	—	—
Federal grants and reimbursements.....	11,369,508	—	—	—
Tobacco settlement revenue.....	243,313	—	—	—
Departmental.....	2,932,173	684,374	—	444,863
Miscellaneous.....	408,374	702	15,094	—
Total revenues.....	39,944,464	2,039,052	15,366	444,863
Other financing sources:				
Fringe benefit cost recovery.....	434,924	—	—	—
Lottery reimbursements.....	103,136	—	—	—
Lottery distributions.....	983,108	—	—	—
Operating transfers in.....	203,427	43,762	—	—
Stabilization transfer.....	—	—	736,645	—
Total other financing sources.....	1,724,595	43,762	736,645	—
Total revenues and other financing sources.....	41,669,059	2,082,814	752,011	444,863
EXPENDITURES AND OTHER FINANCING USES				
Expenditures:				
Legislature.....	67,850	—	—	—
Judiciary.....	919,016	—	—	—
Inspector General.....	4,370	—	—	—
Governor and Lieutenant Governor.....	6,574	—	—	—
Secretary of the Commonwealth.....	39,339	—	—	—
Treasurer and Receiver-General.....	209,460	5,723	—	—
Auditor of the Commonwealth.....	18,610	—	—	5,060
Attorney General.....	47,989	—	—	—
Ethics Commission.....	2,042	—	—	—
District Attorney.....	119,206	—	—	—
Office of Campaign & Political Finance.....	1,594	—	—	—
Sheriffs' Departments.....	620,299	—	—	—
Disabled Persons Protection Commission.....	3,131	—	—	—
Board of Library Commissioners.....	25,443	—	—	—
Comptroller.....	8,816	—	—	—
Administration and Finance.....	2,124,934	—	—	180,863
Energy and Environmental Affairs.....	213,839	—	—	1,355
Health and Human Services.....	5,919,367	—	—	105,389
Executive Office of Technology Services and Security.....	7,857	—	—	65,599
Massachusetts Department of Transportation.....	—	127,000	—	—
Office of the Child Advocate.....	706	—	—	—
Cannabis Control Commission.....	2,241	—	—	—
Executive Office of Education.....	2,289,267	—	—	662
Center for Health Information and Analysis.....	21,452	—	—	—
Public Safety and Homeland Security.....	1,099,956	—	—	64,775
Housing and Economic Development.....	531,539	—	—	1,629
Labor and Workforce Development.....	46,585	—	—	200
Direct local aid.....	5,821,177	—	—	—
Medicaid program expenses.....	15,744,534	—	—	—
Post employment benefits.....	2,846,432	45,059	—	—
Debt service:				
Principal retirement.....	643,448	641,016	—	15,241
Interest and fiscal charges.....	525,435	498,221	—	—
Total expenditures.....	39,932,508	1,317,019	—	440,773
Other financing uses:				
Fringe benefit cost assessment.....	—	—	—	—
Operating transfers out.....	312,007	634,676	—	7,416
State Retiree Benefits transfer.....	—	—	25,695	—
State Pension transfer.....	—	—	25,695	—
Stabilization transfer.....	589,663	129,826	—	—
Medical assistance transfer.....	579,944	—	—	—
Total other financing uses.....	1,481,614	764,502	51,390	7,416
Total expenditures and other financing uses.....	41,414,122	2,081,521	51,390	448,189
Excess/(deficiency) of revenues and other financing sources over/(under) expenditures and other financing uses.....	254,937	1,293	700,621	(3,326)
Fund balance (deficit) at beginning of year.....	85,797	18,080	1,300,678	12,519
Fund balance (deficit) at end of year.....	\$ 340,734	\$ 19,373	\$ 2,001,299	\$ 9,193

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Budgeted Funds

Combining Statements Of Revenues, Expenditures And Changes In Fund Balances - Statutory Basis

Fiscal Year Ended June 30, 2018

(Amounts in thousands)

	Totals (Memorandum only)	
	2018	2017
REVENUES AND OTHER FINANCING SOURCES		
Revenues:		
Taxes.....	\$ 25,906,660	\$ 23,828,296
Assessments.....	439,686	454,040
Federal grants and reimbursements.....	11,376,956	10,857,831
Tobacco settlement revenue.....	243,313	254,490
Departmental.....	4,071,620	3,770,951
Miscellaneous.....	424,789	320,586
Total revenues.....	<u>42,463,024</u>	<u>39,486,194</u>
Other financing sources:		
Fringe benefit cost recovery.....	434,924	416,181
Lottery reimbursements.....	103,136	100,392
Lottery distributions.....	983,108	1,025,411
Operating transfers in.....	315,398	756,565
Stabilization transfer.....	736,645	—
Total other financing sources.....	<u>2,573,211</u>	<u>2,298,549</u>
Total revenues and other financing sources.....	<u>45,036,235</u>	<u>41,784,743</u>
EXPENDITURES AND OTHER FINANCING USES		
Expenditures:		
Legislature.....	67,850	66,754
Judiciary.....	919,016	908,488
Inspector General.....	4,370	4,207
Governor and Lieutenant Governor.....	6,574	6,567
Secretary of the Commonwealth.....	39,339	45,849
Treasurer and Receiver-General.....	215,183	201,093
Auditor of the Commonwealth.....	18,610	18,227
Attorney General.....	47,993	46,283
Ethics Commission.....	2,042	1,883
District Attorney.....	119,206	119,790
Office of Campaign & Political Finance.....	1,594	1,521
Sheriffs' Departments.....	620,318	610,062
Disabled Persons Protection Commission.....	3,131	3,043
Board of Library Commissioners.....	25,443	25,157
Comptroller.....	13,877	14,064
Administration and Finance.....	2,305,871	2,375,592
Energy and Environmental Affairs.....	230,956	223,582
Health and Human Services.....	6,035,926	5,700,404
Executive Office of Technology Services and Security.....	73,456	—
Massachusetts Department of Transportation.....	127,000	140,250
Office of the Child Advocate.....	706	633
Cannabis Control Commission.....	2,241	—
Executive Office of Education.....	2,289,929	2,234,045
Center for Health Information and Analysis.....	21,452	23,031
Public Safety and Homeland Security.....	1,166,779	1,119,256
Housing and Economic Development.....	533,168	495,960
Labor and Workforce Development.....	46,785	44,267
Direct local aid.....	5,885,520	5,703,027
Medicaid program expenses.....	15,744,534	15,251,717
Post employment benefits.....	2,891,491	2,659,709
Debt service:		
Principal retirement.....	1,299,705	1,300,497
Interest and fiscal charges.....	1,023,656	984,180
Total expenditures.....	<u>41,783,721</u>	<u>40,329,138</u>
Other financing uses:		
Fringe benefit cost assessment.....	4,952	4,440
Operating transfers out.....	954,099	1,082,056
State Retiree Benefits transfer.....	25,695	—
State Pension transfer.....	25,695	—
Stabilization transfer.....	723,195	—
Medical assistance transfer.....	579,944	403,367
Total other financing uses.....	<u>2,313,580</u>	<u>1,489,863</u>
Total expenditures and other financing uses.....	<u>44,097,301</u>	<u>41,819,001</u>
Excess/(deficiency) of revenues and other financing sources over/(under) expenditures and other financing uses.....	938,934	(34,258)
Fund balance/(deficit) at beginning of year.....	1,447,735	1,481,993
Fund balance/(deficit) at end of year.....	<u>\$ 2,386,669</u>	<u>\$ 1,447,735</u>

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Budgeted Funds

Combining Statements Of Revenues, Expenditures And Changes In Fund Balances - Statutory Basis - Budget And Actual

Fiscal Year Ended June 30, 2018

(Amounts in thousands)

	General			Commonwealth Transportation		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES AND OTHER FINANCING SOURCES						
Revenues:						
Taxes.....	\$ 23,561,400	\$ 24,573,613	\$ 1,012,213	\$ 1,302,000	\$ 1,331,772	\$ 29,772
Assessments	440,561	417,483	(23,078)	23,947	22,204	(1,743)
Federal grants and reimbursements.....	11,279,923	11,369,508	89,585	—	—	—
Tobacco settlement revenue	257,500	243,313	(14,187)	—	—	—
Departmental	2,968,795	2,932,173	(36,622)	675,756	684,374	8,618
Miscellaneous	281,785	408,374	126,589	—	702	702
Total revenues.....	<u>38,789,964</u>	<u>39,944,464</u>	<u>1,154,500</u>	<u>2,001,703</u>	<u>2,039,052</u>	<u>37,349</u>
Other financing sources:						
Fringe benefit cost recovery.....	435,041	434,924	(117)	—	—	—
Lottery reimbursements.....	90,888	103,136	12,248	—	—	—
Lottery distributions	994,754	983,108	(11,646)	—	—	—
Operating transfers in	246,222	203,427	(42,795)	40,000	43,762	3,762
Stabilization transfer	—	—	—	—	—	—
Total other financing sources	<u>1,766,905</u>	<u>1,724,595</u>	<u>(42,310)</u>	<u>40,000</u>	<u>43,762</u>	<u>3,762</u>
Total revenues and other financing sources	<u>40,556,869</u>	<u>41,669,059</u>	<u>1,112,190</u>	<u>2,041,703</u>	<u>2,082,814</u>	<u>41,111</u>
EXPENDITURES AND OTHER FINANCING USES						
Expenditures:						
Legislature	103,532	67,850	35,682	—	—	—
Judiciary	929,008	919,016	9,992	—	—	—
Inspector General	4,371	4,370	1	—	—	—
Governor and Lieutenant Governor	7,602	6,574	1,028	—	—	—
Secretary of the Commonwealth	42,970	39,339	3,631	—	—	—
Treasurer and Receiver-General.....	219,374	209,460	9,914	—	5,723	(5,723)
Auditor of the Commonwealth.....	18,723	18,610	113	—	—	—
Attorney General	49,247	47,989	1,258	—	—	—
Ethics Commission.....	2,094	2,042	52	—	—	—
District Attorney	119,703	119,206	497	—	—	—
Office of Campaign & Political Finance.....	1,618	1,594	24	—	—	—
Sheriffs' Departments.....	621,920	620,299	1,621	—	—	—
Disabled Persons Protection Commission.....	3,131	3,131	—	—	—	—
Board of Library Commissioners	25,453	25,443	10	—	—	—
Comptroller	8,815	8,816	(1)	—	—	—
Administration and Finance	2,438,506	2,124,934	313,572	—	—	—
Energy and Environmental Affairs.....	222,164	213,839	8,325	—	—	—
Health and Human Services	6,232,603	5,919,367	313,236	—	—	—
Executive Office of Technology Services and Security	17,104	7,857	9,247	—	—	—
Massachusetts Department of Transportation	—	—	—	127,000	127,000	—
Office of the Child Advocate.....	800	706	94	—	—	—
Cannabis Control Commission.....	6,999	2,241	4,758	—	—	—
Executive Office of Education	2,349,251	2,289,267	59,984	—	—	—
Center for Health Information and Analysis	32,043	21,452	10,591	—	—	—
Public Safety and Security	1,155,526	1,099,956	55,570	—	—	—
Housing and Economic Development.....	546,026	531,539	14,487	—	—	—
Labor and Workforce Development	60,670	46,585	14,085	—	—	—
Direct local aid	5,826,090	5,821,177	4,913	—	—	—
Medicaid program expenses.....	15,609,522	15,744,534	(135,012)	—	—	—
Post employment benefits	2,826,904	2,846,432	(19,528)	—	45,059	(45,059)
Debt service:						
Principal retirement	655,652	643,448	12,204	668,753	641,016	27,737
Interest and fiscal charges	535,401	525,435	9,966	511,442	498,221	13,221
Total expenditures	<u>40,672,822</u>	<u>39,932,508</u>	<u>740,314</u>	<u>1,307,195</u>	<u>1,317,019</u>	<u>(9,824)</u>
Other financing uses:						
Fringe benefit cost assessment	—	—	—	—	—	—
Operating transfers out	270,326	312,007	(41,681)	630,650	634,676	(4,026)
State Retiree Benefits transfer.....	—	—	—	—	—	—
State Pension transfer	—	—	—	—	—	—
Stabilization transfer	51,500	589,663	(538,163)	—	129,826	(129,826)
Medical assistance transfer.....	747,100	579,944	167,156	—	—	—
Total other financing uses.....	<u>1,068,926</u>	<u>1,481,614</u>	<u>(412,688)</u>	<u>630,650</u>	<u>764,502</u>	<u>(133,852)</u>
Total expenditures and other financing uses	<u>41,741,748</u>	<u>41,414,122</u>	<u>327,626</u>	<u>1,937,845</u>	<u>2,081,521</u>	<u>(143,676)</u>
Excess (deficiency) of revenues and other financing sources over / (under) expenditures and other financing uses						
	<u>\$ (1,184,879)</u>	<u>254,937</u>	<u>\$ 1,439,816</u>	<u>\$ 103,858</u>	<u>1,293</u>	<u>\$ (102,565)</u>
Fund balance (deficit) at beginning of year.....		<u>85,797</u>			<u>18,080</u>	
Fund balance (deficit) at end of year.....		<u>\$ 340,734</u>			<u>\$ 19,373</u>	

See accountants' review report

Commonwealth Stabilization			Administrative Control			Environmental		
Budget	Actual	Variance Favorable (Unfavorable)	Intragovernmental Services			Inland Fisheries and Game		
Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
\$ —	\$ 272	\$ 272	\$ —	\$ —	\$ —	\$ 1,000	\$ 1,003	\$ 3
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	6,200	7,410	1,210
—	—	—	—	—	—	—	—	—
—	—	—	—	444,863	444,863	7,031	7,401	370
13,036	15,094	2,058	—	—	—	34	617	583
13,036	15,366	2,330	—	444,863	444,863	14,265	16,431	2,166
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	182	199	17
85,341	736,645	651,304	—	—	—	—	—	—
85,341	736,645	651,304	—	—	—	182	199	17
98,377	752,011	653,634	—	444,863	444,863	14,447	16,630	2,183
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	116	—	116	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	5	—	5
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	5,590	5,060	530	—	—	—
—	—	—	202,774	180,863	21,911	85	74	11
—	—	—	3,150	1,355	1,795	16,915	14,812	2,103
—	—	—	124,822	105,389	19,433	—	—	—
—	—	—	134,451	65,599	68,852	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	1,927	662	1,265	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	68,915	64,775	4,140	—	—	—
—	—	—	7,552	1,629	5,923	—	—	—
—	—	—	—	200	(200)	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	16,296	15,241	1,055	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	565,593	440,773	124,820	17,005	14,886	2,119
—	—	—	—	—	—	—	3,329	(3,329)
—	—	—	—	7,416	(7,416)	—	—	—
—	25,695	(25,695)	—	—	—	—	—	—
—	25,695	(25,695)	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—
—	51,390	(51,390)	—	7,416	(7,416)	—	3,329	(3,329)
—	51,390	(51,390)	565,593	448,189	117,404	17,005	18,215	(1,210)
\$ 98,377	700,621	\$ 602,244	\$ (565,593)	(3,326)	\$ 562,267	\$ (2,558)	(1,585)	\$ 973
—	1,300,678	—	—	12,519	—	—	12,502	—
—	\$ 2,001,299	—	—	\$ 9,193	—	—	\$ 10,917	—

continued

Budgeted Funds

Combining Statements Of Revenues, Expenditures And Changes In Fund Balances - Statutory Basis - Budget And Actual

Fiscal Year Ended June 30, 2018

(Amounts in thousands)

	Environmental			Budgeted Other		
	Marine Recreational Fisheries Development		Variance Favorable (Unfavorable)	Public Safety Trust		Variance Favorable (Unfavorable)
	Budget	Actual		Budget	Actual	
REVENUES AND OTHER FINANCING SOURCES						
Revenues:						
Taxes.....	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Assessments	—	—	—	—	—	—
Federal grants and reimbursements.....	—	—	—	—	—	—
Tobacco settlement revenue	—	—	—	—	—	—
Departmental	1,535	1,787	252	1,900	1,022	(878)
Miscellaneous	—	—	—	—	—	—
Total revenues.....	<u>1,535</u>	<u>1,787</u>	<u>252</u>	<u>1,900</u>	<u>1,022</u>	<u>(878)</u>
Other financing sources:						
Fringe benefit cost recovery.....	—	—	—	—	—	—
Lottery reimbursements.....	—	—	—	—	—	—
Lottery distributions	—	—	—	—	—	—
Operating transfers in	—	—	—	—	—	—
Stabilization transfer	—	—	—	—	—	—
Total other financing sources	—	—	—	—	—	—
Total revenues and other financing sources	<u>1,535</u>	<u>1,787</u>	<u>252</u>	<u>1,900</u>	<u>1,022</u>	<u>(878)</u>
EXPENDITURES AND OTHER FINANCING USES						
Expenditures:						
Legislature	—	—	—	—	—	—
Judiciary	—	—	—	—	—	—
Inspector General	—	—	—	—	—	—
Governor and Lieutenant Governor	—	—	—	—	—	—
Secretary of the Commonwealth	—	—	—	—	—	—
Treasurer and Receiver-General.....	—	—	—	—	—	—
Auditor of the Commonwealth.....	—	—	—	—	—	—
Attorney General	—	—	—	4	4	—
Ethics Commission.....	—	—	—	—	—	—
District Attorney	—	—	—	—	—	—
Office of Campaign & Political Finance.....	—	—	—	—	—	—
Sheriffs' Departments.....	—	—	—	20	20	—
Disabled Persons Protection Commission.....	—	—	—	—	—	—
Board of Library Commissioners.....	—	—	—	—	—	—
Comptroller	—	—	—	—	—	—
Administration and Finance	—	—	—	—	—	—
Energy and Environmental Affairs.....	2,306	950	1,356	—	—	—
Health and Human Services	—	—	—	—	—	—
Executive Office of Technology Services and Security	—	—	—	—	—	—
Massachusetts Department of Transportation	—	—	—	—	—	—
Office of the Child Advocate.....	—	—	—	—	—	—
Cannabis Control Commission.....	—	—	—	—	—	—
Executive Office of Education	—	—	—	—	—	—
Center for Health Information and Analysis	—	—	—	—	—	—
Public Safety and Security	—	—	—	2,096	2,048	48
Housing and Economic Development.....	—	—	—	—	—	—
Labor and Workforce Development.....	—	—	—	—	—	—
Direct local aid	—	—	—	—	—	—
Medicaid program expenses.....	—	—	—	—	—	—
Post employment benefits	—	—	—	—	—	—
Debt service:						
Principal retirement.....	—	—	—	—	—	—
Interest and fiscal charges	—	—	—	—	—	—
Total expenditures	<u>2,306</u>	<u>950</u>	<u>1,356</u>	<u>2,120</u>	<u>2,072</u>	<u>48</u>
Other financing uses:						
Fringe benefit cost assessment	—	169	(169)	—	586	(586)
Operating transfers out	—	—	—	—	—	—
State Retiree Benefits transfer.....	—	—	—	—	—	—
State Pension transfer	—	—	—	—	—	—
Stabilization transfer	—	—	—	—	—	—
Medical assistance transfer.....	—	—	—	—	—	—
Total other financing uses.....	—	169	(169)	—	586	(586)
Total expenditures and other financing uses	<u>2,306</u>	<u>1,119</u>	<u>1,187</u>	<u>2,120</u>	<u>2,658</u>	<u>(538)</u>
Excess (deficiency) of revenues and other financing sources over / (under) expenditures and other financing uses	<u>\$ (771)</u>	<u>668</u>	<u>\$ 1,439</u>	<u>\$ (220)</u>	<u>(1,636)</u>	<u>\$ (1,416)</u>
Fund balance (deficit) at beginning of year.....		<u>3,180</u>			<u>2,892</u>	
Fund balance (deficit) at end of year.....		<u>\$ 3,848</u>			<u>\$ 1,256</u>	

See accountants' review report

Budgeted Funds

Combining Statements Of Revenues, Expenditures And Changes In Fund Balances - Statutory Basis - Budget And Actual

Fiscal Year Ended June 30, 2018

(Amounts in thousands)

	Budgeted Other			Totals		
	Marijuana Regulation			(Memorandum only)		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES AND OTHER FINANCING SOURCES						
Revenues:						
Taxes.....	\$ —	\$ —	\$ —	\$ 24,864,400	\$ 25,906,660	\$ 1,042,260
Assessments	—	—	—	464,509	439,686	(24,823)
Federal grants and reimbursements.....	—	39	39	11,286,123	11,376,956	90,833
Tobacco settlement revenue	—	—	—	257,500	243,313	(14,187)
Departmental	—	—	—	3,655,017	4,071,620	416,603
Miscellaneous	—	—	—	294,856	424,789	129,933
Total revenues.....	—	39	39	40,822,405	42,463,024	1,640,619
Other financing sources:						
Fringe benefit cost recovery	—	—	—	435,041	434,924	(117)
Lottery reimbursements.....	—	—	—	90,888	103,136	12,248
Lottery distributions	—	—	—	994,754	983,108	(11,646)
Operating transfers in	—	—	—	350,804	315,398	(35,406)
Stabilization transfer	—	—	—	85,341	736,645	651,304
Total other financing sources	—	—	—	1,956,828	2,573,211	616,383
Total revenues and other financing sources	—	39	39	42,779,233	45,036,235	2,257,002
EXPENDITURES AND OTHER FINANCING USES						
Expenditures:						
Legislature	—	—	—	103,532	67,850	35,682
Judiciary	—	—	—	929,008	919,016	9,992
Inspector General	—	—	—	4,371	4,370	1
Governor and Lieutenant Governor	—	—	—	7,602	6,574	1,028
Secretary of the Commonwealth	—	—	—	43,086	39,339	3,747
Treasurer and Receiver-General.....	—	—	—	219,374	215,183	4,191
Auditor of the Commonwealth.....	—	—	—	18,723	18,610	113
Attorney General	—	—	—	49,256	47,993	1,263
Ethics Commission.....	—	—	—	2,094	2,042	52
District Attorney	—	—	—	119,703	119,206	497
Office of Campaign & Political Finance.....	—	—	—	1,618	1,594	24
Sheriffs' Departments.....	—	—	—	621,940	620,318	1,622
Disabled Persons Protection Commission.....	—	—	—	3,131	3,131	—
Board of Library Commissioners.....	—	—	—	25,453	25,443	10
Comptroller	—	—	—	14,405	13,877	528
Administration and Finance	—	—	—	2,641,365	2,305,871	335,494
Energy and Environmental Affairs.....	—	—	—	244,535	230,956	13,579
Health and Human Services	—	—	—	6,369,091	6,035,926	333,165
Executive Office of Technology Services and Security....	—	—	—	151,555	73,456	78,099
Massachusetts Department of Transportation	—	—	—	127,000	127,000	—
Office of the Child Advocate.....	—	—	—	800	706	94
Cannabis Control Commission.....	—	—	—	6,999	2,241	4,758
Executive Office of Education	—	—	—	2,351,178	2,289,929	61,249
Center for Health Information and Analysis	—	—	—	32,044	21,452	10,592
Public Safety and Security	—	—	—	1,226,536	1,166,779	59,757
Housing and Economic Development.....	—	—	—	553,578	533,168	20,410
Labor and Workforce Development	—	—	—	60,670	46,785	13,885
Direct local aid	—	—	—	5,890,434	5,885,520	4,914
Medicaid program expenses.....	—	—	—	15,609,522	15,744,534	(135,012)
Post employment benefits	—	—	—	2,826,904	2,891,491	(64,587)
Debt service:						
Principal retirement	—	—	—	1,340,701	1,299,705	40,996
Interest and fiscal charges	—	—	—	1,046,843	1,023,656	23,187
Total expenditures	—	—	—	42,643,051	41,783,721	859,330
Other financing uses:						
Fringe benefit cost assessment	—	—	—	—	4,952	(4,952)
Operating transfers out	—	—	—	900,976	954,099	(53,123)
State Retiree Benefits transfer.....	—	—	—	—	25,695	(25,695)
State Pension transfer	—	—	—	—	25,695	(25,695)
Stabilization transfer	—	39	(39)	51,500	723,195	(671,695)
Medical assistance transfer.....	—	—	—	747,100	579,944	167,156
Total other financing uses.....	—	39	(39)	1,699,576	2,313,580	(614,004)
Total expenditures and other financing uses	—	39	(39)	44,342,627	44,097,301	245,326
Excess (deficiency) of revenues and other financing sources over / (under) expenditures and other financing uses	\$ —	\$ —	\$ —	\$ (1,563,394)	938,934	\$ 2,502,328
Fund balance (deficit) at beginning of year.....	—	—	—	—	1,447,735	—
Fund balance (deficit) at end of year.....	—	—	—	—	\$ 2,386,669	—

See accountants' review report



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General Fund
Balance Sheet - Statutory Basis

As of June 30, 2018
(Amounts in thousands)

	2018	2017
ASSETS		
Cash and short-term investments.....	\$ 697,815	\$ 256,679
Receivables, net of allowance for uncollectibles:		
Due from federal government.....	476,377	646,986
Other receivables	184,466	18,501
Due from cities and towns.....	34,647	12,143
Total assets.....	\$ 1,393,305	\$ 934,309
LIABILITIES AND FUND BALANCE		
Liabilities:		
Accounts payable.....	\$ 956,051	\$ 772,220
Accrued payroll	96,520	76,292
Total liabilities	1,052,571	848,512
Fund balance:		
Reserved fund balance:		
Reserved for continuing appropriations.....	340,734	85,797
Total fund balance.....	340,734	85,797
Total liabilities and fund balance.....	\$ 1,393,305	\$ 934,309

See accountants' review report

General Fund

Statement Of Revenues, Expenditures And Changes In Fund Balance - Statutory Basis

Fiscal Year Ended June 30, 2018

(Amounts in thousands)

	2018 Budget	2018 Actual	Variance Favorable (Unfavorable)	2017 Actual
REVENUES AND OTHER FINANCING SOURCES				
Revenues:				
Taxes.....	\$ 23,561,400	\$ 24,573,613	\$ 1,012,213	\$ 22,510,107
Assessments	440,561	417,483	(23,078)	431,576
Federal grants and reimbursements	11,279,923	11,369,508	89,585	10,850,378
Tobacco settlement revenue	257,500	243,313	(14,187)	254,490
Departmental	2,968,795	2,932,173	(36,622)	2,658,200
Miscellaneous.....	281,785	408,374	126,589	311,305
Total revenues.....	38,789,964	39,944,464	1,154,500	37,016,056
Other financing sources:				
Fringe benefit cost recovery	435,041	434,924	(117)	416,180
Lottery reimbursements.....	90,888	103,136	12,248	100,392
Lottery distributions	994,754	983,108	(11,646)	1,025,411
Operating transfers in	246,222	203,427	(42,795)	652,403
Total other financing sources.....	1,766,905	1,724,595	(42,310)	2,194,386
Total revenues and other financing sources...	40,556,869	41,669,059	1,112,190	39,210,442
EXPENDITURES AND OTHER FINANCING USES				
Expenditures:				
Legislature	103,532	67,850	35,682	66,754
Judiciary	929,008	919,016	9,992	908,488
Inspector General	4,371	4,370	1	4,207
Governor and Lieutenant Governor	7,602	6,574	1,028	6,567
Secretary of the Commonwealth	42,970	39,339	3,631	45,849
Treasurer and Receiver-General.....	219,374	209,460	9,914	201,093
Auditor of the Commonwealth.....	18,723	18,610	113	18,227
Attorney General	49,247	47,989	1,258	46,282
Ethics Commission.....	2,094	2,042	52	1,883
District Attorney.....	119,703	119,206	497	119,790
Office of Campaign and Political Finance	1,618	1,594	24	1,521
Sheriffs' Department	621,920	620,299	1,621	610,052
Disabled Persons Protection Commission.....	3,131	3,131	—	3,043
Board of Library Commissioners.....	25,453	25,443	10	25,157
Comptroller	8,815	8,816	(1)	8,830

continued

General Fund

Statement Of Revenues, Expenditures And Changes In Fund Balance - Statutory Basis

Fiscal Year Ended June 30, 2018

(Amounts in thousands)

	2018 Budget	2018 Actual	Variance Favorable (Unfavorable)	2017 Actual
Expenditures (continued):				
Administration and Finance	2,438,506	2,124,934	313,572	2,131,774
Energy and Environmental Affairs	222,164	213,839	8,325	206,253
Health and Human Services	6,232,603	5,919,367	313,236	5,569,829
Executive Office of Technology Services and Security	17,104	7,857	9,247	—
Office of the Child Advocate.....	800	706	94	633
Cannabis Control Commission.....	6,999	2,241	4,758	—
Executive Office of Education	2,349,251	2,289,267	59,984	2,233,278
Center for Health Information and Analysis	32,043	21,452	10,591	23,031
Public Safety and Security	1,155,526	1,099,956	55,570	1,058,933
Housing and Economic Development.....	546,026	531,539	14,487	494,179
Labor and Workforce Development.....	60,670	46,585	14,085	44,267
Direct local aid	5,826,090	5,821,177	4,913	5,639,056
Medicaid.....	15,609,522	15,744,534	(135,012)	15,251,717
Post employment benefits	2,826,904	2,846,432	(19,528)	2,643,761
Debt service:				
Principal retirement.....	655,652	643,448	12,204	693,349
Interest and fiscal charges	535,401	525,435	9,966	484,588
Total expenditures.....	40,672,822	39,932,508	740,314	38,542,391
Other financing uses:				
Operating transfers out	270,326	312,007	(41,681)	282,763
Stabilization transfer	51,500	589,663	(538,163)	—
Medical assistance transfer.....	747,100	579,944	167,156	403,367
Total other financing uses	1,068,926	1,481,614	(412,688)	686,130
Total expenditures and other financing uses....	41,741,748	41,414,122	327,626	39,228,521
Excess/(deficiency) of revenues and other financing sources over/(under) expenditures and other financing uses	\$ (1,184,879)	254,937	\$ 1,439,816	(18,079)
Fund balance/(deficit) at beginning of year		85,797		103,876
Fund balance/(deficit) at end of year.....		\$ 340,734		\$ 85,797

See accountants' review report



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Commonwealth Transportation Fund

Balance Sheet - Statutory Basis

As of June 30, 2018

(Amounts in thousands)

	2018	2017
ASSETS		
Cash and short-term investments.....	\$ 693	\$ 482
Cash with fiscal agent.....	19,373	18,080
Total assets.....	<u>\$ 20,066</u>	<u>\$ 18,562</u>
LIABILITIES AND FUND BALANCE		
Liabilities:		
Accounts payable.....	\$ 693	\$ 482
Total liabilities.....	<u>693</u>	<u>482</u>
Fund balance:		
Reserved fund balance:		
Reserved for debt service.....	19,373	18,080
Total fund balance.....	<u>19,373</u>	<u>18,080</u>
Total liabilities and fund balance.....	<u>\$ 20,066</u>	<u>\$ 18,562</u>

See accountants' review report

Commonwealth Transportation Fund

Statement of Revenues, Expenditures And Changes In Fund Balance - Statutory Basis

Fiscal Year Ended June 30, 2018

(Amounts in thousands)

	2018 Budget	2018 Actual	Variance Favorable (Unfavorable)	2017 Actual
REVENUES AND OTHER FINANCING SOURCES				
Revenues:				
Taxes	\$ 1,302,000	\$ 1,331,772	\$ 29,772	\$ 1,316,807
Assessments	23,947	22,204	(1,743)	22,464
Departmental	675,756	684,374	8,618	666,638
Miscellaneous	—	702	702	240
Total revenues	<u>2,001,703</u>	<u>2,039,052</u>	<u>37,349</u>	<u>2,006,149</u>
Other financing sources:				
Operating transfers in	40,000	43,762	3,762	40,000
Total other financing sources	<u>40,000</u>	<u>43,762</u>	<u>3,762</u>	<u>40,000</u>
Total revenues and other financing sources.....	<u>2,041,703</u>	<u>2,082,814</u>	<u>41,111</u>	<u>2,046,149</u>
EXPENDITURES AND OTHER FINANCING USES				
Expenditures:				
Treasurer and Receiver-General	—	5,723	(5,723)	—
Massachusetts Department of Transportation	127,000	127,000	—	140,250
Post employment benefits	—	45,059	(45,059)	15,948
Debt service:				
Principal retirement	668,753	641,016	27,737	595,516
Interest and fiscal charges	511,442	498,221	13,221	499,592
Total expenditures	<u>1,307,195</u>	<u>1,317,019</u>	<u>(9,824)</u>	<u>1,251,306</u>
Other financing uses:				
Operating transfers out	630,650	634,676	(4,026)	793,453
Stabilization transfer	—	129,826	(129,826)	—
Total other financing uses	<u>630,650</u>	<u>764,502</u>	<u>(133,852)</u>	<u>793,453</u>
Total expenditures and other financing uses	<u>1,937,845</u>	<u>2,081,521</u>	<u>(143,676)</u>	<u>2,044,759</u>
Excess/(deficiency) of revenues and other financing sources over/(under) expenditures and other financing uses	<u>\$ 103,858</u>	1,293	<u>\$ (102,565)</u>	1,390
Fund balance/(deficit) at beginning of year.....		<u>18,080</u>		<u>16,690</u>
Fund balance/(deficit) at end of year.....		<u>\$ 19,373</u>		<u>\$ 18,080</u>

See accountants' review report

Commonwealth Stabilization Fund

Balance Sheet - Statutory Basis

As of June 30, 2018

(Amounts in thousands)

	2018	2017
ASSETS		
Cash and short-term investments.....	\$ 1,728,831	\$ 1,028,454
Investments.....	272,468	272,224
Total assets.....	<u>\$ 2,001,299</u>	<u>\$ 1,300,678</u>
LIABILITIES AND FUND EQUITY		
Liabilities:		
Accounts payable.....	\$ —	\$ —
Total liabilities.....	<u>—</u>	<u>—</u>
Fund balance:		
Reserved fund balance:		
Reserved for Commonwealth Stabilization.....	2,001,299	1,300,678
Total fund balance.....	<u>2,001,299</u>	<u>1,300,678</u>
Total liabilities and fund balance.....	<u>\$ 2,001,299</u>	<u>\$ 1,300,678</u>

See accountants' review report

Commonwealth Stabilization Fund

Statement of Revenues, Expenditures And Changes In Fund Balance - Statutory Basis

Fiscal Year Ended June 30, 2018

(Amounts in thousands)

	2018 Budget	2018 Actual	Variance Favorable (Unfavorable)	2017 Actual
REVENUES AND OTHER FINANCING SOURCES				
Revenues:				
Taxes	\$ —	\$ 272	\$ 272	\$ 377
Miscellaneous	13,036	15,094	2,058	8,787
Total revenues	13,036	15,366	2,330	9,164
Other financing sources:				
Stabilization transfer	85,341	736,645	651,304	—
Total other financing sources	85,341	736,645	651,304	—
Total revenues and other financing sources.....	98,377	752,011	653,634	9,164
EXPENDITURES AND OTHER FINANCING USES				
Expenditures:				
Administration and Finance	—	—	—	—
Total expenditures	—	—	—	—
Other financing uses:				
State Retiree Benefits transfer	—	25,695	(25,695)	—
State Pension transfer	—	25,695	(25,695)	—
Total other financing uses	—	51,390	(51,390)	—
Total expenditures and other financing uses	—	51,390	(51,390)	—
Excess/(deficiency) of revenues and other financing sources over/(under) expenditures and other financing uses	\$ 98,377	700,621	\$ 602,244	9,164
Fund balance/(deficit) at beginning of year.....		1,300,678		1,291,514
Fund balance/(deficit) at end of year		\$ 2,001,299		\$ 1,300,678

See accountants' review report

Intragovernmental Service Fund
Balance Sheet - Statutory Basis

As of June 30, 2018
(Amounts in thousands)

	2018	2017
ASSETS		
Cash and short-term investments.....	\$ 51,811	\$ 51,090
Total assets.....	<u>\$ 51,811</u>	<u>\$ 51,090</u>
LIABILITIES AND FUND EQUITY		
Liabilities:		
Accounts payable.....	\$ 40,021	\$ 36,978
Accrued payroll	2,597	1,593
Total liabilities	<u>42,618</u>	<u>38,571</u>
Fund balance:		
Reserved fund balance:		
Reserved for continuing appropriations.....	9,193	12,519
Total fund balance.....	<u>9,193</u>	<u>12,519</u>
Total liabilities and fund balance.....	<u>\$ 51,811</u>	<u>\$ 51,090</u>

See accountants' review report

Intragovernmental Service Fund

Statement of Revenues, Expenditures And Changes In Fund Balance - Statutory Basis

Fiscal Year Ended June 30, 2018

(Amounts in thousands)

	2018 Budget	2018 Actual	Variance Favorable (Unfavorable)	2017 Actual
REVENUES AND OTHER FINANCING SOURCES				
Revenues:				
Departmental	\$ —	\$ 444,863	\$ 444,863	\$ 436,146
Total revenues	—	444,863	444,863	436,146
Other financing sources:				
Operating transfers in	—	—	—	—
Total other financing sources	—	—	—	—
Total revenues and other financing sources.....	—	444,863	444,863	436,146
EXPENDITURES AND OTHER FINANCING USES				
Expenditures:				
Secretary of the Commonwealth	116	—	116	—
Comptroller	5,590	5,060	530	5,234
Administration and Finance	202,774	180,863	21,911	243,692
Energy and Environmental Affairs	3,150	1,355	1,795	1,521
Health and Human Services	124,822	105,389	19,433	98,959
Executive Office of Technology Services and Security	134,451	65,599	68,852	—
Executive Office of Education	1,927	662	1,265	767
Public Safety and Security	68,915	64,775	4,140	59,653
Housing and Economic Development	7,552	1,629	5,923	1,781
Labor and Workforce Development	—	200	(200)	—
Debt service:				
Principal retirement	16,296	15,241	1,055	11,632
Total expenditures	565,593	440,773	124,820	423,239
Other financing uses:				
Operating transfers out	—	7,416	(7,416)	5,840
Total other financing uses	—	7,416	(7,416)	5,840
Total expenditures and other financing uses	565,593	448,189	117,404	429,079
Excess/(deficiency) of revenues and other financing sources over/(under) expenditures and other financing uses	<u>\$ (565,593)</u>	(3,326)	<u>\$ 562,267</u>	7,067
Fund balance/(deficit) at beginning of year.....		12,519		5,452
Fund balance/(deficit) at end of year.....		<u>\$ 9,193</u>		<u>\$ 12,519</u>

See accountants' review report

Inland Fisheries And Game Fund

Balance Sheet - Statutory Basis

As of June 30, 2018

(Amounts in thousands)

	2018	2017
ASSETS		
Cash and short-term investments.....	\$ 11,719	\$ 13,265
Total assets.....	<u>\$ 11,719</u>	<u>\$ 13,265</u>
LIABILITIES AND FUND EQUITY		
Liabilities:		
Accounts payable.....	\$ 610	\$ 573
Accrued payroll	192	190
Total liabilities	<u>802</u>	<u>763</u>
Fund balance:		
Unreserved fund balance:		
Undesignated.....	10,917	12,502
Total fund balance.....	<u>10,917</u>	<u>12,502</u>
Total liabilities and fund balance.....	<u>\$ 11,719</u>	<u>\$ 13,265</u>

See accountants' review report

Inland Fisheries And Game Fund

Statement Of Revenues, Expenditures And Changes In Fund Balance - Statutory Basis

Fiscal Year Ended June 30, 2018

(Amounts in thousands)

	2018 Budget	2018 Actual	Variance Favorable (Unfavorable)	2017 Actual
REVENUES AND OTHER FINANCING SOURCES				
Revenues:				
Taxes	\$ 1,000	\$ 1,003	\$ 3	\$ 1,007
Federal grants and reimbursements	6,200	7,410	1,210	7,452
Departmental	7,031	7,401	370	7,158
Miscellaneous	34	617	583	254
Total revenues	14,265	16,431	2,166	15,871
Other financing sources:				
Operating transfers in	182	199	17	191
Total other financing sources	182	199	17	191
Total revenues and other financing sources.....	14,447	16,630	2,183	16,062
EXPENDITURES AND OTHER FINANCING USES				
Expenditures:				
Attorney General	5	—	5	—
Administration and Finance	85	74	11	126
Energy and Environmental Affairs	16,915	14,812	2,103	14,808
Total expenditures	17,005	14,886	2,119	14,934
Other financing uses				
Fringe benefit cost assessment	—	3,329	(3,329)	3,225
Total other financing uses	—	3,329	(3,329)	3,225
Total expenditures and other financing uses	17,005	18,215	(1,210)	18,159
Excess/(deficiency) of revenues and other financing sources over/(under) expenditures and other financing uses	<u>\$ (2,558)</u>	<u>(1,585)</u>	<u>\$ 973</u>	<u>(2,097)</u>
Fund balance/(deficit) at beginning of year.....		<u>12,502</u>		<u>14,599</u>
Fund balance/(deficit) at end of year.....		<u>\$ 10,917</u>		<u>\$ 12,502</u>

See accountants' review report

Marine Recreational Fisheries Development Fund

Balance Sheet - Statutory Basis

As of June 30, 2018

(Amounts in thousands)

	2018	2017
ASSETS		
Cash and short-term investments.....	\$ 3,975	\$ 3,302
Total assets.....	<u>\$ 3,975</u>	<u>\$ 3,302</u>
LIABILITIES AND FUND EQUITY		
Liabilities:		
Accounts payable.....	\$ 114	\$ 111
Accrued payroll	13	11
Total liabilities	<u>127</u>	<u>122</u>
Fund balance:		
Reserved fund balance:		
Reserved for continuing appropriations.....	1,000	1,000
Unreserved fund balance:		
Undesignated.....	2,848	2,180
Total fund balance.....	<u>3,848</u>	<u>3,180</u>
Total liabilities and fund balance.....	<u>\$ 3,975</u>	<u>\$ 3,302</u>

See accountants' review report

Marine Recreational Fisheries Development Fund

Statement Of Revenues, Expenditures And Changes In Fund Balance - Statutory Basis

Fiscal Year Ended June 30, 2018

(Amounts in thousands)

	2018 Budget	2018 Actual	Variance Favorable (Unfavorable)	2017 Actual
REVENUES AND OTHER FINANCING SOURCES				
Revenues:				
Departmental	\$ 1,535	\$ 1,787	\$ 252	\$ 1,637
Total revenues	1,535	1,787	252	1,637
Other financing sources:				
Operating transfers in	—	—	—	—
Total other financing sources	—	—	—	—
Total revenues and other financing sources.....	1,535	1,787	252	1,637
EXPENDITURES AND OTHER FINANCING USES				
Expenditures:				
Energy and Environmental Affairs	2,306	950	1,356	1,000
Total expenditures	2,306	950	1,356	1,000
Other financing uses				
Fringe benefit cost assessment	—	169	(169)	159
Total other financing uses	—	169	(169)	159
Total expenditures and other financing uses	2,306	1,119	1,187	1,159
Excess/(deficiency) of revenues and other financing sources over/(under) expenditures and other financing uses	\$ (771)	668	\$ 1,439	478
Fund balance/(deficit) at beginning of year.....		3,180		2,702
Fund balance/(deficit) at end of year.....		\$ 3,848		\$ 3,180

See accountants' review report

Public Safety Training Fund
Balance Sheet - Statutory Basis

As of June 30, 2018
(Amounts in thousands)

	2018	2017
ASSETS		
Cash and short-term investments.....	\$ 1,256	\$ 2,892
Total assets.....	\$ 1,256	\$ 2,892
LIABILITIES AND FUND BALANCE		
Liabilities:		
Accounts payable.....	\$ —	\$ —
Total liabilities.....	—	—
Fund balance:		
Reserved fund balance:		
Reserved for continuing appropriations.....	1,173	—
Unreserved fund balance:		
Undesignated.....	83	2,892
Total fund balance.....	1,256	2,892
Total liabilities and fund balance.....	\$ 1,256	\$ 2,892

See accountants' review report

Public Safety Training Fund

Statement Of Revenues, Expenditures And Changes In Fund Balance - Statutory Basis

Fiscal Year Ended June 30, 2018

(Amounts in thousands)

	2018 Budget	2018 Actual	Variance Favorable (Unfavorable)	2017 Actual
REVENUES AND OTHER FINANCING SOURCES				
Revenues:				
Departmental	\$ 1,900	\$ 1,022	\$ (878)	\$ 1,171
Miscellaneous	—	—	—	—
Total revenues	1,900	1,022	(878)	1,171
Other financing sources:				
Operating transfers in	—	—	—	—
Total other financing sources	—	—	—	—
Total revenues and other financing sources.....	1,900	1,022	(878)	1,171
EXPENDITURES AND OTHER FINANCING USES				
Expenditures:				
Attorney General	4	4	—	1
Sheriffs' Department	20	20	—	10
Public Safety and Security	2,096	2,048	48	670
Total expenditures	2,120	2,072	48	681
Other financing uses:				
Fringe benefit cost assessment	—	586	(586)	88
Total other financing uses	—	586	(586)	88
Total expenditures and other financing uses	2,120	2,658	(538)	769
Excess/(deficiency) of revenues and other financing sources over/(under) expenditures and other financing uses	<u>\$ (220)</u>	<u>(1,636)</u>	<u>\$ (1,416)</u>	<u>402</u>
Fund balance/(deficit) at beginning of year.....		2,892		2,490
Fund balance/(deficit) at end of year.....		<u>\$ 1,256</u>		<u>\$ 2,892</u>

See accountants' review report

Community First Trust Fund
Balance Sheet - Statutory Basis

As of June 30, 2018
(Amounts in thousands)

	2018	2017
ASSETS		
Cash and short-term investments.....	\$ —	\$ 12,037
Total assets.....	\$ —	\$ 12,037
LIABILITIES AND FUND BALANCE		
Liabilities:		
Accounts payable.....	\$ —	\$ —
Total liabilities.....	—	—
Fund balance:		
Unreserved fund balance:		
Undesignated.....	—	12,037
Total fund balance.....	—	12,037
Total liabilities and fund balance.....	\$ —	\$ 12,037

See accountants' review report

Community First Trust Fund

Statement Of Revenues, Expenditures And Changes In Fund Balance - Statutory Basis

Fiscal Year Ended June 30, 2018

(Amounts in thousands)

	2018 Budget	2018 Actual	Variance Favorable (Unfavorable)	2017 Actual
REVENUES AND OTHER FINANCING SOURCES				
Revenues:				
Federal grants and reimbursements	\$ —	\$ —	\$ —	\$ —
Total revenues	—	—	—	—
Other financing sources:				
Operating transfers in	—	—	—	—
Total other financing sources	—	—	—	—
Total revenues and other financing sources.....	—	—	—	—
EXPENDITURES AND OTHER FINANCING USES				
Expenditures:				
Health and Human Services	11,666	11,170	496	31,616
Total expenditures	11,666	11,170	496	31,616
Other financing uses:				
Fringe benefit cost assessment	—	867	(867)	968
Total other financing uses	—	867	(867)	968
Total expenditures and other financing uses	11,666	12,037	(371)	32,584
Excess/(deficiency) of revenues and other financing sources over/(under) expenditures and other financing uses	<u>\$ (11,666)</u>	(12,037)	<u>\$ (371)</u>	(32,584)
Fund balance/(deficit) at beginning of year.....		12,037		44,621
Fund balance/(deficit) at end of year.....		<u>\$ —</u>		<u>\$ 12,037</u>

See accountants' review report

Gaming Local Aid Fund
Balance Sheet - Statutory Basis

As of June 30, 2017
(Amounts in thousands)

	2018	2017
ASSETS		
Cash and short-term investments.....	\$ —	\$ —
Total assets.....	\$ —	\$ —
LIABILITIES AND FUND BALANCE		
Liabilities:		
Accounts payable.....	\$ —	\$ —
Total liabilities.....	—	—
Fund balance:		
Unreserved fund balance:		
Undesignated.....	—	—
Total fund balance.....	—	—
Total liabilities and fund balance.....	\$ —	\$ —

See accountants' review report

Gaming Local Aid Fund

Statement Of Revenues, Expenditures And Changes In Fund Balance - Statutory Basis

Fiscal Year Ended June 30, 2018

(Amounts in thousands)

	2018 Budget	2018 Actual	Variance Favorable (Unfavorable)	2017 Actual
REVENUES AND OTHER FINANCING SOURCES				
Revenues:				
Departmental	\$ —	\$ —	\$ —	\$ —
Total revenues	—	—	—	—
Other financing sources:				
Operating transfers in	64,400	68,011	3,611	63,970
Total other financing sources	64,400	68,011	3,611	63,970
Total revenues and other financing sources.....	64,400	68,011	3,611	63,970
EXPENDITURES AND OTHER FINANCING USES				
Expenditures:				
Direct local aid	64,344	64,343	1	63,970
Total expenditures	64,344	64,343	1	63,970
Other financing uses:				
Stabilization transfer	—	3,668	(3,668)	—
Total other financing uses	—	3,668	(3,668)	—
Total expenditures and other financing uses	64,344	68,011	(3,667)	63,970
Excess/(deficiency) of revenues and other financing sources over/(under) expenditures and other financing uses	\$ 56	—	\$ (56)	—
Fund balance/(deficit) at beginning of year.....		—		—
Fund balance/(deficit) at end of year.....		\$ —		\$ —

See accountants' review report

Local Aid Stabilization Fund
Balance Sheet - Statutory Basis

As of June 30, 2018
(Amounts in thousands)

	2018	2017
ASSETS		
Cash and short-term investments.....	\$ 50	\$ 50
Total assets.....	\$ 50	\$ 50
LIABILITIES AND FUND BALANCE		
Liabilities:		
Accounts payable.....	\$ —	\$ —
Total liabilities.....	—	—
Fund balance:		
Unreserved fund balance:		
Undesignated.....	50	50
Total fund balance.....	50	50
Total liabilities and fund balance.....	\$ 50	\$ 50

See accountants' review report

Local Aid Stabilization Fund

Statement Of Revenues, Expenditures And Changes In Fund Balance - Statutory Basis

Fiscal Year Ended June 30, 2018

(Amounts in thousands)

	2018 Budget	2018 Actual	Variance Favorable (Unfavorable)	2017 Actual
REVENUES AND OTHER FINANCING SOURCES				
Revenues:				
Departmental	\$ —	\$ —	\$ —	\$ —
Total revenues	—	—	—	—
Other financing sources:				
Operating transfers in	—	—	—	—
Total other financing sources	—	—	—	—
Total revenues and other financing sources.....	—	—	—	—
EXPENDITURES AND OTHER FINANCING USES				
Expenditures:				
Executive Office of Education	—	—	—	—
Total expenditures	—	—	—	—
Other financing uses:				
Operating transfers out	—	—	—	—
Total other financing uses	—	—	—	—
Total expenditures and other financing uses	—	—	—	—
Excess/(deficiency) of revenues and other financing sources over/(under) expenditures and other financing uses	\$ —	—	\$ —	—
Fund balance/(deficit) at beginning of year.....		50		50
Fund balance/(deficit) at end of year.....		\$ 50		\$ 50

See accountants' review report

Marijuana Regulation Fund
Balance Sheet - Statutory Basis

As of June 30, 2018
(Amounts in thousands)

	2018	2017
ASSETS		
Cash and short-term investments.....	\$ —	\$ —
Total assets.....	\$ —	\$ —
LIABILITIES AND FUND BALANCE		
Liabilities:		
Accounts payable.....	—	—
Total liabilities.....	—	—
Fund balance:		
Unreserved fund balance:		
Undesignated.....	—	—
Total fund balance.....	—	—
Total liabilities and fund balance.....	\$ —	\$ —

See accountants' review report

Marijuana Regulation Fund

Statement Of Revenues, Expenditures And Changes In Fund Balance - Statutory Basis

Fiscal Year Ended June 30, 2018

(Amounts in thousands)

	2018 Budget	2018 Actual	Variance Favorable (Unfavorable)	2017 Actual
REVENUES AND OTHER FINANCING SOURCES				
Revenues:				
Federal grants and reimbursements	\$ —	\$ 39	\$ 39	\$ —
Total revenues	—	39	39	—
Total revenues and other financing sources.....	—	39	39	—
EXPENDITURES AND OTHER FINANCING USES				
Expenditures:				
Cannabis Control Commission	—	—	—	—
Total expenditures	—	—	—	—
Other financing uses:				
Stabilization transfer	—	39	(39)	—
Total other financing uses	—	39	(39)	—
Total expenditures and other financing uses	—	39	(39)	—
Excess/(deficiency) of revenues and other financing sources over/(under) expenditures and other financing uses	\$ —	—	\$ —	—
Fund balance/(deficit) at beginning of year.....		—		—
Fund balance/(deficit) at end of year.....		\$ —		\$ —

See accountants' review report



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Non-Budgeted Funds

SPECIAL REVENUE FUNDS:

These funds account for the proceeds of specific revenue sources that are restricted to finance specific functions. Funds that are not subject to appropriation are considered Non-Budgeted Special Revenue Funds.

Federal Grants Fund - to account for federal grants that are designated for specific programs, excluding federal highway construction grants, which are accounted for in the Federal Highway Construction Capital Projects Fund, and federal reimbursement programs, such as Medicaid, which are accounted for in the General Fund.

LOTTERY FUNDS:

The two lottery funds account for the operations of the State and Arts Lotteries.

State Lottery and Gaming Fund - to account for revenue from the sale of lottery tickets and for the payment of prizes, expenses of the State Lottery Commission and the distribution to municipalities and school districts. Transfers are made from lottery profits to the General Fund.

Arts Lottery Fund - to account for revenues from the sale of lottery tickets, for payment of prizes and the expenses of the State Lottery Commission, and for the administration of the Arts Lottery Council. Residual fund balance transfers are made to the General Fund at the end of the fiscal year.

GAMING FUNDS:

Massachusetts Gaming Control Fund - to account for all gaming fees and assessments not recorded in other funds by legislative mandate and other monies authorized by the General Court. Expenditures are to finance the activities of the Massachusetts Gaming Commission (MGC).

Gaming Revenue Fund - to account for revenues collected from taxes on gross gaming revenue received from gaming licenses. The revenues shall be transferred to other funds in accordance with Section 59 of Chapter 23K of the MGL.

UNIVERSAL HEALTH CARE FUNDS:

The fifteen Universal Healthcare Funds account for assessments and other revenues that are dedicated to making health care and health insurance accessible and affordable to all citizens of the Commonwealth.

Catastrophic Illness in Children Relief Fund - to account for receipts from a portion of an employer's unemployment health insurance contribution and certain Federal Financial Participation (FFP). The assistance is for medical expenses of childhood catastrophic illnesses not covered by any other state and federal program and subject to certain family income limits.

Commonwealth Care Trust Fund - to collect fair share employer assessments, free rider surcharges, cigarette tax revenues, transfers from the Health Safety Net Trust Fund and any funds that may be appropriated or transferred for deposit into the trust fund for the purpose of providing health care coverage in accordance with Chapter 58 of the Acts of 2006.

Medical Assistance Trust Fund - to account for any funds directed to the Commonwealth from public entities and federal revenues related to medical assistance; to be used for medical assistance payments to entities authorized by the general court.

Health Safety Net Trust Fund - to account for reimbursing hospitals and community health centers for a portion of the cost of reimbursable health services provided to low-income, uninsured or underinsured residents of the Commonwealth. Revenues are from surcharges and assessments in health care services.

Community First Trust Fund - The secretary of health and human services may expend not more than \$16 million deposited in the fund. Funds are credited in an amount equal to the increase in revenues from federal reimbursements resulting from the increased percentage points attributable to participation in the state balancing incentive payment program. There shall be credited to the fund an amount equal to the revenues received from FFP earned on any qualifying expenditures from the fund. Expenditures from the fund may be made for services provided in prior fiscal years.

Delivery System Transformation Initiatives Trust Fund - to account for funds expended for delivery system transformation initiatives payments to qualifying providers under an approved federal waiver.

Money Follows the Person Rebalancing Demonstration Grant Trust Fund - to account for funds used for expenses that primarily benefit individuals who have disabilities or long-term illnesses or who are elders. The funds shall be used to fund home and community-based waiver programs established to support the commonwealth's rebalancing initiative. Monies equal to the amount of FFP collected from the previous quarter shall be transferred to the fund.

Healthcare Payment Reform Fund - to account for any gaming license fees transferred under Section 93 of Chapter 194 of the Acts of 2011, as amended, 5% of the acute hospital assessments and any monies credited or transferred to the fund from any other fund or source. Funds are used to improve the quality and reduce the cost of health care in the Commonwealth.

Distressed Hospital Trust Fund - to account for gifts, grants and donations, interest earnings, 60% of the acute hospital assessments, and any funds provided from other sources. Expenditures support the State's efforts to meet the health care cost growth benchmark and shall be consistent with any activities funded by the e-Health Institute, the Healthcare Payment Reform Fund, and any delivery system transformation initiative funds authorized by the federal government.

Prevention and Wellness Trust Fund - to account for any revenue from appropriations or other monies authorized by the General Court and specifically designated to be credited to the fund, any fines and penalties allocated to the fund, any gifts, grants and donations to further community-based prevention activities, any interest earnings, and any funds provided from other sources. Also, 26 2/3% of the acute hospital assessments shall be credited to this fund. Expenditures shall support the state's efforts to meet the health care cost growth benchmark and any activities funded by the Healthcare Payment Reform Fund and other health related purposes.

Massachusetts Health Information Exchange Fund - to account for expenditures to support the dissemination and development of the statewide health information exchange. There shall be credited to the fund any appropriations, proceeds of any bonds or notes of the commonwealth issued for the purpose, or other monies authorized and designated thereto; any federal grants or loans; any private gifts, grants or donations made available; and investment income.

MassHealth Delivery System Reform Trust Fund - to account for any transfers from the Health Safety Net Trust Fund, FFP revenues, appropriation or other money authorized and designated to be credited to the fund; and any interest earned. The monies will be expended for approved Medicaid payments, reimbursements for services delivered to MassHealth beneficiaries; and for enhanced service and incentive payments to acute hospitals, and other providers or care organizations.

Community Hospital Reinvestment Trust Fund - to account for income designated to the fund such as gifts, grants, donations, interest earned any other money authorized. To be used to provide financial support to eligible acute care hospitals.

Non-acute Care Hospital Reimbursement Trust Fund - to account for assessments on acute care hospitals, FFP revenues, any revenues from appropriations or other any other money authorized and specifically designated to the fund and interest income. Funds shall be expended for Medicaid payments to non-acute, nonpublic hospitals licensed by the Department of Public Health.

Substance Use Disorder Federal Reinvestment Trust Fund - to account for FFP revenues, other federal reimbursements, grants, premiums, gifts, interest income and any other funds specifically designated to the fund. Funds shall be used to implement MassHealth's substance use disorder waiver demonstration project and to enhance and expand substance use disorder services.

OTHER FUNDS:

The other special revenue funds account for a variety of miscellaneous taxes, assessments, fees, fines and other revenues, which are restricted to the financing of specific Commonwealth programs.

Dam and Seawall Repair or Removal Fund - to account for amounts credited or transferred to the fund including, federal grants; loan repayments; investment earnings in the fund; and any other amounts required to be credited to the fund by operation of law, resolution or agreement entered into by the Department of Conservation and Recreation. Funds shall be used to provide grants or loans to local governmental entities, charitable organizations and private dam owners to finance or refinance costs related to dams and flood or wave control repair or remediation projects.

Department of Telecommunication and Energy Trust Fund - to account for assessments on interstate operating revenue of electric companies and investment income. The expenditures by the Department of Telecommunications and Energy are for activities of the Department related to the regulation of electric companies.

Fingerprint-Based Background Check Trust Fund - to account for any appropriations or other monies authorized by the General Court and specifically designated to be credited thereto and any additional funds designated for deposit into the fund, including any private donations made available for deposit into the fund. Expenditures shall be for the sole purpose of carrying out state and national criminal background checks and verifications.

Liability Management and Reduction Fund - to account for chargebacks assessed to departments as premiums for the provision of insurance coverage for state agencies to cover payment of judgments, settlements and litigation costs in tort claims.

Medical Marijuana Trust Fund - to account for revenues generated from fees collected after July 1, 2013, as authorized by Section 3B of Chapter 7 of the MGL and Section 13 of Chapter 369 of the Acts of 2012. Expenditures from the fund shall be for the administrative costs of operations and programs related to said Chapter 369.

Essex Regional Emergency Communication Center Fund - The fund shall be used for the operation of the Regional Emergency Communications Center (RECC) to provide centralized emergency communication services to participating communities. There shall be credited to the fund: (i) the per capita assessment based on population on each member city or town and (ii) any other funding, including, but not limited to, appropriation, gift, grant, contribution, transfer or investment. Expenditures shall be made for the operating costs of the RECC provided, however, that funds shall not be used toward the capital budget requirements of the Essex County Regional Emergency Communications Center.

Dockside Testing Trust Fund - to account for fees collected from harvesters of molluscan shellfish on Georges Bank in the amount of \$35,000 per vessel. Expenditures shall be for the administrative costs of the operations and programs of the department related to regulating and monitoring the shellfish harvesters, including the testing of shellfish as necessary to ensure that they are safe for human consumption.

Commonwealth of Massachusetts Civil Monetary Penalty (CMP) Fund - to account for civil monetary penalties paid by nursing homes participating in the medical program for the protection of health and property of residents in a nursing home if the facility is found deficient.

MBTA State and Local Contribution Fund - to account for the transfer of dedicated sales tax revenue and MBTA service area assessments from the Commonwealth to the MBTA as set forth in Chapter 10, Section 35T of the MGL.

Massachusetts Community Preservation Trust Fund - to account for surcharges from the registry of deeds, public and private sources as gifts, grants and donations, from damages, penalties costs from litigation settlements and surcharge on municipal liens imposed by the cities and towns that accept funds from the trust, to further community open space preservation programs.

Health Insurance Portability and Accountability Act Fund - to account for revenues received from Federal reimbursements under the Social Security Act, other Federal reimbursements, grants, gifts or other contributions to meet the costs of compliance with the Federal Health Insurance Portability and Accountability Act of 1996 (HIPPA).

State Racing Fund - to account for racing-related taxes and assessments, to be used for expenditures governing simulcasting and to provide certain relief to the racing industry in the Commonwealth.

Division of Professional Licensure Trust Fund - to support programs and administrative costs of the Division of Professional Licensure. Revenues are from professional registration fees and expenditures are for regulatory purposes. Moneys deposited into the trust fund that are unexpended at the end of the fiscal year, and that total not more than 50% of the division's expenditures for the previous fiscal year, shall not revert to the General Fund.

Victims of Drunk Driving Trust Fund - to account for fines collected from individuals convicted of driving under the influence of various substances defined by the law. Expenditures are for grants to community based programs to provide counseling and support services to victims of accidents.

State Athletic Commission Fund - to account for licensing fees, other fees and fines collected up to a maximum of \$200,000 per year. All revenues in excess of \$200,000 shall be transferred to the General Fund.

Organ and Tissue Donor Registration Fund - to account for funds received from public and private donations, fees collected by the Department of Public Health, including interest revenue, for the purpose of registration of residents of the Commonwealth as organ and tissue donors. Administrative costs cannot exceed 3% per annum of the funds held in the fund in any given fiscal year.

Department of Fire Services Hazardous Materials Emergency Mitigation Response Recovery Trust Fund - to account for monies received from fees, fines and investment income up to a maximum of \$250,000 per year. All revenues in excess of \$250,000 are transferred to the General Fund. Expenditures are for emergency hazardous materials response and mitigation costs.

Registers Technological Fund - to account for funds received from deed surcharges for the benefit of abolished counties. Expenditures are for technological improvements at the registries of deeds in those counties.

County Registers Technological Fund - to account for monies received from deed surcharges for Barnstable, Bristol, Dukes, Norfolk, Plymouth and Nantucket Counties. Expenditures are for technical improvements at those counties.

State Election Campaign Fund - to account for the costs of quadrennial statewide elections provided for through contributions from citizens.

Enhanced 911 Fund - to account for expenditures by the State Police and the Executive Office of Public Safety and Security to automatically identify a telephone number used to place or route a 911 call.

Counsel for Indigent Salary Enhancement Trust Fund - to account for fees collected for private applications for criminal complaints for misdemeanors in Commonwealth courts, including investment income. Expenditures are for rate enhancements for advocates for the indigent.

Special Projects Permitting and Oversight Fund - to account for environmental permitting fees. Expenditures are for permitting, technical assistance, compliance and other activities related to environmental oversight.

Division of Energy Resources Credit Trust Fund - to account for the receipt, retention, redemption, sale or transfer of energy conservation credits, renewable energy certificates or credits, emission credits and similar allowances. The Division of Energy Resources may expend these funds for the implementation of programs for energy reliability, renewable energy, public procurement of energy and energy efficiency and climate change.

School Modernization and Reconstruction Trust Fund - to account for dedicated sales tax revenues in support of the School Building Assistance Program.

Roche Community Rink Fund - to account for the residual net revenues of the privately operated ice skating rink located in the West Roxbury section of the City of Boston.

Health Care Workforce Transformation Fund - to account for funds appropriated, gifts, grants, loan repayments and interest income. Expenditures of not more than 10% of the amount held in the fund in any one year shall be used for the combined cost of program administration, technical assistance to grantees and program evaluation. Funds of not less than 20% may be transferred to the Department of Public Health and up to 10% may be transferred to the Massachusetts Nursing and Allied Health Workforce Development Trust Fund. Funds remaining shall be expended for various healthcare related jobs programs.

Workforce Competitiveness Trust Fund - to account for funds to support the development and implementation of employer and work responsive programs to enhance worker skills, income, productivity and retention and to increase the quality and competitiveness of Massachusetts firms. The fund is administered by the Executive Office of Labor and Workforce Development.

Fire Prevention and Public Safety Fund - to account for all penalties recovered under the Cigarette Fire Safety Regulation Act to be used for fire safety and prevention programs.

Cigarette Fire Safety and Firefighter Protection Act Enforcement Fund - to account for the fire safety certification fees submitted by cigarette manufacturers. The fund is used solely to support state processing, testing, enforcement and oversight activities related to implementation of the cigarette fire safety regulation.

Massachusetts Nursing and Allied Health Workforce Development Trust Fund - to account for funds appropriated, grants, loans or private donations received to increase the number of public and private higher education faculty and students who participate in programs that support careers in fields related to nursing and allied health.

Health Information Technology Trust Fund - to account for federal reimbursements received under the Health Information Technology for Economic and Clinical Health Act and other revenues received from or in support of the health care provider incentive payment program. Expenditures are for incentive payments to eligible Massachusetts Medicaid health care providers and for the promotion of electronic health record adoption and health information exchange in the Commonwealth. This fund may incur a deficit in an amount not to exceed the most recent revenue estimate as certified by the MassHealth Director.

Build America Bonds Subsidy Trust Fund - to account for subsidies from the United States Treasury related to debt service payable on Build America bonds issued by the Commonwealth. Expenditures are used to pay debt service related to these bonds.

Housing Preservation and Stabilization Fund - to account for funds appropriated or transferred to the trust fund by the general court; and all interest earned on monies in the trust fund. Expenditures shall be made for providing affordable housing for low-income families and individuals in the commonwealth, particularly those most at risk of becoming homeless.

Office of Refugees and Immigrants Trust Fund - to account for grants, bequests, gifts or contributions of cash or securities and contributions of services or property in kind made for the purpose of supporting the office for refugees and immigrants. Expenditures shall be made only for operating costs of the office for refugees and immigrants and costs associated with refugee and immigrant-related programs, grants and initiatives of the director.

Veterans Independence Plus Initiative Trust Fund - to account for revenues collected by the department from this initiative. Expenditures from the fund shall be for the administration of the Veterans Independence Plus Initiative. The secretary may expend from the fund for services provided in prior fiscal years.

Massachusetts Environmental Police Trust Fund - to account for certain administrative surcharges, a 10% maintenance fee charged on private details, any bond proceeds or funds appropriated, interest or investment earnings, and all other amounts credited or transferred to the fund from any other fund or source. Funds may be expended on programs and costs related to the division of law enforcement. No expenditure made from the fund shall cause the fund to become deficient at any point.

Domestic and Sexual Violence Prevention and Victim Assistance Fund - to support innovative practices to prevent domestic and sexual violence and provide assistance to victims of domestic violence in the commonwealth. The fund shall be credited any appropriations, bond proceeds or other monies authorized by the general court, and any other monies which may be available for the purposes of the fund from any other source or sources.

Massachusetts Seafood Marketing Program Fund - to account for a portion of the monies from the sale of commercial harvester and dealer permits issued not to exceed \$250,000 per fiscal year; any appropriations, grants, gifts or other monies authorized by the general court or other parties and specifically designated to be credited to the fund; and any investment income. All amounts credited to the fund shall be for the purpose of developing and administering the seafood marketing program. The fund shall be exempt from the indirect and fringe benefits that would otherwise be assessed.

Government Land Bank Fund - to account for proceeds from disposition, conversion and redevelopment of land used for industrial and low income housing developments to fund payments of principal and interest on bonds and notes of the Massachusetts Development Finance Agency.

Natural Heritage and Endangered Species Fund - to account for revenues from public and private sources and/or the federal government as reimbursements, grants, donations or other receipts and investment income; used to acquire by purchase, lease, easement or license land critical to nongame wildlife and endangered species for purposes of protecting and enhancing nongame wildlife.

Massachusetts Mathematics, Science, Technology and Engineering Grant Fund (STEM Pipeline Fund) - to account for support provided to Massachusetts students who participate in programs that support careers in fields related to mathematics, science, technology and engineering. The grants also support curriculum development in those fields.

Massachusetts Alternative and Clean Energy Investment Trust Fund - to account for any funds invested in clean energy technology research and issued as seed grants to companies, universities and nonprofits to encourage the creation of clean technology ventures and the training of workers to perform associated green jobs.

Regional Greenhouse Gas Initiatives (RGGI) Auction Trust Fund - to account for auction proceeds under the carbon dioxide cap and trade program. Expenditures from the fund shall be made by the Department of Environmental Protection in consultation with the Department of Energy Resources to adopt rules and regulations establishing a carbon dioxide cap to limit and reduce the total carbon dioxide emissions released by electricity-generating stations. The fund shall be exempt from the indirect and fringe benefits that would otherwise be assessed.

Mosquito and Greenhead Fly Control Fund - to account for assessments to cities and towns of various mosquito control districts; to support activities designed to control mosquitoes and/or "greenhead" flies.

Ocean Resources and Waterways Trust Fund - to account for funds appropriated, investment income, grants or ocean development mitigation fees received; for use in restoring or enhancing marine habitat and resources affected by project developments.

Off Highway Vehicle Program Fund - to account for fees, fines and investment income collected for use in enforcement and environmental development, repair and restorations of trails and facilities.

Workforce Training Trust Fund - to account for revenues from the 0.075% unemployment surcharge on taxable wages on employers; to provide grants to employers, employer groups, labor organizations and training providers for projects to provide education and training to existing employees and newly hired workers.

Oil Overcharge Fund - to account for the fines and penalties collected under federal litigation from certain oil companies; used to provide fuel assistance and home insulation for low-income residents.

Substance Abuse Services Fund - to account for funds used to expand inpatient treatment facilities and ongoing case management for individuals civilly committed under Section 35 of Chapter 123 of the MGL.

Victims of Human Trafficking Trust Fund - to account for the proceeds of assets seized and forfeited and fines and assessments collected along with any interest earned. Funds shall be transferred to the Victim and Witness Assistance Board to administer grants to public, private non-profit or community-based programs in the Commonwealth.

Department of Public Utilities Storm Trust Fund - to account for assessments charged against each electric company under the jurisdictional control of the Department of Public Utilities and any investment income credited to the fund. Funds shall be used in investigating the preparation for and response to storm and other emergency events by electric companies in the Commonwealth.

Homeless Animal Prevention and Care Fund - to offset costs associated with the vaccination, spaying and neutering of homeless dogs and cats owned by low-income residents and to assist with the training of animal control officers. The fund shall consist of all revenues received by the Commonwealth pursuant to the voluntary check-off donation indicated on the Department of Revenue's annual income tax return, gifts, grants, donations and investment income to further reduce the population of homeless animals.

Horseneck Beach Reservation Trust Fund - to account for the long-term preservation, maintenance, nourishment and public safety of Horseneck Beach in the Town of Westport. Revenues credited to the fund shall consist of a surcharge of \$1 imposed by the Department of Conservation and Recreation upon each fee charged and collected from admission to and parking in the Horseneck Beach Reservation. Expenditures from the fund for public safety may be made available to the Town of Westport's police, fire, ambulance and emergency personnel.

Environmental Trust Fund - to account for fines, gifts, grants and investment income used for restoration, protection and improvement of the quality of Boston Harbor, Lynn Harbor, Massachusetts Bay, Buzzards Bay and Cape Cod Bay.

Social Innovation Financing Trust Fund - to account for funding contracts to improve outcomes and lower costs for contracted government services. The Secretary of Administration and Finance may provide that payments in future years under any such contracts shall constitute a general obligation of the Commonwealth for which the full faith and credit of the Commonwealth shall be pledged for the benefit of the providers of the contracted government services, but the total amount of payments under such contracts secured by a pledge of the full faith and credit of the Commonwealth shall not exceed, in the aggregate, \$50 million.

Children's Trust Fund - to account for gifts, grants, interest and donations to the Child Abuse Prevention Board and certain appropriations designated to be transferred to the fund; used for support programs to raise awareness of child abuse and prevention programs.

Child Support Enforcement Fund - to account for child support payments, fees and penalties collected by the Child Support Division, federal monies and any related interest earnings. Expenditures are for child-support related activities.

Massachusetts Military Family Relief Fund - to account for revenues received by the Commonwealth pursuant to the voluntary check-off donation indicated on the Department of Revenue's annual income tax return, gifts, grants, donations and investment income to further the purposes of the fund, which is to help members of the Massachusetts National Guard and Massachusetts residents who are members of the Armed Forces of the United States and who were called to active duty after September 11, 2001.

Department of Industrial Accidents Special Fund - to account for assessments to employers and cities and towns for workers' compensation insurance premiums and penalties assessed against employers who fail to insure for workers' compensation; used to reimburse the General Fund for the operating account of the Department of Industrial Accidents and for administrative overhead.

Logan Airport Health Study Trust Fund - to account for monies allocated by the Massachusetts Port Authority or any other public or private entity to the department of public health to conduct public health activities associated with the Logan Airport Health Study. Funds shall be expended for administration and project management activities and for direct support to community health centers within the study area.

Massachusetts State Public Health HIV and Hepatitis Fund - to account for revenues received by the Commonwealth pursuant to the voluntary check-off donation indicated on the Department of Revenue's annual income tax return, from public and private sources as gifts, grants, and donations; used for research, treatment, and education related to acquired immune deficiency syndrome.

Head Injury Treatment Services Trust Fund - to account for revenues from a surcharge on fines resulting from "driving under the influence" convictions and investment income; funds the Massachusetts Rehabilitation Commission's statewide head injury program to develop and maintain non-residential rehabilitation services for head injured persons.

Board of Registration in Medicine Trust Fund - to account for licensing fees of medical professionals. Expenditures are for the administration and operation of the Board.

Water Pollution Abatement Projects Administration Fund - to account for transfers from the Massachusetts Clean Water Trust and general obligation bond proceeds; used for the administration of the Department of Environmental Protection to fund water pollution abatement projects.

Child Care Quality Fund - to account for revenues received from the sale of “Invest in Children” distinctive registration plates issued by the Registrar of Motor Vehicles and the expenditures by the commissioner of the Office for Children for providing grants for not-for-profit childcare organizations for the purpose of improving childcare services.

Convention and Exhibition Center Fund - to account for certain rooms and sales and use taxes, surcharges imposed on tourist tickets, including cruises and land-based sightseeing located in the Commonwealth, to finance the construction and operating expenses of a new Boston Convention Center and convention centers in Worcester and Springfield.

Firearms Fingerprint Identity Verification Trust Fund - to account for fees paid in firearms registrations for the purpose of financing fingerprint identification verifications with the fingerprint records maintained by the Federal Bureau of Investigations or any other federal agency for the verification of firearms license application identities.

Grant Anticipation Note Trust Fund - to account for proceeds to cover federal grant anticipation note expenditures and pay the related debt service.

Race Horse Development Fund - to account for the daily assessment of 9% of gross gaming revenues collected by slot machine-only venues, in accordance with Section 55c of Chapter 23K of the MGL. Expenditures from this fund shall be made to each licensee under Chapter 128A of the MGL.

Community Mitigation Fund - to account for gaming tax revenue transferred under Section 59 of Chapter 23K of the MGL and all other monies credited or transferred to the fund from any other fund or source. Funds shall be expended to assist the host community and surrounding communities in offsetting costs related to the construction and operation of a gaming establishment.

Capital Needs Investment Fund - to account for funds appropriated. The funds shall be for the restoration costs of the Mayflower II and the construction of a public safety building in the Town of Barre. The fund shall expire on December 31, 2020 at which time the fund shall be repealed and any unexpended balance and interest shall be transferred to the General Fund.

Massachusetts Tourism Trust Fund - to account for the \$10,000,000 collected from the room occupancy excise and revenues under the Gaming Revenue Fund designated by legislation. Spending from the fund will be as follows; 40% to the Massachusetts marketing partnership and 60% to regional tourism councils to promote tourism and for related administrative costs.

Long-Term Facility Quality Improvement Fund - to account for income from legislatively mandated fines and penalties imposed by the department of public health on long-term care facilities, revenues from appropriations, monies authorized by the general court, other designated monies from public or private sources: gifts, grants, donations rebates and settlements. Spending will be used to improve safety and enhance the quality of care provided in long-term care facilities.

Sexual Assault Nurse Examiner Trust Fund - to account for money received from public or private sources such as gifts, grants, donations, bequests, cash, securities and property contributions from any source. Spending will be used to support the sexual assault nurse examiner program costs and provide services for sexual assault patients.

Transportation Infrastructure Enhancement Trust Fund - to account for assessments received based on the number of annual rides given in a fiscal year by each transportation network company within the commonwealth; $\frac{1}{2}$ of the funds are proportionately distributed to cities and towns, $\frac{1}{4}$ of the funds are distributed to the Massachusetts Development Finance Agency on behalf of small businesses operating in taxicab, livery, or hackney industries, and the final $\frac{1}{4}$ is distributed to the Commonwealth Transportation Fund.

Nickerson State Park Trust Fund - to account for a \$5 surcharge on admission for out-of-state campers in Nickerson State Park. Expenditures shall be made for the long-term preservation and maintenance of the Nickerson State Park.

MASSACHUSETTS DEPARTMENT OF TRANSPORTATION (MassDOT) FUNDS:

Massachusetts Transportation Trust Fund - to account for assessments, federal grants, departmental revenues, transfers and expenditures related to MassDOT.

Central Artery/Tunnel Project Repair and Maintenance Trust Fund - to account for any costs incurred in connection with the repairs and maintenance of the Central Artery and the Ted Williams Tunnel.

Motor Vehicle Safety Inspection Trust Fund - to account for motor vehicle inspection fees for administration and operation of safety inspection programs by the Registry of Motor Vehicles.

Transportation Infrastructure and Development Fund - to account for monies transferred from the Gaming Revenue Fund and all other monies credited or transferred to the fund from any other fund or source and proceeds from the investment of such funds. Any expenditures from this fund shall be solely for the purpose of transportation and related infrastructure projects.

The following funds have been enacted in legislation but were inactive in FY18 and are not presented in this report:

Regional Transit Authorities Forward Funding Trust Fund - to account for revenues allocated to support capital or other eligible activities for regional transit authorities.

Health Care Security Trust Fund - to account for revenues received from tobacco companies under the tobacco settlement and interest income for health-related services and programs intended to control or reduce the use of tobacco in the Commonwealth. Per statute, tobacco revenues were deposited directly into the General Fund, not into this fund.

MBTA Infrastructure Renovation Fund - to account for supplemental appropriations beyond the MBTA State and Local Contribution Fund for certain MBTA infrastructure improvements. Funds are to be used for, but not limited to, compliance with the American with Disabilities Act, elevator and escalator improvements, waterproofing, fare gates, signage, lighting and structural improvements. No rolling stock is to be acquired through the fund.

Smart Growth Housing Trust Fund - to account for revenues from state surplus property sold for between \$25 million to \$50 million, or appropriations from the General Fund and monetary sanctions imposed by the department. Expenditures are for payments to communities under the Smart Growth and Housing Production program.

Natural Resources Damages Trust Fund - to account for gifts, grants and other contributions received to fund natural resources restoration projects.

Essential Community Provider Trust Fund - to account for amounts appropriated for transfers and interest earned by the fund; used for payments to acute care hospitals and community health centers, as defined in Chapter 58 of the Acts of 2006, Section 8.

Department of Mental Retardation Trust Fund - to account for any receipts from assessments, transfers by the Department of Mental Retardation for public facilities and any other FFP. Expenditures are for operating the intermediate care facilities and community residences serving individuals with mental retardation.

Workforce Competitiveness Trust Fund - to account for funds to support the development and implementation of employer and work responsive programs to enhance worker skills, income, productivity and retention and to increase the quality and competitiveness of Massachusetts firms. The fund is administered by the Executive Office of Labor and Workforce Development.

Agricultural Inspection and Infrastructure Trust Fund - to account for agricultural inspection fee revenues, interest or investment earnings on such monies; and all other monies credited or transferred to the fund by law. Expenditures from the fund shall be for agricultural programs and costs related to the Agricultural Innovation Center. Any unexpended balance in the fund at the end of the fiscal year, not to exceed \$200,000, shall not revert to the General Fund but shall remain available for expenditure in subsequent fiscal years.

Massachusetts Board of Higher Education Scholar-Internship Match Fund - to provide a match for industry scholarships given to Massachusetts students going on to study for a post-secondary degree at Massachusetts public

higher education institutions. The amount to be matched through the Scholar-Internship Match Fund shall not exceed \$5,000 per student, contingent upon receiving a corresponding industry scholarship or internship of up to the same amount.

District Local Technical Assistance Fund - to account for grants to regional planning agencies for technical assistance to municipalities and to develop a statewide permitting model. Technical assistance services funded by these grants shall include services for zoning, land use planning, conservation, public safety planning, information technology and statistical trend modeling. Expenditures from this fund may not exceed \$2.8 million in any fiscal year.

Educational Rewards Grant Program Fund - to account for grants to students in accredited post-secondary certificate or vocational technology programs or associate degrees in targeted high-demand occupations.

Housing and Economic Development Trust Fund - to account for (i) grants, bequests, gifts or contributions of cash or securities, or contributions of services or property in kind from any persons or other governmental, nongovernmental, quasi-governmental or local governmental entities and (ii) all interest earned on monies in the trust. Expenditures shall be made only for the following purposes: (i) operating costs of the executive office of housing and community development, including the divisions and programs within the executive office; (ii) operating costs of the Massachusetts marketing partnership and the offices within the partnership, and (iii) costs associated with housing and economic development programs, grants and initiatives of the secretary.

Climate Change Adaptation Infrastructure Investment Fund - to account for amounts credited or transferred to the fund by the general court or any other source including, without limitation, federal grants, loan repayments, investment earnings on monies in the fund and any other amounts required to be credited to the fund. Amounts credited to the fund may be used for the costs associated with the operations of the division of waterways and the office of dam safety, the department of environmental protection, the department of fish and game and the office of coastal zone management for the costs associated with operations. The fund shall be used to provide grants or loans to agencies of the Commonwealth and local governmental bodies to finance or refinance costs of inspection, repair and removal projects.

Human Service Salary Reserve Fund - to account for funds transferred from the General Fund to provide a one-time subsidy to personnel earning less than \$40,000 in annual compensation who are employed by private human service providers that deliver human and social services under contracts with departments within the Executive Office of Health and Human Services and the Executive Office of Elder Affairs.

County Correction Fund - to account for approximately 7.5% of the deeds excise tax distributed to counties for the operation of county correctional facilities. With consolidation of counties into the Commonwealth in FY10, this fund became inactive in FY11.

Commonwealth Sewer Rate Relief Fund - to account for transfers of amounts from the General Fund or other funds; used for the purpose of mitigating sewer rate increases and making sewer rate relief grants to municipalities.

Public Health Trust Fund - to account for the collection of fees on slot machines assessed under Section 56 of Chapter 23K of the MGL and all other monies credited or transferred to the fund from any other source under law. Funds shall be expended to assist social service and public health programs dedicated to addressing problems associated with compulsive gambling.

Gaming Licensing Fund - to account for the collection of all gaming establishment licensing fees established under Chapter 23K of the MGL and excluding initial application fees. Monies from this fund shall be transferred to various funds in accordance with Section 93 of Chapter 194 of the Acts of 2011. This fund expired on December 31, 2015.

Securities Fraud Prosecution Fund - to account for criminal penalties, fines and settlements collected under chapter 110A and any income from the investment of amounts credited to the fund. Expenditures from this fund are for investigations and enforcement of and dissemination of information about the requirements of Chapter 110A. The Fund shall not exceed a maximum of \$500,000. Amounts collected in excess of the maximum shall be deposited in the General Fund.

Flood Control Compact Fund - to account for any funds authorized and specifically designated to the fund by the general court plus any interest or investment earnings on any such monies. Expenditures shall be made for costs arising under any compact authorized by the general court. No expenditure from the fund shall cause it to become deficient at any point.

Public Records Assistance Fund - to account for revenues collected from punitive damages fines assessed to agencies or municipalities in violation of certain public record laws and other monies designated to be credited to the fund such as appropriations, bond proceeds, gifts, grants, private contributions, operating transfers and earned investment income. To be used to provide grants to municipalities to support information technology capabilities and improve access to public records. Money that is unexpended at the end of each fiscal year shall not revert to the General Fund and shall be available for expenditure by the fund in the subsequent fiscal year.

Olmsted Park Improvement Fund - to account for expenditures by the Department of Conservation & Recreation for activities of the Department related for the purposes of providing rehabilitation and improvement grants to cities and towns with an Olmsted Park within its municipal boundaries. The fund shall consist of public and private sources such as gifts, grants and donations, interest earned on revenues from gifts, grants and donations and any funds provided from other sources.

Non-Budgeted Special Revenue Funds
Combining Statement of Revenues, Expenditures And Changes In Fund Balances - Statutory Basis
Fiscal Year Ended June 30, 2018
(Amounts in thousands)

	Lotteries			Gaming		Universal Health Care Funds	
	Federal Grants	State Lottery and Gaming	Arts Lottery	Gaming Control	Gaming Revenue	Catastrophic Illness in Children Relief	Commonwealth Care Trust
REVENUES AND OTHER FINANCING SOURCES							
Revenues:							
Taxes.....	\$ —	\$ 487	\$ —	\$ —	\$ 68,010	\$ —	\$ 139,020
Assessments	—	—	—	—	—	—	—
Federal grants and reimbursements.....	2,428,439	—	—	—	—	—	—
Departmental	—	5,392,897	43,383	27,863	—	—	226,406
Miscellaneous.....	444	4,969	139	—	—	—	—
Total revenues	<u>2,428,883</u>	<u>5,398,353</u>	<u>43,522</u>	<u>27,863</u>	<u>68,010</u>	<u>—</u>	<u>365,426</u>
Other financing sources:							
Operating transfers in	—	—	—	—	—	3,075	—
Medical assistance transfer.....	—	—	—	—	—	—	—
Total other financing sources	—	—	—	—	—	3,075	—
Total revenues and other financing sources.....	<u>2,428,883</u>	<u>5,398,353</u>	<u>43,522</u>	<u>27,863</u>	<u>68,010</u>	<u>3,075</u>	<u>365,426</u>
EXPENDITURES AND OTHER FINANCING USES							
Expenditures:							
Judiciary	1,764	—	—	—	—	—	—
Inspector General	—	—	—	—	—	—	—
Governor and Lieutenant Governor	—	—	—	—	—	—	—
Secretary of the Commonwealth	968	—	—	—	—	—	—
Treasurer and Receiver-General.....	1,288	4,310,129	34,347	195	—	—	—
Attorney General	46,558	—	—	1,562	—	—	—
District Attorney	2,715	—	—	—	—	—	—
Sheriffs' Departments.....	3,817	—	—	12	—	—	—
Disabled Persons Protection Commission.....	571	—	—	—	—	—	—
Board of Library Commissioners.....	2,791	—	—	—	—	—	—
Massachusetts Gaming Commission.....	—	—	—	22,087	—	—	—
Comptroller	—	—	—	—	—	—	—
Administration and Finance	6,091	—	—	—	—	—	307,277
Energy and Environmental Affairs.....	39,055	—	—	—	—	—	—
Health and Human Services	436,302	—	—	1,008	—	2,107	—
Executive Office of Technology Services and Security.....	—	—	—	—	—	—	—
Massachusetts Department of Transportation	379	—	—	—	—	—	—
Executive Office of Education	1,008,084	—	—	—	—	—	—
Center for Health Information and Analysis	5	—	—	—	—	—	—
Public Safety and Security	116,827	—	—	17	—	—	—
Housing and Economic Development.....	519,408	—	—	—	—	—	—
Labor and Workforce Development.....	124,467	—	—	—	—	—	93
Debt service:							
Principal retirement.....	—	—	—	—	—	—	—
Interest and fiscal charges.....	—	—	—	—	—	—	—
Total expenditures	<u>2,311,090</u>	<u>4,310,129</u>	<u>34,347</u>	<u>24,881</u>	<u>—</u>	<u>2,107</u>	<u>307,370</u>
Other financing uses:							
Fringe benefit cost assessment	68,364	11,155	—	2,585	—	161	31
Lottery operating reimbursements.....	—	103,136	—	—	—	—	—
Lottery distributions	—	973,933	9,175	—	—	—	—
Operating transfers out	40,923	—	—	2,132	68,010	61	9,078
Total other financing uses	<u>109,287</u>	<u>1,088,224</u>	<u>9,175</u>	<u>4,717</u>	<u>68,010</u>	<u>222</u>	<u>9,109</u>
Total expenditures and other financing uses.....	<u>2,420,377</u>	<u>5,398,353</u>	<u>43,522</u>	<u>29,598</u>	<u>68,010</u>	<u>2,329</u>	<u>316,479</u>
Excess/(deficiency) of revenues and other financing sources over/(under) expenditures and other financing uses.....							
	8,506	—	—	(1,735)	—	746	48,947
Fund balances/(deficits) at beginning of year.....	(47,269)	—	—	5,374	—	4,574	34,498
Fund balances/(deficits) at end of year	<u>\$ (38,763)</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 3,639</u>	<u>\$ —</u>	<u>\$ 5,320</u>	<u>\$ 83,445</u>

See accountants' review report

Non-Budgeted Special Revenue Funds
Combining Statement of Revenues, Expenditures And Changes In Fund Balances - Statutory Basis
Fiscal Year Ended June 30, 2018
(Amounts in thousands)

	Universal Health Care Funds			Non-Budgeted Other Funds			
	Community Hospital Reinvestment Trust	Non-acute Care Hospital Reimbursement Trust	Substance Use Disorder Federal Reinvestment Trust	Dam and Seawall Repair or Removal	Department of Telecommunication and Energy Trust	Fingerprint-Based Background Check Trust	Liability Management and Reduction
REVENUES AND OTHER FINANCING SOURCES							
Revenues:							
Taxes	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Assessments	—	9,153	—	—	4,840	—	—
Federal grants and reimbursements.....	—	8,883	6,083	—	—	—	—
Departmental.....	—	—	—	835	—	4,022	2,234
Miscellaneous.....	—	—	—	86	6	—	20
Total revenues.....	—	18,036	6,083	921	4,846	4,022	2,254
Other financing sources:							
Operating transfers in.....	10,000	—	—	—	—	—	—
Medical assistance transfer	—	—	—	—	—	—	—
Total other financing sources.....	10,000	—	—	—	—	—	—
Total revenues and other financing sources.....	10,000	18,036	6,083	921	4,846	4,022	2,254
EXPENDITURES AND OTHER FINANCING USES							
Expenditures:							
Judiciary.....	—	—	—	—	—	—	—
Inspector General.....	—	—	—	—	—	—	—
Governor and Lieutenant Governor	—	—	—	—	—	—	—
Secretary of the Commonwealth.....	—	—	—	—	—	—	—
Treasurer and Receiver-General.....	—	—	—	—	—	—	—
Attorney General.....	—	—	—	—	—	—	69
District Attorney.....	—	—	—	—	—	—	—
Sheriffs' Departments.....	—	—	—	—	—	—	—
Disabled Persons Protection Commission	—	—	—	—	—	—	—
Board of Library Commissioners.....	—	—	—	—	—	—	—
Massachusetts Gaming Commission	—	—	—	—	—	—	—
Comptroller	—	—	—	—	—	—	2,128
Administration and Finance.....	—	—	—	—	—	—	—
Energy and Environmental Affairs.....	—	—	—	1,000	3,285	—	—
Health and Human Services.....	9,662	17,609	3,156	—	—	—	—
Executive Office of Technology Services and Security.....	—	—	—	—	—	—	—
Massachusetts Department of Transportation.....	—	—	—	—	—	—	—
Executive Office of Education.....	—	—	—	—	—	—	—
Center for Health Information and Analysis.....	—	—	—	—	—	—	—
Public Safety and Security	—	—	—	—	—	3,295	—
Housing and Economic Development.....	—	—	—	—	—	—	—
Labor and Workforce Development.....	—	—	—	—	—	—	—
Debt service:							
Principal retirement	—	—	—	—	—	—	—
Interest and fiscal charges.....	—	—	—	—	—	—	—
Total expenditures	9,662	17,609	3,156	1,000	3,285	3,295	2,197
Other financing uses:							
Fringe benefit cost assessment.....	—	—	—	—	1,026	285	30
Lottery operating reimbursements	—	—	—	—	—	—	—
Lottery distributions.....	—	—	—	—	—	—	—
Operating transfers out.....	—	—	—	—	85	177	—
Total other financing uses.....	—	—	—	—	1,111	462	30
Total expenditures and other financing uses.....	9,662	17,609	3,156	1,000	4,396	3,757	2,227
Excess/(deficiency) of revenues and other financing sources over/(under) expenditures and other financing uses.....	338	427	2,927	(79)	450	265	27
Fund balances/(deficits) at beginning of year.....	497	—	—	5,675	3,094	4,920	1,841
Fund balances/(deficits) at end of year.....	\$ 835	\$ 427	\$ 2,927	\$ 5,596	\$ 3,544	\$ 5,185	\$ 1,868

See accountants' review report

Non-Budgeted Other Funds

Medical Marijuana Trust	Essex Regional Emergency Communication Center	Dockside Testing Trust	Civil Monetary Penalty (CMP)	MBTA State and Local Contribution	Community Preservation Trust	Health Insurance Portability and Accountability Act	State Racing	Division of Professional Licensure Trust	Victims of Drunk Driving Trust
\$ —	\$ —	\$ —	\$ —	\$ 1,007,945	\$ 23,794	\$ —	\$ 887	\$ —	\$ —
—	889	—	—	166,408	—	—	814	—	—
—	—	—	—	—	—	15,422	—	—	—
12,818	—	175	2,334	—	—	—	566	10,932	343
—	—	—	—	—	127	—	581	—	5
<u>12,818</u>	<u>889</u>	<u>175</u>	<u>2,334</u>	<u>1,174,353</u>	<u>23,921</u>	<u>15,422</u>	<u>2,848</u>	<u>10,932</u>	<u>348</u>
—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
<u>12,818</u>	<u>889</u>	<u>175</u>	<u>2,334</u>	<u>1,174,353</u>	<u>23,921</u>	<u>15,422</u>	<u>2,848</u>	<u>10,932</u>	<u>348</u>
—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
—	—	—	—	1,174,353	—	—	—	—	486
—	—	—	—	—	—	—	—	—	194
—	954	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	2,514	—	—
—	—	—	—	—	24,135	—	—	—	—
—	—	—	—	—	—	—	—	—	—
5,249	—	89	990	—	—	13,474	70	—	—
—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
7	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	8,807	—
—	—	—	—	—	—	—	—	—	—
<u>5,256</u>	<u>954</u>	<u>89</u>	<u>990</u>	<u>1,174,353</u>	<u>24,135</u>	<u>13,474</u>	<u>2,584</u>	<u>8,807</u>	<u>680</u>
701	164	25	5	—	31	288	217	1,760	50
—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
270	50	10	2	—	12	70	179	529	20
971	214	35	7	—	43	358	396	2,289	70
<u>6,227</u>	<u>1,168</u>	<u>124</u>	<u>997</u>	<u>1,174,353</u>	<u>24,178</u>	<u>13,832</u>	<u>2,980</u>	<u>11,096</u>	<u>750</u>
6,591	(279)	51	1,337	—	(257)	1,590	(132)	(164)	(402)
11,231	337	385	5,985	—	21,538	7,621	1,688	5,018	1,031
<u>\$ 17,822</u>	<u>\$ 58</u>	<u>\$ 436</u>	<u>\$ 7,322</u>	<u>\$ —</u>	<u>\$ 21,281</u>	<u>\$ 9,211</u>	<u>\$ 1,556</u>	<u>\$ 4,854</u>	<u>\$ 629</u>

continued

Non-Budgeted Special Revenue Funds
 Combining Statement of Revenues, Expenditures And Changes In Fund Balances - Statutory Basis
 Fiscal Year Ended June 30, 2018
 (Amounts in thousands)

	Non-Budgeted Other Funds						
	State Athletic Commission	Organ and Tissue Donor Registration	Department of Fire Services Hazardous Material Emergency Mitigation Response	Registers Technological	County Registers Technological	State Election Campaign	Enhanced 911
REVENUES AND OTHER FINANCING SOURCES							
Revenues:							
Taxes.....	\$ 208	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Assessments	—	—	—	—	—	—	—
Federal grants and reimbursements.....	—	—	—	—	—	—	—
Departmental	18	256	195	4,552	2,455	—	102,366
Miscellaneous.....	—	—	—	—	—	273	344
Total revenues.....	<u>226</u>	<u>256</u>	<u>195</u>	<u>4,552</u>	<u>2,455</u>	<u>273</u>	<u>102,710</u>
Other financing sources:							
Operating transfers in.....	—	—	—	—	—	—	—
Medical assistance transfer	—	—	—	—	—	—	—
Total other financing sources	—	—	—	—	—	—	—
Total revenues and other financing sources	<u>226</u>	<u>256</u>	<u>195</u>	<u>4,552</u>	<u>2,455</u>	<u>273</u>	<u>102,710</u>
EXPENDITURES AND OTHER FINANCING USES							
Expenditures:							
Judiciary	—	—	—	—	—	—	—
Inspector General	—	—	—	—	—	—	—
Governor and Lieutenant Governor	—	—	—	—	—	—	—
Secretary of the Commonwealth	—	—	—	4,742	—	—	—
Treasurer and Receiver-General.....	—	—	—	—	—	—	—
Attorney General	—	—	—	—	—	—	—
District Attorney.....	—	—	—	—	—	—	—
Sheriffs' Departments.....	—	—	—	—	—	—	7,266
Disabled Persons Protection Commission	—	—	—	—	—	—	—
Board of Library Commissioners.....	—	—	—	—	—	—	—
Massachusetts Gaming Commission.....	—	—	—	—	—	—	—
Comptroller	—	—	—	—	—	—	—
Administration and Finance	—	—	—	—	—	—	509
Energy and Environmental Affairs.....	—	—	—	—	—	—	—
Health and Human Services	—	200	—	—	—	—	55
Executive Office of Technology Services and Security.....	—	—	—	—	2,423	—	185
Massachusetts Department of Transportation	—	—	—	—	—	—	—
Executive Office of Education	—	—	—	—	—	—	—
Center for Health Information and Analysis	—	—	—	—	—	—	—
Public Safety and Security	—	—	21	—	—	—	100,359
Housing and Economic Development.....	156	—	—	—	—	—	—
Labor and Workforce Development	—	—	—	—	—	—	—
Debt service:							
Principal retirement	—	—	—	—	—	—	—
Interest and fiscal charges	—	—	—	—	—	—	—
Total expenditures	<u>156</u>	<u>200</u>	<u>21</u>	<u>4,742</u>	<u>2,423</u>	<u>—</u>	<u>108,374</u>
Other financing uses:							
Fringe benefit cost assessment	46	—	—	530	—	—	3,497
Lottery operating reimbursements	—	—	—	—	—	—	—
Lottery distributions	—	—	—	—	—	—	—
Operating transfers out.....	42	—	3	233	—	—	2,840
Total other financing uses.....	<u>88</u>	<u>—</u>	<u>3</u>	<u>763</u>	<u>—</u>	<u>—</u>	<u>6,337</u>
Total expenditures and other financing uses	<u>244</u>	<u>200</u>	<u>24</u>	<u>5,505</u>	<u>2,423</u>	<u>—</u>	<u>114,711</u>
Excess/(deficiency) of revenues and other financing sources over/(under) expenditures and other financing uses.....	(18)	56	171	(953)	32	273	(12,001)
Fund balances/(deficits) at beginning of year	312	713	406	1,767	3,102	937	122,671
Fund balances/(deficits) at end of year.....	<u>\$ 294</u>	<u>\$ 769</u>	<u>\$ 577</u>	<u>\$ 814</u>	<u>\$ 3,134</u>	<u>\$ 1,210</u>	<u>\$ 110,670</u>

See accountants' review report

Non-Budgeted Special Revenue Funds
Combining Statement of Revenues, Expenditures And Changes In Fund Balances - Statutory Basis
Fiscal Year Ended June 30, 2018
(Amounts in thousands)

	Non-Budgeted Other Funds						
	Nursing and Allied Health Workforce Development Trust	Health Information Technology Trust	Build America Bonds Subsidy Trust	Housing Preservation and Stabilization	Office of Refugees and Immigrants Trust	Veterans Independence Plus Initiative Trust	Environmental Police Trust
REVENUES AND OTHER FINANCING SOURCES							
Revenues:							
Taxes	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Assessments	—	—	—	—	—	—	—
Federal grants and reimbursements.....	—	79,903	46,692	—	—	—	—
Departmental.....	248	—	—	—	—	600	693
Miscellaneous.....	—	—	—	—	144	—	—
Total revenues.....	<u>248</u>	<u>79,903</u>	<u>46,692</u>	<u>—</u>	<u>144</u>	<u>600</u>	<u>693</u>
Other financing sources:							
Operating transfers in.....	193	19,153	—	7,475	—	—	—
Medical assistance transfer	—	—	—	—	—	—	—
Total other financing sources.....	<u>193</u>	<u>19,153</u>	<u>—</u>	<u>7,475</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total revenues and other financing sources.....	<u>441</u>	<u>99,056</u>	<u>46,692</u>	<u>7,475</u>	<u>144</u>	<u>600</u>	<u>693</u>
EXPENDITURES AND OTHER FINANCING USES							
Expenditures:							
Judiciary.....	—	—	—	—	—	—	—
Inspector General.....	—	—	—	—	—	—	—
Governor and Lieutenant Governor	—	—	—	—	—	—	—
Secretary of the Commonwealth.....	—	—	—	—	—	—	—
Treasurer and Receiver-General.....	—	—	—	—	—	—	—
Attorney General.....	—	—	—	—	—	—	—
District Attorney.....	—	—	—	—	—	—	—
Sheriffs' Departments.....	—	—	—	—	—	—	—
Disabled Persons Protection Commission	—	—	—	—	—	—	—
Board of Library Commissioners.....	—	—	—	—	—	—	—
Massachusetts Gaming Commission	—	—	—	—	—	—	—
Comptroller	—	—	—	—	—	—	—
Administration and Finance.....	—	—	—	—	—	—	—
Energy and Environmental Affairs.....	—	—	—	—	—	—	515
Health and Human Services.....	—	50,159	—	—	49	928	—
Executive Office of Technology Services and Security.....	—	4,384	—	—	—	—	—
Massachusetts Department of Transportation.....	—	—	—	—	—	—	—
Executive Office of Education.....	321	—	—	—	—	—	—
Center for Health Information and Analysis.....	—	—	—	—	—	—	—
Public Safety and Security	—	—	—	—	—	—	—
Housing and Economic Development.....	—	—	—	692	—	—	—
Labor and Workforce Development.....	—	—	—	—	—	—	—
Debt service:							
Principal retirement	—	—	—	—	—	—	—
Interest and fiscal charges.....	—	—	38,212	—	—	—	—
Total expenditures	<u>321</u>	<u>54,543</u>	<u>38,212</u>	<u>692</u>	<u>49</u>	<u>928</u>	<u>515</u>
Other financing uses:							
Fringe benefit cost assessment.....	10	1,683	—	—	6	—	96
Lottery operating reimbursements	—	—	—	—	—	—	—
Lottery distributions.....	—	—	—	—	—	—	—
Operating transfers out.....	5	112	—	—	2	—	51
Total other financing uses.....	<u>15</u>	<u>1,795</u>	<u>—</u>	<u>—</u>	<u>8</u>	<u>—</u>	<u>147</u>
Total expenditures and other financing uses.....	<u>336</u>	<u>56,338</u>	<u>38,212</u>	<u>692</u>	<u>57</u>	<u>928</u>	<u>662</u>
Excess/(deficiency) of revenues and other financing sources over/(under) expenditures and other financing uses.....	105	42,718	8,480	6,783	87	(328)	31
Fund balances/(deficits) at beginning of year.....	257	(45,124)	298	6,129	22	331	—
Fund balances/(deficits) at end of year	<u>\$ 362</u>	<u>\$ (2,406)</u>	<u>\$ 8,778</u>	<u>\$ 12,912</u>	<u>\$ 109</u>	<u>3</u>	<u>31</u>

See accountants' review report

Non-Budgeted Special Revenue Funds
 Combining Statement Of Revenues, Expenditures And Changes In Fund Balances - Statutory Basis
 Fiscal Year Ended June 30, 2018
 (Amounts in thousands)

	Non-Budgeted Other Funds						
	Workforce Training Trust Fund	Oil Overcharge	Substance Abuse Services	Victims of Human Trafficking Trust	Department of Public Utilities Storm Trust	Homeless Animal Prevention and Care	Horseneck Beach Reservation Trust
REVENUES AND OTHER FINANCING SOURCES							
Revenues:							
Taxes	\$ 24,676	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Assessments	—	—	—	—	233	—	—
Federal grants and reimbursements.....	—	—	—	—	—	—	—
Departmental.....	—	—	—	—	—	—	35
Miscellaneous.....	—	1	—	—	—	362	—
Total revenues.....	<u>24,676</u>	<u>1</u>	<u>—</u>	<u>—</u>	<u>233</u>	<u>362</u>	<u>35</u>
Other financing sources:							
Operating transfers in.....	—	—	—	—	—	—	—
Medical assistance transfer	—	—	—	—	—	—	—
Total other financing sources.....	—	—	—	—	—	—	—
Total revenues and other financing sources.....	<u>24,676</u>	<u>1</u>	<u>—</u>	<u>—</u>	<u>233</u>	<u>362</u>	<u>35</u>
EXPENDITURES AND OTHER FINANCING USES							
Expenditures:							
Judiciary.....	—	—	—	—	—	—	—
Inspector General.....	—	—	—	—	—	—	—
Governor and Lieutenant Governor	—	—	—	—	—	—	—
Secretary of the Commonwealth.....	—	—	—	—	—	—	—
Treasurer and Receiver-General.....	—	—	—	—	—	—	—
Attorney General.....	—	—	—	—	—	—	—
District Attorney.....	—	—	—	—	—	—	—
Sheriffs' Departments.....	—	—	—	—	—	—	—
Disabled Persons Protection Commission	—	—	—	—	—	—	—
Board of Library Commissioners.....	—	—	—	—	—	—	—
Massachusetts Gaming Commission	—	—	—	—	—	—	—
Comptroller	—	—	—	—	—	—	—
Administration and Finance.....	—	—	—	—	—	—	—
Energy and Environmental Affairs.....	—	96	—	—	270	245	64
Health and Human Services.....	—	—	303	—	—	—	—
Executive Office of Technology Services and Security.....	—	—	—	—	—	—	—
Massachusetts Department of Transportation.....	—	—	—	—	—	—	—
Executive Office of Education.....	—	—	—	—	—	—	—
Center for Health Information and Analysis.....	—	—	—	—	—	—	—
Public Safety and Security	—	—	—	—	—	—	—
Housing and Economic Development.....	—	—	—	—	—	—	—
Labor and Workforce Development.....	19,412	—	—	—	—	—	—
Debt service:							
Principal retirement	—	—	—	—	—	—	—
Interest and fiscal charges.....	—	—	—	—	—	—	—
Total expenditures	<u>19,412</u>	<u>96</u>	<u>303</u>	<u>—</u>	<u>270</u>	<u>245</u>	<u>64</u>
Other financing uses:							
Fringe benefit cost assessment.....	87	—	—	—	84	28	—
Lottery operating reimbursements	—	—	—	—	—	—	—
Lottery distributions.....	—	—	—	—	—	—	—
Operating transfers out.....	8	—	—	—	7	—	—
Total other financing uses.....	<u>95</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>91</u>	<u>28</u>	<u>—</u>
Total expenditures and other financing uses.....	<u>19,507</u>	<u>96</u>	<u>303</u>	<u>—</u>	<u>361</u>	<u>273</u>	<u>64</u>
Excess/(deficiency) of revenues and other financing sources over/(under) expenditures and other financing uses.....	5,169	(95)	(303)	—	(128)	89	(29)
Fund balances/(deficits) at beginning of year.....	35,975	419	362	16	296	316	85
Fund balances/(deficits) at end of year	<u>\$ 41,144</u>	<u>\$ 324</u>	<u>\$ 59</u>	<u>\$ 16</u>	<u>\$ 168</u>	<u>\$ 405</u>	<u>\$ 56</u>

See accountants' review report

Non-Budgeted Other Funds

Environmental Trust	Social Innovation Financing Trust	Children's Trust	Child Support Enforcement	Military Family Relief	Department of Industrial Accidents Special	Logan Airport Health Study Trust	State Public Health HIV and Hepatitis	Head Injury Treatment Services Trust	Board of Registration in Medicine Trust
\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
—	—	—	—	—	24,724	—	—	—	—
—	—	—	25,522	—	—	—	—	—	—
681	—	—	5,224	—	5,712	—	—	5,322	8,912
37	—	3	155	275	43	—	129	8	—
718	—	3	30,901	275	30,479	—	129	5,330	8,912
—	10,925	—	—	—	—	—	—	\$ —	\$ —
—	—	—	—	—	—	—	—	\$ —	\$ —
—	10,925	—	—	—	—	—	—	—	—
718	10,925	3	30,901	275	30,479	—	129	5,330	8,912
—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
—	—	—	9	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
—	—	—	199	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
—	3,239	—	32,411	—	—	—	—	—	—
1,000	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	81	93	6,982	7,026
—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
—	—	3	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
—	—	—	—	501	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	871	—	—	—	—
—	—	—	—	—	—	—	—	—	—
1,000	3,239	3	32,619	501	871	81	93	6,982	7,026
87	—	—	2,816	—	4,988	—	—	—	1,583
—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
31	—	—	1,076	—	19,553	—	—	—	615
118	—	—	3,892	—	24,541	—	—	—	2,198
1,118	3,239	3	36,511	501	25,412	81	93	6,982	9,224
(400)	7,686	—	(5,610)	(226)	5,067	(81)	36	(1,652)	(312)
2,655	3,297	196	13,865	882	10,176	171	171	7,041	9,639
\$ 2,255	\$ 10,983	\$ 196	\$ 8,255	\$ 656	\$ 15,243	\$ 90	\$ 207	\$ 5,389	\$ 9,327

continued

Non-Budgeted Special Revenue Funds
 Combining Statement Of Revenues, Expenditures And Changes In Fund Balances - Statutory Basis
 Fiscal Year Ended June 30, 2018
 (Amounts in thousands)

	Non-Budgeted Other Funds						
	Water Pollution Abatement Project Administration	Child Care Quality	Convention and Exhibition Center	Firearms Fingerprint Identity Verification Trust	Grant Anticipation Note Trust	Race Horse Development	Community Mitigation
REVENUES AND OTHER FINANCING SOURCES							
Revenues:							
Taxes	\$ —	\$ —	\$ 146,872	\$ —	\$ —	\$ —	\$ —
Assessments	—	—	—	—	—	—	—
Federal grants and reimbursements.....	7,583	—	—	—	542,712	—	—
Departmental.....	—	190	—	1,913	—	15,242	—
Miscellaneous.....	—	—	1,059	—	2,265	—	—
Total revenues.....	<u>7,583</u>	<u>190</u>	<u>147,931</u>	<u>1,913</u>	<u>544,977</u>	<u>15,242</u>	<u>—</u>
Other financing sources:							
Operating transfers in.....	—	—	—	—	36,406	—	—
Medical assistance transfer	—	—	—	—	—	—	—
Total other financing sources.....	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>36,406</u>	<u>—</u>	<u>—</u>
Total revenues and other financing sources.....	<u>7,583</u>	<u>190</u>	<u>147,931</u>	<u>1,913</u>	<u>581,383</u>	<u>15,242</u>	<u>—</u>
EXPENDITURES AND OTHER FINANCING USES							
Expenditures:							
Judiciary.....	—	—	—	—	—	—	—
Inspector General.....	—	—	—	—	—	—	—
Governor and Lieutenant Governor	—	—	—	—	—	—	—
Secretary of the Commonwealth.....	—	—	—	—	—	—	—
Treasurer and Receiver-General.....	—	—	—	—	1,483	—	—
Attorney General.....	—	—	—	—	—	—	—
District Attorney.....	—	—	—	—	—	—	—
Sheriffs' Departments.....	—	—	—	—	—	—	400
Disabled Persons Protection Commission	—	—	—	—	—	—	—
Board of Library Commissioners.....	—	—	—	—	—	—	—
Massachusetts Gaming Commission	—	—	—	—	—	16,557	3,080
Comptroller	—	—	—	—	—	—	—
Administration and Finance.....	—	—	24,387	—	—	—	—
Energy and Environmental Affairs.....	5,076	—	—	—	—	—	—
Health and Human Services.....	—	—	—	—	—	—	—
Executive Office of Technology Services and Security.....	—	—	—	—	—	—	—
Massachusetts Department of Transportation.....	—	—	—	—	—	—	—
Executive Office of Education.....	—	36	—	—	—	—	65
Center for Health Information and Analysis.....	—	—	—	—	—	—	—
Public Safety and Security	—	—	—	889	—	—	—
Housing and Economic Development.....	—	—	—	—	—	—	—
Labor and Workforce Development.....	—	—	—	—	—	—	—
Debt service:							
Principal retirement	—	—	23,310	—	60,835	—	—
Interest and fiscal charges.....	—	—	31,163	—	36,654	—	—
Total expenditures	<u>5,076</u>	<u>36</u>	<u>78,860</u>	<u>889</u>	<u>98,972</u>	<u>16,557</u>	<u>3,545</u>
Other financing uses:							
Fringe benefit cost assessment.....	1,591	—	—	—	—	—	10
Lottery operating reimbursements	—	—	—	—	—	—	—
Lottery distributions.....	—	—	—	—	—	—	—
Operating transfers out.....	2,016	7	—	—	479,727	—	181
Total other financing uses.....	<u>3,607</u>	<u>7</u>	<u>—</u>	<u>—</u>	<u>479,727</u>	<u>—</u>	<u>191</u>
Total expenditures and other financing uses.....	<u>8,683</u>	<u>43</u>	<u>78,860</u>	<u>889</u>	<u>578,699</u>	<u>16,557</u>	<u>3,736</u>
Excess/(deficiency) of revenues and other financing sources over/(under) expenditures and other financing uses.....	(1,100)	147	69,071	1,024	2,684	(1,315)	(3,736)
Fund balances/(deficits) at beginning of year.....	2,298	1,003	127,199	3,199	89,852	13,832	16,410
Fund balances/(deficits) at end of year	<u>\$ 1,198</u>	<u>\$ 1,150</u>	<u>\$ 196,270</u>	<u>\$ 4,223</u>	<u>\$ 92,536</u>	<u>\$ 12,517</u>	<u>\$ 12,674</u>

See accountants' review report

Non-Budgeted Other Funds						MassDOT			
Capital Needs Investment	Tourism Trust	Long-Term Care Facility Quality Improvement	Sexual Assault Nurse Examiner Trust	Transportation Infrastructure Enhancement Trust	Nickerson State Park Trust	Massachusetts Transportation Trust	Central Artery/Tunnel Project Repair and Maintenance Trust	Motor Vehicle Safety Inspection Trust	Transportation Infrastructure and Development
\$ —	\$ 10,000	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
—	—	—	—	12,961	—	—	—	—	—
—	—	—	—	—	—	18,802	—	—	—
—	—	22	2	—	52	504,845	—	57,408	—
—	—	—	—	—	—	32,084	2,148	258	155
—	10,000	22	2	12,961	52	555,731	2,148	57,666	155
—	—	—	—	—	—	655,121	—	—	—
—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	655,121	—	—	—
—	10,000	22	2	12,961	52	1,210,852	2,148	57,666	155
—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
—	5	—	—	—	—	68	—	—	—
—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	214	—	—	—
—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	1,913	—	—	—
—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	5,757	—	—	—
—	—	—	—	9,720	—	3,612	—	2,281	—
—	—	—	—	—	—	68	—	—	—
—	—	—	—	—	—	1,762	—	—	—
—	—	—	—	—	—	1,015,253	7,729	10,278	8,106
—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	190	—	—	—
—	9,602	—	—	—	—	533	—	—	—
—	—	—	—	—	—	22	—	—	—
—	—	—	—	—	—	—	—	—	—
—	9,607	—	—	9,720	—	1,029,392	7,729	12,559	8,106
—	—	—	—	—	—	—	—	—	—
—	2	—	—	—	—	75,595	—	1,525	—
—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
—	—	—	—	3,240	—	15,357	—	43,687	—
—	2	—	—	3,240	—	90,952	—	45,212	—
—	9,609	—	—	12,960	—	1,120,344	7,729	57,771	8,106
—	—	—	—	—	—	—	—	—	—
—	391	22	2	1	52	90,508	(5,581)	(105)	(7,951)
722	432	5	—	—	—	752,566	384,321	5,717	12,612
\$ 722	\$ 823	\$ 27	\$ 2	\$ 1	\$ 52	\$ 843,074	\$ 378,740	\$ 5,612	\$ 4,661

continued

Non-Budgeted Special Revenue Funds
Combining Statement Of Revenues, Expenditures And Changes In Fund Balances - Statutory Basis
 Fiscal Year Ended June 30, 2018
 (Amounts in thousands)

	Totals (Memorandum only)	
	2018	2017
REVENUES AND OTHER FINANCING SOURCES		
Revenues:		
Taxes	\$ 2,269,843	\$ 2,214,074
Assessments	806,095	754,577
Federal grants and reimbursements	3,488,353	3,255,134
Departmental	6,731,084	6,368,897
Miscellaneous	48,909	46,203
Total revenues	<u>13,344,284</u>	<u>12,638,885</u>
Other financing sources:		
Operating transfers in	939,573	930,715
Medical assistance transfer	579,944	403,367
Total other financing sources	<u>1,519,517</u>	<u>1,334,082</u>
Total revenues and other financing sources	<u>14,863,801</u>	<u>13,972,967</u>
EXPENDITURES AND OTHER FINANCING USES		
Expenditures:		
Judiciary	1,764	1,668
Inspector General	387	218
Governor and Lieutenant Governor	73	132
Secretary of the Commonwealth	5,710	4,864
Treasurer and Receiver-General	6,369,962	6,097,339
Attorney General	48,675	24,515
District Attorney	3,108	3,042
Sheriffs' Departments	14,362	10,985
Disabled Persons Protection Commission	571	159
Board of Library Commissioners	2,791	2,854
Massachusetts Gaming Commission	44,238	36,749
Comptroller	2,128	2,022
Administration and Finance	423,701	392,502
Energy and Environmental Affairs	123,529	117,823
Health and Human Services	2,517,235	1,948,856
Executive Office of Technology Services and Security	8,754	—
Massachusetts Department of Transportation	1,041,745	1,196,021
Executive Office of Education	1,009,933	991,602
Center for Health Information and Analysis	5	208
Public Safety and Security	223,318	245,863
Housing and Economic Development	539,198	503,427
Labor and Workforce Development	146,796	168,718
Debt service:		
Principal retirement	87,857	76,797
Interest and fiscal charges	107,750	117,079
Total expenditures	<u>12,723,590</u>	<u>11,943,443</u>
Other financing uses:		
Fringe benefit cost assessment	185,564	189,437
Lottery operating reimbursements	103,136	100,392
Lottery distributions	983,108	1,025,411
Operating transfers out	690,996	889,844
Total other financing uses	<u>1,962,804</u>	<u>2,205,084</u>
Total expenditures and other financing uses	<u>14,686,394</u>	<u>14,148,527</u>
Excess/(deficiency) of revenues and other financing sources over/(under) expenditures and other financing uses	177,407	(175,560)
Fund balances/(deficits) at beginning of year	1,891,339	2,066,899
Fund balances/(deficits) at end of year	<u>\$ 2,068,746</u>	<u>\$ 1,891,339</u>

See accountants' review report

Capital Projects Funds

The Capital Projects Funds are used to account for the financial resources used to acquire or construct major capital assets of the Commonwealth and to finance local governmental capital projects.

General Capital Projects Fund - to account for proceeds of bonds sold to fund the construction or acquisition of capital assets for general Commonwealth purposes, excluding highway construction and projects targeted for specific localities or purposes. Effective September 1, 2009, this fund includes reimbursements to the Massachusetts Department of Transportation (MassDOT) for capital projects activity.

Convention and Exhibition Center Project Fund - to account for proceeds of bonds to finance the construction of a convention center in the City of Boston.

Capital Improvements and Investment Trust Fund - to account for the Commonwealth's reimbursement to cities and towns for expenses incurred for projects for construction and reconstruction of town and county ways.

Highway Capital Projects Fund - to account for the proceeds of bonds sold to finance construction of state highways and to fund the Commonwealth's share of Federally sponsored highway construction.

Federal Highway Construction Program - to account for federal highway construction grants which, with the Commonwealth's required share of matching funds, finance interstate highways and similar projects within Massachusetts to promote a nationwide highway system.

OTHER FUNDS:

This fund accounts for the proceeds of bonds used to finance land and transportation equipment for economic development.

Government Land Bank Capital Projects Fund - to account for proceeds of bonds used to finance the acquisition, holding, protection, maintenance, repair or use of lands and for personnel and the administrative costs of the Massachusetts Development Finance Agency.

LOCAL AID FUND:

Local Aid Capital Projects Fund - to account for the proceeds of bonds sold to finance the construction of correctional facilities, water pollution abatement projects and other local projects in specific localities of the Commonwealth. The fund accounts for the proceeds of bonds to finance improvements to lockup facilities, state police lockup facilities and to finance improvements to County Correctional Facilities, and other monies received by the Department of Conservation and Recreation pertaining to state parks, reservations and recreation areas outside the metropolitan parks district.

MASSACHUSETTS DEPARTMENT OF TRANSPORTATION (MassDOT) FUND:

Central Artery Statewide Road and Bridge Infrastructure Fund - to account for bond proceeds, certain revenues from Registry of Motor Vehicle fees, (net of debt service expenditures) and payments from authorities. The purpose of expenditures from the fund is to meet the estimated additional costs associated with the Central Artery/Ted Williams Tunnel Project and for costs of the statewide road and bridge program.

The following funds have been enacted in legislation but were inactive in FY18 and are not presented in this report:

Capital Investment Trust Fund - to account for a transfer from the General Fund to finance appropriated items of a capital nature pursuant to sections 2E and 107 of Chapter 88 of the Acts of 1997.

Transportation Deferred Maintenance Trust Fund - to account for funds transferred from various sources by the Secretary of Administration and Finance to design, construct, maintain and repair the Commonwealth's roads and bridges.

Capital Projects Funds
 Combining Statement Of Revenues, Expenditures And Changes In Fund Balances - Statutory Basis

Fiscal Year Ended June 30, 2018

(Amounts in thousands)

	General Capital Projects	Convention and Exhibition Center Capital	Capital Improvements and Investment Trust	Highway Capital Projects
REVENUES AND OTHER FINANCING SOURCES				
Revenues:				
Federal grants and reimbursements	\$ 78,586	\$ —	\$ —	\$ —
Departmental	—	—	—	—
Miscellaneous	—	—	—	2,784
Total revenues	<u>78,586</u>	<u>—</u>	<u>—</u>	<u>2,784</u>
Other financing sources:				
Issuance of general obligation bonds.....	1,235,600	—	—	497,843
Bond premiums (discounts) on general obligation bonds	149,514	—	—	83,778
Issuance of special obligation bonds	—	—	—	650,000
Bond premiums (discounts) on special obligation bonds	—	—	—	109,304
Issuance of current refunding bonds.....	34,346	—	1,182	188,470
Bond premiums (discounts) on current refunding bonds	—	—	—	25,064
Issuance of advance refunding bonds.....	154,243	—	—	371,931
Bond premiums (discounts) on advance refunding bonds.....	34,764	—	—	67,053
Operating transfers in	—	—	—	11,254
State share of federal highway construction.....	—	—	—	—
Total other financing sources	<u>1,608,467</u>	<u>—</u>	<u>1,182</u>	<u>2,004,697</u>
Total revenues and other financing sources	<u>1,687,053</u>	<u>—</u>	<u>1,182</u>	<u>2,007,481</u>
EXPENDITURES AND OTHER FINANCING USES				
Expenditures:				
Judiciary.....	12,302	—	—	—
Inspector General.....	—	—	—	—
Secretary of the Commonwealth	1,501	—	—	—
Treasurer and Receiver-General	45,643	—	—	—
Auditor of the Commonwealth	1,299	—	—	—
Attorney General	818	—	—	155
Ethics Commission	6	—	—	—
District Attorney	—	—	—	—
Sheriffs' Departments	3,027	—	—	—
Board of Library Commissioners	19,936	—	—	—
Comptroller.....	—	—	—	—
Administration and Finance.....	438,983	—	—	—
Energy and Environmental Affairs	208,167	—	—	1,693
Health and Human Services	62,810	—	—	—
Executive Office of Technology Services and Security	55,627	—	—	—
Massachusetts Department of Transportation.....	102,083	—	—	1,103,959
Executive Office of Education.....	53,081	—	—	—
Center for Health Information and Analysis.....	4	—	—	—
Public Safety and Security.....	39,218	—	—	—
Housing and Economic Development	427,561	—	—	631
Labor and Workforce Development	1,147	—	—	—
Total expenditures.....	<u>1,473,213</u>	<u>—</u>	<u>—</u>	<u>1,106,438</u>
Other financing uses:				
Payments to advance refunding bonds escrow	189,007	—	—	438,984
Principal on current refundings	34,346	—	1,182	213,534
Fringe benefit cost assessment	16,598	—	—	—
Operating transfers out	—	—	—	—
State share of federal highway construction.....	—	—	—	108,859
Total other financing uses	<u>239,951</u>	<u>—</u>	<u>1,182</u>	<u>761,377</u>
Total expenditures and other financing uses	<u>1,713,164</u>	<u>—</u>	<u>1,182</u>	<u>1,867,815</u>
Excess/(deficiency) of revenues and other financing sources over/(under) expenditures and other financing uses	(26,111)	—	—	139,666
Fund balances/(deficits) at beginning of year	250,037	8,393	—	(144,116)
Fund balances/(deficits) at end of year	<u>\$ 223,926</u>	<u>\$ 8,393</u>	<u>\$ —</u>	<u>\$ (4,450)</u>

See accountant's review report

Federal Highway Construction Program	Government Land Bank Capital Projects	Local Aid Capital Projects	MassDOT		Totals (Memorandum only)	
			Central Artery Statewide Road and Bridge Infrastructure			
				2018	2017	
\$ 20,415	\$ —	\$ —	\$ —	\$ 99,001	\$ 58,354	
7,070	—	—	108	7,178	2,757	
—	—	—	575	3,359	1,324	
27,485	—	—	683	109,538	62,435	
—	1,000	—	—	1,734,443	2,408,675	
—	—	—	—	233,292	210,424	
—	—	—	—	650,000	461,975	
—	—	—	—	109,304	55,148	
—	—	961	377,466	602,425	188,490	
—	—	—	55,129	80,193	—	
—	—	6	—	526,180	1,664,790	
—	—	1	—	101,818	415,912	
479,727	—	—	—	490,981	489,130	
108,859	—	—	—	108,859	111,172	
588,586	1,000	968	432,595	4,637,495	6,005,716	
616,071	1,000	968	433,278	4,747,033	6,068,151	
—	—	—	—	12,302	18,847	
—	—	—	—	—	40	
—	—	—	—	1,501	1,530	
—	—	—	—	45,643	14,148	
—	—	—	—	1,299	2,936	
—	—	—	—	973	943	
—	—	—	—	6	87	
—	—	—	—	—	5	
—	—	—	—	3,027	3,448	
—	—	—	—	19,936	12,435	
—	—	—	—	—	137	
—	500	—	—	439,483	619,824	
548	—	—	—	210,408	201,141	
—	—	—	—	62,810	61,986	
—	—	—	—	55,627	—	
604,962	—	—	24	1,811,028	1,793,170	
—	—	—	—	53,081	54,352	
—	—	—	—	4	—	
—	—	—	—	39,218	40,760	
—	—	—	—	428,192	359,467	
—	—	—	—	1,147	1,754	
605,510	500	—	24	3,185,685	3,187,010	
—	—	7	—	627,998	2,080,702	
—	—	961	432,595	682,618	188,490	
10,559	—	—	—	27,157	15,528	
—	—	11	—	11	—	
—	—	—	—	108,859	111,172	
10,559	—	979	432,595	1,446,643	2,395,892	
616,069	500	979	432,619	4,632,328	5,582,902	
2	500	(11)	659	114,705	485,249	
514	(500)	11	36,216	150,555	(334,694)	
\$ 516	\$ —	\$ —	\$ 36,875	\$ 265,260	\$ 150,555	



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Supplemental Information



Calculation of Transfers – Stabilization and Tax Reduction Funds
Schedule A – FY2018 Tax Revenues by Revenue Class
Schedule B – Calculation of Cap on Stabilization Fund
Schedule C – Detail of Elimination of Budgetary Inter Fund Activity
Non-Tax Revenue Initiatives
Schedule of Pension and Post Employment Health Benefits – Last Six Fiscal Years

See accountants' review report

Calculation of Transfers: Stabilization Fund*

Fiscal Year Ended June 30, 2018

(Amounts are in thousands)

This statement is prepared on the statutory basis of accounting pursuant to General Laws Chapter 29, Section 5c. It presents information contained in the official books and accounting records of the Commonwealth. Financial statements supporting this calculation are presented in the Financial Section of this report.

	General Fund	Commonwealth Transportation Fund	Gaming Local Aid	Marijuana Regulation Fund	Total
Budgeted Fund Undesignated Balances (Consolidated Net Surplus)	\$ 95,754	\$ 129,826	\$ 3,668	\$ 39	\$ 229,286
<u>Disposition of Consolidated Net Surplus per Section 65 of Ch. 273 of the Acts of 2018:</u>					
To the Massachusetts Community Preservation Trust Fund	(10,000)	—	—	—	(10,000)
To the Massachusetts Life Sciences Investment Fund	(10,000)	—	—	—	(10,000)
Remaining Consolidated Net Surplus to be Deposited in Stabilization Fund.....	\$ 75,754	\$ 129,826	\$ 3,668	\$ 39	\$ 209,287

Stabilization Balance Reconciliation:

Balance as of July 1, 2017	\$ 1,300,678
Capital Gains Tax Transfers to Stabilization Fund during FY2018 per Chapter 29, Section 5G	513,908
Minus Capital Gains Tax Transfers from Stabilization Fund to State Pension and State Retiree Benefits Trust Funds	(51,390)
Transfer to Stabilization Fund from Abandoned Property Revenue Growth from Prior Fiscal Year	13,450
Transfer of certain tax revenues to the Stabilization Fund	272
Stabilization Fund investment income	15,094
Remaining Consolidated Net Surplus Deposited in Stabilization Fund, per Calculation Above	209,287
Stabilization Fund Balance as of June 30, 2018	\$ 2,001,299
Memo: Change in Stabilization Fund Balance, FY17-18	\$ 700,621

* Excludes funds with no FY18 balances or activity

Note: Details may not add to totals due to rounding

Calculation Of Transfers: Tax Reduction Fund

Fiscal Year Ended June 30, 2018

(Amounts in thousands)

This statement is prepared pursuant to Chapters 29 Sections 2H and 2I of the Massachusetts General Laws, as amended. It is prepared on the statutory basis of accounting and presents information contained in the official books and accounting records of the Commonwealth. Supporting information is presented in individual schedules, as indicated, and in the Financial Section of this report.

The computation is as follows:

Part 1: Comparison of Stabilization Fund, after current fiscal year transfers, to 15% of budgeted revenues and other financial resources:

Undesignated fund balance in the Stabilization Fund.....	\$ 2,001,299
Allowable Stabilization Fund balance (per Schedule B)	<u>6,572,883</u>
Stabilization Fund excess, if any, transferable to Tax Reduction Fund.....	<u><u>\$ —</u></u>

Part 2: Status of Stabilization Fund after transfers:

Stabilization Fund balance	\$ 2,001,299
Transfer to Tax Reduction Fund.....	<u>—</u>
Stabilization Fund balance after transfer to Tax Reduction Fund.....	<u><u>\$ 2,001,299</u></u>

Part 3: Status of Tax Reduction Fund after transfers:

Tax Reduction Fund balance	\$ —
Transfers from Stabilization Fund.....	<u>—</u>
Tax Reduction Fund balance after transfers	<u><u>\$ —</u></u>

Schedule A
FY2018 Tax Revenues By Revenue Class

Fiscal Year Ended June 30, 2018
(Amounts in thousands)

Alcoholic beverages.....	\$ 84,978
Cigarette.....	471,246
Cigarette excise - Commonwealth Care	122,927
Corporations	2,408,947
Deeds	284,497
Estate and inheritance	472,956
Health care coverage penalty - Commonwealth Care	16,093
Income	16,239,568
Insurance.....	363,569
Motor and special fuels.....	769,144
Room occupancy	261,938
Sales and use.....	6,490,418
Club alcoholic beverages.....	865
Motor vehicle excise.....	116
Convention center surcharges.....	17,178
Community preservation	23,794
Satellite	9,721
Gaming revenue - Mass Gaming Commission.....	68,010
State racing - Mass Gaming Commission	887
Beano	1,218
Raffles and bazaars	1,031
Boxing.....	45
DOI excess and surplus lines	42,682
UI surcharge.....	24,676
FY 2018 state tax revenue	<u>\$ 28,176,504</u>

This schedule is prepared on the statutory basis of accounting. It presents tax revenues as reported in the governmental funds of the Commonwealth. It differs from the schedule of tax collections prepared by the Comptroller, Commissioner of Revenue and State Auditor for calculations in accordance with Chapter 62F of the General Laws, as amended. The differences are due to 2/5ths of Beano revenue and the health care coverage penalty in the Commonwealth Care Fund, both of which are recognized on the statutory basis of accounting but are not accounted for on the schedule of tax collections prepared by the Department of Revenue.

Schedule B
Calculation of Cap on Stabilization Fund

Fiscal Year Ended June 30, 2018
(Amounts in thousands)

Total budgeted revenues and other financial resources pertaining to the budgeted funds.....	\$ 45,036,235
Elimination of budgetary interfund activity exclusive of fund closure (per Schedule C)	<u>(1,217,014)</u>
Budgeted revenues and other financial resources pertaining to the budgeted funds	<u>43,819,221</u>
Allowable Stabilization Fund balance, 15% of budgeted revenue	<u><u>\$ 6,572,883</u></u>

Calculation of Stabilization Fund Cap as defined by Massachusetts General Laws Chapter 29 Section 2H.

Schedule C
Detail of Elimination of Budgetary Inter Fund Activity

Fiscal Year Ended June 30, 2018
(Amounts in thousands)

Adjustments to revenues :	
Transfer to the Intragovernmental Service Fund.....	\$ (437,226)
Adjustments to other financing sources and uses:	
Fringe benefit cost assessments	(4,952)
Transfer from the Intragovernmental Service Fund to the General Fund	(7,416)
RMV license plates.....	(4,026)
Transfer from General Fund to the Commonwealth Transportation Fund.....	(40,000)
Transfer from budgeted funds to the Stabilization Fund.....	(723,195)
Other	(199)
Elimination of budgetary interfund activity	\$ (1,217,014)



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Non-Tax Revenue Initiatives

Fiscal Year Ended June 30, 2018
(Amounts in thousands)

Chapter 653, Acts of 1989, amended Chapter 29 of the Massachusetts General Laws by adding Sections 29D and 29E, which authorize certain non-tax revenue initiatives and require reporting thereon, as follows.

I. Debt Collection:

Pursuant to Massachusetts General Laws Chapter 29, Section D, Chapter 7A Section 8, allows private debt collection agencies to engage in debt collection for the Commonwealth. The fees paid are contingency-based from the proceeds collected. Collections and fees paid during FY18 were (amounts in thousands):

Department Collectors	Collections	Fees
Collecto, Inc.....	\$ 3,735	\$ 606
Allen Daniels	1,104	172
Premier Credit of North America, LLC.....	567	91
Delta.....	542	84
Financial Asset Management Systems, Inc	256	17
Linebarger, Goggan, Blair & Sampson, LLP.....	159	35
Total	\$ 6,363	\$ 1,005

Under the same program, the following amounts were collected and fees paid for the Institutions of Higher Education (these figures are as subset of the above) (amounts in thousands):

Department Collectors	Collections	Fees
Collecto, Inc	\$ 3,356	\$ 542
Allen Daniels.....	869	133
Delta	436	67
Premier Credit of North America, LLC	371	59
Linebarger, Goggan, Blair & Sampson, LLP.....	30	5
Total.....	\$ 5,062	\$ 806

II. Cost Avoidance:

The Comptroller's appropriation authorizes contract arrangements engaged on a contingent fee basis for the purpose of identification and pursuit of cost saving/avoidance opportunities. During FY18, the following amounts were generated (amounts in thousands):

State expenditures avoided	\$ 3,183
Contractor payments.....	(605)
Net cost savings/avoidance.....	\$ 2,578

III. Intercept:

Intercept is authorized by M.G.L. Chapter 7A Section 3 and 815 CMR 9:06. Intercept is an automated process that offsets Commonwealth payments to delinquent receivables that have been approved by the Office of the State Comptroller. FY18 activity (amounts in thousands):

Total Commonwealth intercepts	\$ 19,932
Amounts included above that were intercepted on behalf of the Institutions of Higher Education	\$ 9,723

Schedule of Pension and Other Post Employment Health Benefits

(Amounts in thousands except for percentages)

Pension funding progress for the last six fiscal years

	Actuarial Value of Plan Assets	Actuarial Accrued Liability	Unfunded Actuarial Liability (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a % of Covered Payroll
State Employee's Retirement System						
Actuarial Valuation as of January 1, 2018.....	\$ 26,248,250	\$ 40,456,611	\$ 14,208,361	64.9%	\$ 6,155,194	230.8%
Actuarial Valuation as of January 1, 2017.....	24,773,042	38,316,719	13,543,677	64.7%	5,927,012	228.5%
Actuarial Valuation as of January 1, 2016.....	23,465,963	36,966,278	13,500,315	63.5%	5,792,288	233.1%
Actuarial Valuation as of January 1, 2015.....	22,720,160	33,679,150	10,958,990	67.5%	5,591,911	196.0%
Actuarial Valuation as of January 1, 2014.....	21,581,133	30,679,600	9,098,467	70.3%	5,344,510	170.2%
Actuarial Valuation as of January 1, 2013.....	20,317,389	29,385,442	9,068,053	69.1%	5,183,195	175.0%
Teachers' Retirement System						
Actuarial Valuation as of January 1, 2018.....	\$ 27,057,700	\$ 51,653,285	\$ 24,595,585	52.4%	\$ 6,829,012	360.2%
Actuarial Valuation as of January 1, 2017.....	25,638,136	49,193,503	23,555,367	52.1%	6,583,871	357.8%
Actuarial Valuation as of January 1, 2016.....	24,593,787	46,562,807	21,969,020	52.8%	6,388,732	343.9%
Actuarial Valuation as of January 1, 2015.....	23,946,759	44,115,769	20,169,010	54.3%	6,204,274	325.1%
Actuarial Valuation as of January 1, 2014.....	22,940,196	40,741,695	17,801,499	56.3%	5,962,650	298.6%
Actuarial Valuation as of January 1, 2013.....	21,787,470	39,135,218	17,347,748	55.7%	5,783,294	300.0%

For a complete analysis of the Commonwealth's actuarial valuation report, please go to <http://www.mass.gov/perac>. Alternatively, copies of the Commonwealth's actuarial valuation may be obtained by contacting the Massachusetts Public Employee Retirement Administration Commission, 5 Middlesex Avenue, Suite 304, Somerville, MA 02145. Telephone number: (617) 666-4446.

State Retiree Benefits Trust

The results of the January 1, 2018 Other Post-employment Benefits (OPEB) Actuarial Valuation will be presented in the Comprehensive Annual Financial Report (CAFR) due to changes in accounting standards.



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Statistical Section



Ten-Year Schedules – Statutory Basis

Higher Education Non-appropriated Funds – Statutory Basis

See accountants' review report

Ten-Year Schedule of Revenues and Other Financing Sources
All Governmental Fund Types - Statutory Basis

Fiscal Year Ended June 30, 2018
(Amounts in millions)

	2018	% Total	2017	% Total	2016	% Total	2015	% Total
Taxes	\$ 28,177	44.0	\$ 26,042	42.1	\$ 25,800	42.7	\$ 25,239	44.4
Federal reimbursements	12,536	19.5	11,801	19.1	11,528	19.1	10,287	18.1
Federal grants	2,428	3.8	2,370	3.8	2,363	3.9	2,269	4.0
Lotteries	5,441	8.5	5,257	8.5	5,407	8.9	5,194	9.1
Assessments	1,246	1.9	1,209	2.0	1,058	1.7	1,033	1.8
Motor vehicle licenses and registrations	565	0.9	546	0.9	546	0.9	546	1.0
Fees, investment earnings, etc	5,525	8.6	4,963	8.0	5,016	8.3	4,409	7.8
Proceeds of general and special obligation bonds and related premiums	2,727	4.3	3,136	5.1	3,003	5.0	3,404	6.0
Proceeds of refunding bonds	1,311	2.0	2,269	3.7	1,674	2.8	707	1.2
Other interfund transfers	4,202	6.5	4,233	6.8	4,067	6.7	3,748	6.6
Total revenues and other financing sources	<u>\$ 64,158</u>	<u>100.0</u>	<u>\$ 61,826</u>	<u>100.0</u>	<u>\$ 60,462</u>	<u>100.0</u>	<u>\$ 56,836</u>	<u>100.0</u>

2014	% Total	2013	% Total	2012	% Total	2011	% Total	2010	% Total	2009	% Total
\$ 23,665	43.6	\$ 22,396	43.8	\$ 21,384	42.7	\$ 20,776	38.2	\$ 18,792	40.3	\$ 18,513	38.8
9,265	17.1	9,078	17.8	8,931	17.8	10,151	18.6	9,374	20.1	9,139	19.1
2,328	4.3	2,396	4.7	2,655	5.3	3,097	5.7	3,134	6.7	2,646	5.5
5,050	9.3	5,043	9.9	4,941	9.9	4,632	8.5	4,629	9.9	4,649	9.7
1,079	2.0	1,018	2.0	986	2.0	960	1.8	971	2.1	894	1.9
495	0.9	487	1.0	474	0.9	497	0.9	463	1.0	383	0.8
4,252	7.9	3,858	7.5	3,580	7.2	3,461	6.4	2,828	6.0	2,798	5.9
2,262	4.2	1,512	3.0	1,921	3.8	2,306	4.2	1,672	3.6	2,141	4.5
722	1.3	231	0.5	480	1.0	947	1.7	538	1.2	390	0.8
5,093	9.4	4,982	9.8	4,731	9.4	7,618	14.0	4,233	9.1	6,197	13.0
<u>\$ 54,211</u>	<u>100.0</u>	<u>\$ 51,001</u>	<u>100.0</u>	<u>\$ 50,083</u>	<u>100.0</u>	<u>\$ 54,445</u>	<u>100.0</u>	<u>\$ 46,634</u>	<u>100.0</u>	<u>\$ 47,750</u>	<u>100.0</u>

Ten-Year Schedule of Tax Revenues by Source
All Governmental Fund Types - Statutory Basis

Fiscal Year Ended June 30, 2018
(Amounts in millions)

	2018	%	2017	%	2016	%	2015	%
		Total		Total		Total		Total
Income.....	\$ 16,240	57.7	\$ 14,684	56.3	\$ 14,394	55.9	\$ 14,449	57.2
Sales and use.....	6,490	23.0	6,241	24.0	6,090	23.6	5,804	23.0
Corporations.....	2,409	8.5	2,196	8.4	2,333	9.0	2,227	8.8
Motor fuels.....	769	2.7	769	3.0	767	3.0	756	3.0
Cigarette and tobacco.....	594	2.1	619	2.4	641	2.5	647	2.6
Insurance.....	364	1.3	358	1.4	369	1.4	333	1.3
Estate and inheritance.....	473	1.7	337	1.3	399	1.5	341	1.4
Alcoholic beverages.....	85	0.3	84	0.3	83	0.3	80	0.3
Other.....	753	2.7	754	2.9	724	2.8	602	2.4
Total taxes.....	\$ 28,177	100.0	\$ 26,042	100.0	\$ 25,800	100.0	\$ 25,239	100.0

2014	% Total	2013	% Total	2012	% Total	2011	% Total	2010	% Total	2009	% Total
\$ 13,202	55.8	\$ 12,831	57.3	\$ 11,911	55.6	\$ 11,576	55.6	\$ 10,110	53.8	\$ 10,584	57.2
5,519	23.3	5,184	23.1	5,079	23.8	4,921	23.7	4,626	24.6	3,880	21.0
2,195	9.3	1,888	8.4	2,002	9.4	1,931	9.3	1,835	9.8	1,790	9.7
732	3.1	651	2.9	662	3.1	661	3.2	655	3.5	654	3.5
661	2.8	558	2.6	574	2.6	599	2.9	597	3.1	603	3.2
316	1.3	373	1.7	318	1.5	296	1.4	285	1.5	309	1.7
402	1.7	313	1.4	293	1.4	310	1.5	221	1.2	260	1.4
79	0.3	77	0.3	77	0.4	73	0.4	72	0.4	73	0.4
559	2.4	521	2.3	468	2.2	409	2.0	391	2.1	360	1.9
<u>\$ 23,665</u>	<u>100.0</u>	<u>\$ 22,396</u>	<u>100.0</u>	<u>\$ 21,384</u>	<u>100.0</u>	<u>\$ 20,776</u>	<u>100.0</u>	<u>\$ 18,792</u>	<u>100.0</u>	<u>\$ 18,513</u>	<u>100.0</u>

Ten-Year Schedule of Expenditures And Other Financing Uses By Secretariat
All Governmental Fund Types - Statutory Basis

Fiscal Year Ended June 30, 2018

(Amounts in millions)

	2018	% Total	2017	% Total	2016	% Total	2015	% Total
Legislature	\$ 68	0.1	\$ 67	0.1	\$ 61	0.1	\$ 60	0.1
Judiciary	933	1.5	929	1.5	896	1.5	852	1.5
Inspector General	4	—	4	—	4	—	5	—
Governor and Lieutenant Governor	7	—	7	—	7	—	7	—
Secretary of the Commonwealth	46	0.1	52	0.1	45	0.1	52	0.1
Treasurer and Receiver-General	6,631	10.5	6,314	10.3	6,485	10.7	6,224	11.1
Auditor of the Commonwealth	20	—	21	—	20	—	21	—
Attorney General	98	0.2	71	0.1	63	0.1	56	0.1
Ethics Commission	2	—	2	—	3	—	2	—
District Attorney	122	0.2	123	0.2	116	0.2	111	0.2
Office of Campaign and Political Finance	2	—	2	—	2	—	2	—
Sheriffs' Departments	637	1.0	624	1.0	616	1.0	595	1.1
Disabled Persons Protection Commission	4	—	3	—	3	—	3	—
Board of Library Commissioners	48	0.1	40	0.1	48	0.1	49	0.1
Massachusetts Gaming Commission	45	0.1	38	0.1	35	0.1	21	—
Comptroller	16	—	16	—	17	—	20	—
Administration and Finance	8,975	14.2	9,016	14.6	8,823	14.8	8,832	15.9
Energy and Environmental Affairs	565	0.9	543	0.9	627	1.0	628	1.1
Health and Human Services	24,438	38.2	23,037	37.6	22,579	37.3	20,398	36.0
Executive Office of Technology Services and Security ..	137	0.2	—	—	—	—	—	—
Transportation and Public Works	—	—	—	—	—	—	—	—
Massachusetts Department of Transportation	2,980	4.7	3,129	5.1	3,287	5.4	3,248	5.8
Office of the Child Advocate	1	—	1	—	1	—	—	—
Cannabis Control Commission	2	—	—	—	—	—	—	—
Executive Office of Education	3,353	5.3	3,280	5.3	3,320	5.5	3,218	5.7
Center for Health Information and Analysis	21	—	23	—	27	—	28	—
Public Safety and Security	1,430	2.3	1,406	2.3	1,396	2.3	1,350	2.4
Housing and Economic Development	1,500	2.4	1,359	2.2	1,320	2.2	1,281	2.3
Labor and Workforce Development	195	0.3	214	0.3	214	0.4	223	0.4
Post employment benefits	2,891	4.6	2,660	4.3	2,503	4.1	2,287	3.9
Debt service	2,519	4.0	2,479	4.0	2,470	4.1	2,507	4.5
Payments to advance refunding escrow agent/Principal on current refunding	1,311	2.1	2,269	3.7	1,674	2.8	707	1.3
Other fund deficit support	—	—	145	0.2	71	0.1	89	0.2
Other interfund transfers	4,412	7.0	3,677	6.0	3,685	6.1	3,409	6.2
Total expenditures and other financing uses	\$ 63,414	100.0	\$ 61,550	100.0	\$ 60,417	100.0	\$ 56,285	100.0

Schedule reflects changes in accordance with Article 87 reorganizations of the Massachusetts Constitution at various times over the last ten years at point of implementation.

2014	% Total	2013	% Total	2012	% Total	2011	% Total	2010	% Total	2009	% Total
\$ 56	0.1	\$ 57	0.1	\$ 58	0.1	\$ 58	0.1	\$ 59	0.1	\$ 60	0.1
831	1.5	802	1.5	780	1.6	788	1.5	788	1.7	814	1.6
6	—	6	—	3	—	3	—	4	—	3	—
5	—	6	—	7	—	5	—	5	—	8	—
53	0.1	50	0.1	43	0.1	46	0.1	54	0.1	53	0.1
5,893	10.9	5,867	11.3	5,847	11.7	5,610	10.6	5,483	11.5	6,043	12.2
19	—	19	—	18	—	17	—	17	—	20	—
53	0.1	50	0.1	53	0.1	51	0.1	53	0.1	57	0.1
2	—	2	—	2	—	2	—	2	—	2	—
108	0.2	108	0.2	101	0.2	97	0.2	96	0.2	104	0.2
1	—	1	—	1	—	3	—	1	—	1	—
571	1.0	543	1.0	532	1.1	511	1.0	378	0.8	295	0.6
2	—	2	—	2	—	2	—	2	—	3	—
45	0.1	41	0.1	34	0.1	34	0.1	34	0.1	48	0.1
23	—	14	—	1	—	—	—	—	—	—	—
18	—	14	—	13	—	14	—	15	—	14	—
8,862	16.3	8,665	16.8	7,456	14.9	7,206	13.7	7,040	14.9	6,892	14.2
561	1.0	490	0.9	456	0.9	482	0.9	529	1.1	526	1.1
18,649	34.1	17,447	34.1	17,632	35.1	17,737	33.5	16,044	33.8	16,468	33.3
—	—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	509	1.1	1,689	3.4
2,914	5.4	2,439	4.7	2,323	4.6	2,278	4.3	1,542	3.2	—	—
—	—	—	—	—	—	3,225	6.1	3,184	6.7	3,390	6.9
—	—	—	—	—	—	—	—	—	—	—	—
3,130	5.8	2,952	5.7	3,030	6.0	—	—	—	—	—	—
25	—	9	—	—	—	1,172	2.2	1,308	2.7	1,456	2.9
1,313	2.4	1,324	2.6	1,236	2.5	—	—	—	—	—	—
1,251	2.3	1,214	2.3	1,203	2.4	1,283	2.4	1,245	2.6	981	2.0
237	0.4	300	0.6	390	0.8	428	0.8	403	0.8	331	0.7
2,109	3.7	1,990	3.8	1,892	3.8	1,839	3.5	1,749	3.7	1,314	2.7
2,410	4.4	2,351	4.5	2,272	4.5	2,128	4.0	2,117	4.5	2,145	4.3
722	1.3	230	0.4	388	0.8	540	1.0	538	1.1	—	—
168	0.3	—	—	—	—	65	0.1	—	—	220	0.4
4,673	8.6	4,752	9.2	4,352	8.7	7,272	13.8	4,373	9.2	6,456	13.1
<u>\$ 54,710</u>	<u>100.0</u>	<u>\$ 51,745</u>	<u>100.0</u>	<u>\$ 50,125</u>	<u>100.0</u>	<u>\$ 52,896</u>	<u>100.0</u>	<u>\$ 47,572</u>	<u>100.0</u>	<u>\$ 49,393</u>	<u>100.0</u>

**Ten-Year Schedule of Budgeted Funds Expenditures and Other Financing Uses By
Major Program Category**

Fiscal Year Ended June 30, 2018

(Amounts in millions)

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Direct local aid.....	\$ 5,886	\$ 5,703	\$ 5,568	\$ 5,420	\$ 5,292	\$ 5,116	\$ 4,929	\$ 4,785	\$ 4,837	\$ 4,724
Medicaid	15,745	15,252	14,851	13,655	11,901	10,800	10,431	10,237	9,287	8,537
Other Health and Human Services.....	5,930	5,600	5,433	5,301	4,980	4,769	4,711	4,615	4,616	4,970
Elementary and Secondary Education	552	523	539	515	515	489	436	349	358	496
Higher Education	1,173	1,168	1,194	1,162	1,092	991	937	943	846	1,036
Early Education and Care	564	540	548	538	510	483	494	515	513	560
Public Safety and Security	1,102	1,060	1,066	1,041	1,010	960	930	905	1,053	1,224
Energy and Environmental Affairs	230	222	221	225	215	202	187	186	202	216
Post employment benefits.....	2,900	2,660	2,503	2,287	2,109	1,990	1,892	1,839	1,749	1,314
Group health insurance	1,634	1,663	1,630	1,665	1,403	1,278	1,206	1,130	1,064	973
Debt service	2,323	2,285	2,174	2,190	2,133	2,117	1,923	1,664	1,860	1,891
Major programs.....	38,039	36,676	35,727	33,999	31,160	29,195	28,076	27,168	26,385	25,941
Other program expenditures	3,113	3,235	3,241	3,326	3,294	3,007	2,899	2,851	2,999	2,762
Interfund transfers and other financing uses....	2,945	1,908	1,959	1,527	3,200	3,149	2,515	5,520	1,810	3,867
Total expenditures and other financing uses....	\$ 44,097	\$ 41,819	\$ 40,927	\$ 38,852	\$ 37,654	\$ 35,351	\$ 33,490	\$ 35,539	\$ 31,194	\$ 32,570

Ten-Year Schedule of Long-Term Bonds And Notes Outstanding

As of June 30, 2018

(Amounts in millions)

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
General obligation bonds	\$ 23,144	\$ 22,717	\$ 21,668	\$ 20,802	\$ 19,387	\$ 19,140	\$ 18,852	\$ 18,517	\$ 17,683	\$ 17,052
Grant anticipation notes*	748	738	657	700	531	449	610	766	991	1,134
Special obligation bonds	3,469	2,991	2,754	2,324	2,292	1,924	1,972	1,592	1,053	1,079
Commonwealth long-term bonds.....	<u>\$ 27,361</u>	<u>\$ 26,446</u>	<u>\$ 25,079</u>	<u>\$ 23,826</u>	<u>\$ 22,210</u>	<u>\$ 21,513</u>	<u>\$ 21,434</u>	<u>\$ 20,875</u>	<u>\$ 19,727</u>	<u>\$ 19,265</u>

*Inclusive of cross-over refunding notes but exclusive of unamortized premiums.



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HIGHER EDUCATION

NON-APPROPRIATED ACTIVITY

The Commonwealth's Public Institutions of Higher Education are allowed, by their enabling statutes, to collect, retain, and expend certain fees, rents, donations and other types of revenue. These financial resources are important elements in the overall financial operations of the respective institutions, and are in addition to amounts made available from appropriations. The Public Institutions of Higher Education include:

University of Massachusetts System - The University system includes the campuses at Amherst, Worcester, Boston, Lowell, Dartmouth and certain institutes and programs operated by the Office of the University President.

State University Systems - The State College and University Systems include the three state colleges, and six state universities, which provide four-year post-secondary education programs. These include:

- Bridgewater State University
- Framingham State University
- Fitchburg State University
- Massachusetts College of Art & Design
- Massachusetts Maritime Academy
- Massachusetts College of Liberal Arts
- Salem State University
- Worcester State University
- Westfield State University

Community College System - The Community College System includes the fifteen community colleges, which provide two-year post secondary education programs.

- Berkshire Community College
- Bunker Hill Community College
- Bristol Community College
- Cape Cod Community College
- Greenfield Community College
- Holyoke Community College
- Massasoit Community College
- Massachusetts Bay Community College
- Middlesex Community College
- Mount Wachusett Community College
- Northern Essex Community College
- North Shore Community College
- Quinsigamond Community College
- Roxbury Community College
- Springfield Technical Community College

Higher Education System
Combining Higher Education Non-Appropriated Activity - Statutory Basis

Fiscal Year Ended June 30, 2018

(Amounts in thousands)

	University of Massachusetts	State Universities and Colleges	Community Colleges	Totals	
				2018	2017
Revenues and other financing sources:					
Federal grants and reimbursements	\$ 297,417	\$ 60,836	\$ 159,260	\$ 517,513	\$ 515,589
Departmental revenue	1,491,102	585,416	403,145	2,479,663	2,296,093
Miscellaneous revenue	1,267,970	394,060	270,418	1,932,448	1,930,299
Total revenues and other financing sources	3,056,489	1,040,312	832,823	4,929,624	4,741,981
Expenditures and other financing uses					
(by MMARS subsidiary):					
AA Regular employee compensation	746,058	194,211	166,067	1,106,336	1,102,621
BB Regular employee related expenses	19,621	6,135	3,390	29,146	29,787
CC Special employees and contracted services	264,634	143,999	181,286	589,919	611,586
DD Pension and insurance	217,011	60,329	45,964	323,304	312,233
EE Administrative expenditures	245,595	79,617	29,779	354,991	326,700
FF Facility operational supplies	128,035	18,042	16,032	162,109	205,856
GG Energy costs and space rental	136,646	42,704	29,121	208,471	206,301
HH Consultant services	162,964	13,163	16,130	192,257	248,759
JJ Operational services	45,252	39,116	14,759	99,127	101,448
KK Equipment purchase	25,670	5,939	6,322	37,931	45,677
LL Equipment leases, maintenance and repair	28,231	8,942	6,628	43,801	42,058
MM Purchased client services and programs	35,977	3,552	3,666	43,195	43,979
NN Construction and improvements	134,819	40,286	24,463	199,568	198,189
PP Aid to local governments	—	79	3,164	3,243	5,490
RR Benefit programs	420,160	111,135	166,492	697,787	582,908
SS Debt payment	13,618	16,377	3,333	33,328	46,908
TT Loans and special payments	262,920	127,417	39,322	429,659	375,667
UU Information technology (IT) expenses	88,540	30,986	29,082	148,608	149,066
Total expenditures and other financing uses	2,975,751	942,029	785,000	4,702,780	4,635,233
Excess/(deficiency) of revenues and other financing sources over/(under) expenditures and other financing uses	80,738	98,283	47,823	226,844	106,748
Fund balance at beginning of year	988,754	487,968	356,695	1,833,417	1,726,669
Fund balance at end of year	<u>\$ 1,069,492</u>	<u>\$ 586,251</u>	<u>\$ 404,518</u>	<u>\$ 2,060,261</u>	<u>\$ 1,833,417</u>

Note: Details might not add up due to rounding

University of Massachusetts
Combining Higher Education Non-Appropriated Activity - Statutory Basis
Fiscal Year Ended June 30, 2018
(Amounts in thousands)

	Totals	
	2018	2017
Revenues and other financing sources:		
Federal grants and reimbursements	\$ 297,417	\$ 303,622
Departmental revenue	1,491,102	1,431,375
Miscellaneous revenue	1,267,970	1,230,322
Total revenues and other financing sources	3,056,489	2,965,319
Expenditures and other financing uses (by MMARS subsidiary):		
AA Regular employee compensation	746,058	733,701
BB Regular employee related expenses	19,621	20,361
CC Special employees and contracted services	264,634	266,341
DD Pension and insurance	217,011	212,942
EE Administrative expenditures	245,595	207,941
FF Facility operational supplies	128,035	168,253
GG Energy costs and space rental	136,646	136,233
HH Consultant services	162,964	219,420
JJ Operational services	45,252	47,172
KK Equipment purchase	25,670	30,563
LL Equipment leases, maintenance and repair	28,231	27,189
MM Purchased client services and programs	35,977	37,355
NN Construction and improvements	134,819	136,105
RR Benefit programs	420,160	317,676
SS Debt payment	13,618	26,873
TT Loans and special payments	262,920	213,949
UU Information technology (IT) expenses	88,540	87,400
Total expenditures and other financing uses	2,975,751	2,889,474
Excess (deficiency) of revenues and other financing sources over/(under) expenditures and other financing uses	80,738	75,845
Fund balance at beginning of year	988,754	912,909
Fund balance at end of year	<u>\$ 1,069,492</u>	<u>\$ 988,754</u>

Note: Details might not add up due to rounding

State University and College System
Combining Higher Education Non-Appropriated Activity - Statutory Basis

Fiscal Year Ended June 30, 2018

(Amounts in thousands)

	Bridgewater State University	Framingham State University	Fitchburg State University	Massachusetts College of Art
Revenues and other financing sources:				
Federal grants and reimbursements.....	\$ 16,023	\$ 6,712	\$ 8,434	\$ 2,688
Departmental revenue	137,029	54,148	60,606	33,656
Miscellaneous revenue	93,236	62,004	26,181	24,273
Total revenues and other financing sources	246,288	122,864	95,221	60,617
Expenditures and other financing uses (by MMARS subsidiary):				
AA Regular employee compensation	78,040	11,960	18,597	11,293
BB Regular employee related expenses	1,417	453	464	379
CC Special employees and contracted services	44,217	10,966	15,020	6,273
DD Pension and insurance	26,849	3,828	6,339	818
EE Administrative expenditures	5,601	43,710	2,840	2,401
FF Facility operational supplies	1,742	1,314	1,688	1,340
GG Energy costs and space rental	5,219	3,812	4,524	2,266
HH Consultant services	1,932	1,013	1,048	1,926
JJ Operational services.....	12,414	6,698	1,886	2,570
KK Equipment purchase.....	1,183	613	545	455
LL Equipment leases, maintenance and repair	2,296	713	913	346
MM Purchased client services and programs.....	1,854	434	260	—
NN Construction and improvements	5,126	4,453	5,748	8,466
PP Aid to local governments	—	—	—	—
RR Benefit programs.....	29,884	9,723	10,676	10,395
SS Debt payment	1,866	423	—	—
TT Loans and special payments.....	18,064	24,797	18,335	9,081
UU Information technology (IT) expenses.....	5,589	4,283	3,629	1,510
Total expenditures and other financing uses	243,293	129,193	92,512	59,519
Excess (deficiency) of revenues and other financing sources over/(under) expenditures and other financing uses.....	2,995	(6,329)	2,709	1,098
Fund balance at beginning of year	34,581	63,615	48,224	14,864
Fund balance at end of year	<u>\$ 37,576</u>	<u>\$ 57,286</u>	<u>\$ 50,933</u>	<u>\$ 15,962</u>

Note: Details might not add up due to rounding

Massachusetts Maritime Academy	Massachusetts College of Liberal Arts	Salem State University	Worcester State University	Westfield State University	Totals	
					2018	2017
\$ 1,343	\$ 3,144	\$ 13,093	\$ 454	\$ 8,945	\$ 60,836	\$ 56,969
42,612	22,088	81,106	64,535	89,636	585,416	471,319
13,787	14,071	94,093	23,566	42,849	394,060	406,368
57,742	39,303	188,292	88,555	141,430	1,040,312	934,656
8,853	8,664	30,141	4,268	22,395	194,211	193,115
1,153	511	369	734	655	6,135	5,895
8,774	7,494	17,794	9,025	24,436	143,999	140,459
1,346	1,055	10,389	1,111	8,594	60,329	57,257
1,239	2,034	16,215	3,334	2,243	79,617	82,988
1,480	413	3,285	2,228	4,552	18,042	18,731
1,669	1,911	5,995	11,947	5,361	42,704	41,970
1,123	1,132	1,381	1,860	1,748	13,163	12,420
8,891	3,574	1,372	1,177	534	39,116	38,354
558	231	391	517	1,446	5,939	6,098
1,678	97	453	1,470	976	8,942	8,607
—	—	507	—	497	3,552	4,108
2,223	831	3,390	4,429	5,620	40,286	40,545
—	79	—	—	—	79	93
1,508	6,404	18,599	12,310	11,636	111,135	101,102
—	732	543	696	12,117	16,377	16,210
8,796	2,926	14,401	772	30,245	127,417	121,936
3,030	1,055	5,530	1,935	4,425	30,986	31,413
52,321	39,143	130,755	57,813	137,480	942,029	921,301
5,421	160	57,537	30,742	3,950	98,283	13,355
14,117	13,912	23,748	205,343	69,564	487,968	474,613
\$ 19,538	\$ 14,072	\$ 81,285	\$ 236,085	\$ 73,514	\$ 586,251	\$ 487,968

Community College System
Combining Higher Education Non-Appropriated Activity - Statutory Basis

Fiscal Year Ended June 30, 2018

(Amounts in thousands)

	Berkshire Community College	Bunker Hill Community College	Bristol Community College	Cape Cod Community College	Greenfield Community College	Holyoke Community College	Massasoit Community College
Revenues and other financing sources:							
Federal grants and reimbursements.....	\$ 3,992	\$ 23,704	\$ 17,333	\$ 5,240	\$ 3,262	\$ 11,114	\$ 16,510
Departmental revenue	7,435	56,369	36,731	11,448	10,997	13,316	35,898
Miscellaneous revenue	7,385	34,124	28,682	16,877	5,512	18,417	21,341
Total revenues and other financing sources	18,812	114,197	82,746	33,565	19,771	42,847	73,749
Expenditures and other financing uses							
(by MMARS subsidiary):							
AA Regular employee compensation	2,223	39,951	12,858	5,558	3,928	7,207	12,488
BB Regular employee related expenses	147	233	306	192	17	344	138
CC Special employees and contracted services.....	5,556	18,271	27,827	11,009	5,611	8,768	19,985
DD Pension and insurance	840	3,395	4,762	2,481	1,349	2,335	4,521
EE Administrative expenditures	1,142	3,243	1,606	1,657	959	1,636	2,056
FF Facility operational supplies	425	1,241	921	429	239	1,286	1,333
GG Energy costs and space rental.....	717	4,146	3,670	1,924	944	2,037	1,178
HH Consultant services.....	400	1,253	1,138	353	373	639	1,892
JJ Operational services.....	620	1,689	959	550	256	1,010	522
KK Equipment purchase.....	161	794	436	87	89	354	230
LL Equipment leases, maintenance and repair	143	603	298	153	136	167	584
MM Purchased client services and programs.....	13	881	529	—	6	14	288
NN Construction and improvements	421	5,348	3,446	494	309	1,538	1,555
PP Aid to local governments	—	—	251	—	69	289	1,995
RR Benefit programs.....	1,882	25,016	17,270	6,610	4,188	13,491	11,803
SS Debt payment	16	245	—	—	—	247	961
TT Loans and special payments.....	3,321	—	3,129	—	147	1	5,955
UU Information technology (IT) expenses	974	5,876	1,617	1,172	592	2,787	2,964
Total expenditures and other financing uses	19,001	112,185	81,023	32,669	19,212	44,150	70,448
Excess (deficiency) of revenues and other financing sources over/(under) expenditures and other financing uses.....	(189)	2,012	1,723	896	559	(1,303)	3,301
Fund balance at beginning of year	3,082	23,436	12,668	22,844	2,127	15,037	34,914
Fund balance at end of year	<u>\$ 2,893</u>	<u>\$ 25,448</u>	<u>\$ 14,391</u>	<u>\$ 23,740</u>	<u>\$ 2,686</u>	<u>\$ 13,734</u>	<u>\$ 38,215</u>

Note: Details might not add up due to rounding

	Massachusetts Bay Community College	Middlesex Community College	Mount Wachusett Community College	Northern Essex Community College	North Shore Community College	Quinsigamond Community College	Roxbury Community College	Springfield Technical Community College	Totals	
									2018	2017
\$	4,732	\$ 17,817	\$ 1,037	\$ 10,343	\$ 13,275	\$ 14,053	\$ 4,765	\$ 12,083	\$ 159,260	\$ 154,998
	20,289	37,216	26,376	40,476	30,578	46,167	73	29,776	403,145	393,399
	16,490	28,445	16,761	23,914	15,030	5,956	16,184	15,300	270,418	293,609
	41,511	83,478	44,174	74,733	58,883	66,176	21,022	57,159	832,823	842,006
	2,599	11,470	20,976	13,770	21,484	9,643	158	1,754	166,067	175,805
	125	542	173	315	157	50	32	619	3,390	3,531
	6,751	17,258	9,089	16,126	7,637	14,226	3,723	9,449	181,286	204,786
	845	11,283	3,202	4,954	2,149	3,005	60	783	45,964	42,034
	2,059	1,540	2,072	1,628	1,220	2,487	3,600	2,874	29,779	35,771
	542	1,563	895	1,325	2,345	1,074	496	1,918	16,032	18,872
	2,180	2,408	353	2,783	1,184	3,397	563	1,637	29,121	28,098
	724	1,426	1,135	346	1,186	1,625	1,169	2,471	16,130	16,919
	—	2,441	967	2,203	230	1,041	920	1,351	14,759	15,922
	—	400	242	501	179	1,226	606	1,017	6,322	9,016
	—	1,638	435	333	160	523	131	1,324	6,628	6,262
	222	—	815	325	160	—	—	413	3,666	2,516
	2,119	—	3,537	1,564	1,309	715	929	1,179	24,463	21,539
	—	—	173	—	387	—	—	—	3,164	5,397
	9,307	368	1,083	23,864	11,860	16,471	6,552	16,727	166,492	164,130
	24	—	311	334	1,195	—	—	—	3,333	3,825
	—	20,380	—	558	—	3,831	2,000	—	39,322	39,782
	2,310	1,153	55	2,333	2,698	4,007	477	67	29,082	30,253
	29,807	73,870	45,513	73,262	55,540	63,321	21,416	43,583	785,000	824,458
	11,704	9,608	(1,339)	1,471	3,343	2,855	(394)	13,576	47,823	17,548
	20,231	13,643	9,540	5,563	12,672	9,692	21,201	150,045	356,695	339,147
\$	31,935	\$ 23,251	\$ 8,201	\$ 7,034	\$ 16,015	\$ 12,547	\$ 20,807	\$ 163,621	\$ 404,518	\$ 356,695



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Exhibit C

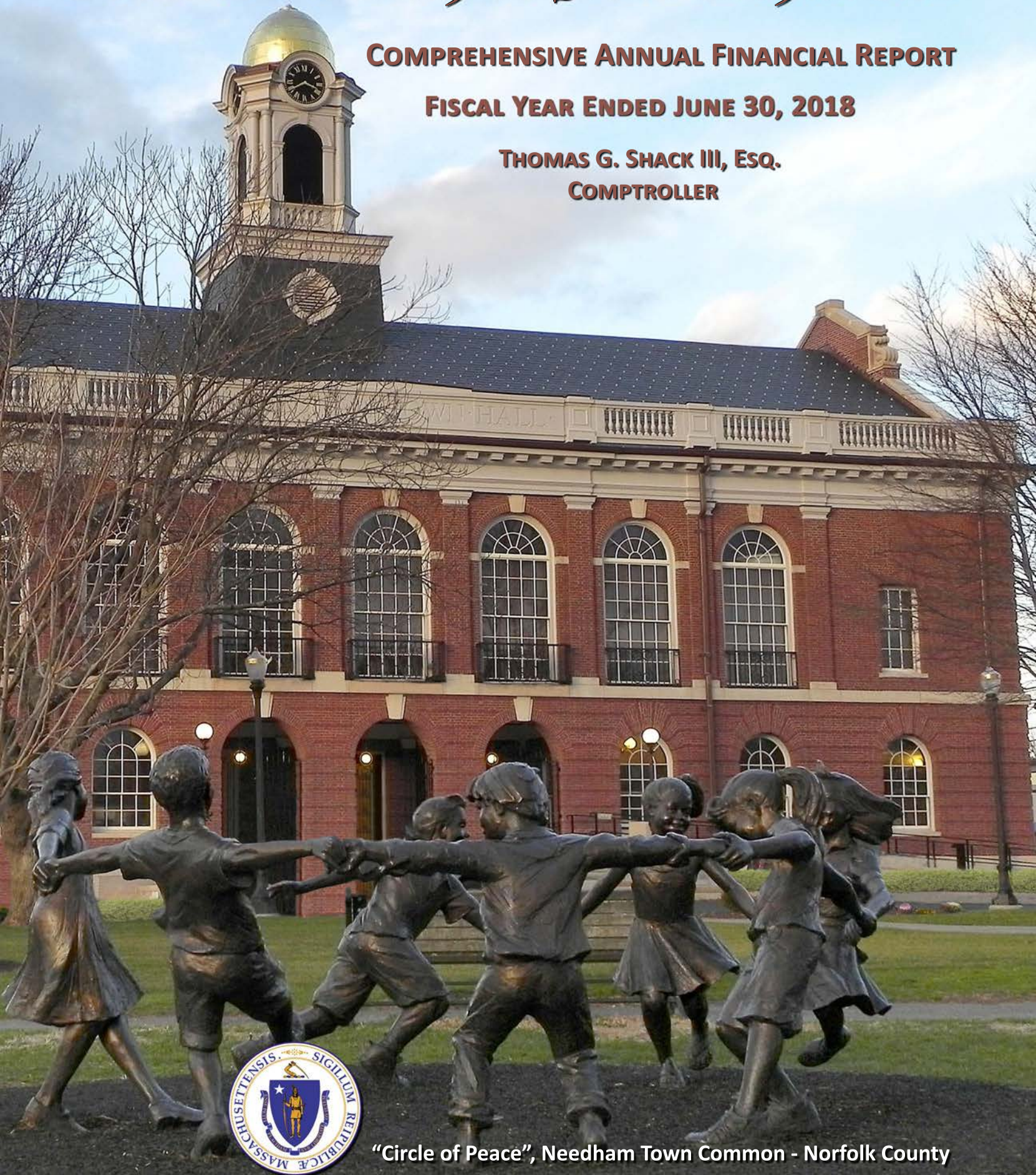
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Commonwealth of Massachusetts

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2018

**THOMAS G. SHACK III, ESQ.
COMPTROLLER**



"Circle of Peace", Needham Town Common - Norfolk County

Commonwealth of Massachusetts



Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2018

Thomas G. Shack III, Esq.
Comptroller of the Commonwealth

Prepared by
*The Financial Reporting and Analysis Team
Office of the Comptroller*

This document is available at the Comptroller's website: www.macomptroller.org

“Circle of Peace” Statue - Needham Town Common - Norfolk County

The “Circle of Peace” is a life-size statue by artist Gary Lee Price. It sits in the center of Needham Town Common and represents children from all walks of life playing together.

According to artist Gary Lee Price, “The circle that the children form represents the continuum of humanity. The clasped hands represent the interaction and cooperation, together with compassion and respect, which engenders humanity. Respect for each other’s uniqueness bridges the gap between any indifference.”

Photo courtesy of flickr user I. Drizik

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2018

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Introductory Section

(Unaudited)

Letter of Transmittal
Constitutional Officers
Commonwealth Organizational Structure
Advisory Board to the Comptroller
Acknowledgements
Certificate of Achievement



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*Thomas G. Shack III, Comptroller
One Ashburton Place
Boston, MA 02108*

January 18, 2019

***To the People of the Commonwealth of Massachusetts,
Governor Charles D. Baker and Honorable Members of the General Court***

We are pleased to provide this Letter of Transmittal for the Commonwealth's fiscal year 2018 (FY18) Comprehensive Annual Financial Report (CAFR) prepared in accordance with Generally Accepted Accounting Principles (GAAP) in the United States of America. The objective of this report is to provide a clear financial picture of our government as a single, unified entity.

This document presents the Commonwealth's financial information on three bases of accounting, each serving a different purpose. The end portion of the report includes "required supplementary information" in the form of budgetary basis statements, which are prepared in accordance with the Commonwealth's budgetary or statutory basis of accounting and summarized by Commonwealth branch and agency. This information is aggregated from FY18 line item appropriations, the legal level of budgetary control -- i.e., the level at which state departments cannot overspend their budgets without the approval of additional appropriations by the Massachusetts Legislature. More detailed information on the statutory basis of accounting and the results of operations on that basis from FY18 are found in the Statutory Basis Financial Report (SBFR) issued separately this past November. The SBFR documents compliance with the legislatively adopted budget at a fund level. Further documentation is found within the Commonwealth's accounting system, the Massachusetts Management Accounting and Reporting System (MMARS). Each state maintains different rules for budgetary reporting and therefore the SBFR should not be used for comparisons across states.

The CAFR's "fund perspective" statements present the governmental operations on a modified accrual basis of accounting. The fund perspective is designed to measure inter-period equity, the extent to which current resources (available within one year) fully fund all current services provided by the government. Long-term liabilities are excluded with the implicit assumption that future tax revenues will fund these liabilities as they come due. This fund perspective provides results similar to the SBFR.

In addition to the fund perspective, this CAFR presents a "government-wide" perspective. This perspective combines all governmental and business-type activities in a statement of net position and a statement of activities, presenting all functions on a full accrual basis of accounting. All capital assets are added to the government-wide statements, as are most long-term liabilities. Funds that are shown as fiduciary under the fund perspective are not portrayed in the government-wide statements, as the assets do not belong to the Commonwealth.

In the government-wide statements, the balance sheet has been organized into a "net position format." This format classifies all assets and liabilities as short and long-term and then subtracts liabilities from assets to arrive at net position.

The Commonwealth's government-wide revenues, expenses and activities are included in the statement of activities. The expenses of the Commonwealth, organized by function, are netted against fees, fines, grant revenues, and assessments generated to fund each function in an attempt to derive the net cost to the taxpayer of each function. This format allows the reader of the financial statements to discern the net cost of a particular function of government funded by taxation and other general revenues.

This CAFR is presented in three sections: **Introductory**, **Financial**, and **Statistical**. The **Introductory Section** contains an overview of current initiatives and summary financial data. The **Financial Section** contains the Management's Discussion and Analysis (MD&A) and the Commonwealth's Basic Financial Statements. GAAP requires that management provide a narrative overview and analysis in the form of an MD&A to accompany the basic financial statements.

This letter of transmittal is designed to complement the MD&A, where the financial analysis is presented. The Commonwealth's MD&A can be found immediately following the independent auditors' report. The **Statistical Section** contains selected financial and demographic information; it also contains background information on the Commonwealth.

PROFILE OF THE COMMONWEALTH

The Commonwealth of Massachusetts was the sixth of the original 13 colonies to ratify the United States Constitution, joining the United States on February 6, 1788. Boston, the capital of the Commonwealth since its founding, dates from 1630. The Commonwealth has an area of 8,257 square miles. Geographically, the Commonwealth includes 351 cities and towns. The largest city is the capital, Boston. Employment is largely in the education, health services, wholesale and retail trade, financial, technology, and public sectors. Due to the Commonwealth's high levels of basic and advanced education and the presence of world-class educational institutions, the Commonwealth's economy is driven in large part by innovation in technology, life sciences, health care, and business services.

The Massachusetts Constitution was ratified in 1780 while the Revolutionary War was still in progress, nine years before the United States Constitution was adopted, and is the oldest written Constitution now in use. It specified three branches of Government: Legislative, Executive, and Judicial. "The Great and General Court," elected every two years, is made up of a Senate of 40 members and a House of Representatives of 160 members. It is the second oldest democratic deliberative body in the world.

The table on page 3 reconciles the fund balances on three bases of accounting: the statutory basis presented in separately issued financial statements this past November; the fund basis; and the entity-wide basis statements, the latter two of which are included in this report.

Governmental Funds - Statutory to GAAP - Fund Perspective and to Governmental Net Position
(Amounts in millions)

Governmental Funds - Statutory Basis, June 30, 2018

Budgeted fund balance	\$ 2,386.7
Non-budgeted special revenue fund balance	2,068.7
Capital projects fund balance	265.3
Governmental Fund Balance - Statutory Basis, June 30, 2018	\$ 4,720.7
Plus: Expendable Trust and Similar Fund Statutory balances that are considered Governmental Funds for GAAP reporting purposes	717.5
Less: Massachusetts Department of Transportation Funds	(1,269.0)
Adjusted Statutory Governmental fund balance	4,169.2
Short term accruals, net of allowances and deferrals for increases /(decreases):	
Taxes, net of refunds and abatements	1,761.6
Tobacco Settlement Agreement receivable	139.6
Medicaid	(443.7)
Other short term accruals:	
Assessments and other receivables	285.5
Amounts due to authorities and municipalities, net	(586.1)
Claims, judgments and other risks	(12.5)
Amounts due to health care providers and insurers	(40.1)
Workers' compensation and group insurance	(166.8)
Other accruals, net	328.1
Net increase to governmental fund balances	1,265.6
Massachusetts School Building Authority fund balance	1,403.4
Total changes to governmental funds	2,669.0
Governmental fund balance (fund perspective)	6,838.2
Plus: Capital assets including infrastructure, net of accumulated depreciation	4,783.7
Deferred revenue, net of other eliminations	370.8
Long-term receivables	28.0
Long term accruals:	
Net pension liability	(36,724.3)
Net deferred (inflows)/outflows of resources related to pension	5,980.0
Net OPEB liability	(15,289.6)
Net deferred (inflows)/outflows of resources related to OPEB	(1,436.1)
Environmental remediation liability	(530.6)
Massachusetts School Building Authority debt and school construction payables	(7,052.1)
Long term debt, unamortized premiums and net deferrals on debt refundings	(29,799.7)
Compensated absences	(605.3)
Capital leases	(22.5)
Accrued interest on bonds	(416.8)
Other long term liabilities	(278.4)
Total governmental net position (entity wide perspective)	\$ (74,154.7)

The deficit of \$74.155 billion in governmental activities net position is largely attributable to several factors. First, the Commonwealth has made a policy decision to finance construction of assets owned by other government entities, particularly Commonwealth roads and bridges, school buildings, and assets of cities and towns and local authorities. As a result of transportation reform implemented during FY10, the Commonwealth shifted virtually all its road and

bridge assets from its books to the newly created Massachusetts Department of Transportation (MassDOT), a component unit of the Commonwealth. Second, starting in FY15, the Commonwealth's net (or unfunded) pension liability, was placed on the Commonwealth's books in accordance with [GASB Statement No. 68, Accounting and Financial Reporting for Pensions](#). Third, the Commonwealth's net (or unfunded) OPEB, or other post-employment benefits (mainly health insurance), liability, was placed on the Commonwealth's books starting in FY18 in accordance with [GASB Statement No. 75, Accounting and Financial Reporting for Post Employment Benefits Other than Pensions](#).

At the end of FY18, MassDOT held \$35.729 billion in road, bridge, and other transportation-related assets (excluding assets of the Massachusetts Bay Transportation Authority) net of related depreciation, the vast majority of which were formerly held by the Commonwealth. The Commonwealth also has financed significant transportation and non-transportation assets currently held by Massachusetts Institutions of Higher Education, Massachusetts cities and towns, and quasi-public authorities. While the exact amount of Commonwealth-funded assets held by these entities is difficult to determine, between FY05 and FY18 the Commonwealth's capital spending on Higher Education capital projects totaled approximately \$1.9 billion, capital spending for transportation-related financial assistance to local governments totaled approximately \$3.5 billion, and other grants and financial assistance for non-Commonwealth entities such as cities and towns and quasi-public authorities funded through the Commonwealth's capital budget totaled \$5.8 billion, including \$1.0 billion to fund the Massachusetts School Building Authority (MSBA) in FY05 and FY06. In addition, the Commonwealth has a net liability of \$5.491 billion for debt and grant obligations for the School Building Assistance Program that finances construction of schools for the Commonwealth's cities and towns. As almost all of this capital spending was financed by Commonwealth debt, the liabilities are retained by the Commonwealth while the assets are held by the Institutions of Higher Education, Massachusetts cities and towns, and entities such as local housing and other quasi-governmental authorities.

Since MassDOT ended FY18 with a positive net position of \$25.179 billion, it is more informative to view the Commonwealth's financial statements in combination with MassDOT than to analyze the two separately, while also keeping in mind that significant assets owned by the Institutions of Higher Education and local governments and authorities were financed by liabilities still on the Commonwealth's books.

As of June 30, 2018, the net pension liability in governmental activities totaled \$37.441 billion, offset by GASB 68 related adjustments (in the form of deferred inflows and outflows) of \$6.109 billion; resulting in a reduction in net position of \$31.332 billion. Governmental activities' net OPEB liability totaled \$15.290 billion.

The net deficit in governmental activities (which excludes "business-type activities" of Unemployment Insurance and Higher Education) increased by \$2.007 billion between June 30, 2017 and June 30, 2018. The main contributors to the change were:

- The Commonwealth's net pension liability, after taking into account deferrals of FY18 investment gains and other adjustments that will be recognized over the next several years, grew by \$1.805 billion, primarily due to a reduction, from 7.50%, to 7.35%, in the rate used to discount liabilities.
- As noted on page 3, the Commonwealth continues to fund, through its own debt, transportation-related assets owned by the Massachusetts Department of Transportation (MassDOT), Institutions of Higher Education, cities and towns and quasi-public authorities. In FY18, approximately \$2.006 billion of the more than \$2.631 billion in state-funded capital spending generated assets not owned by the Commonwealth, including \$1.315 billion in transportation spending (more than \$437 million of which were grants and other financial assistance to cities and towns), \$123 million for Institutions of Higher Education (which are attributed to the Commonwealth's business-type activities), and approximately \$269 million in other capital grants and financial assistance to local governments and quasi-public entities. As a result of this capital spending on assets owned by entities other than the Commonwealth, the amount of debt outstanding increased by \$1.362 billion but Commonwealth fixed assets net of depreciation decline by \$9 million.

Increases in the net deficit (as restated in FY17 for the newly implemented OPEB accounting standards) were offset by a decline of \$1.052 billion in the net OPEB liability between FY17 and FY18, primarily due to lower than projected retiree medical costs for and an increase in the discount rate by which OPEB liabilities are calculated.

The net deficit in government-wide activities, which includes the Commonwealth's business-type as well as governmental activities, increased by \$1.796 billion from FY17, with the deficit in governmental activities partially offset by a surplus in Higher Education.

The Commonwealth engages in multi-year financial planning in several areas, including the adoption of a statutorily required triennial pension funding schedule (which is funded prior to the adoption of each year's annual budget), a five year capital spending plan, and a multi-year debt issuance planning process via a Debt Affordability Committee established in statute, comprised of Massachusetts government and non-government financial experts. The Commonwealth's short and long-term goal is to achieve annual statutory structural budget balance, i.e., where annual revenues equal or exceed annual expenditures, thus minimizing the use of one-time resources. A related goal is to limit the growth in state expenditures to increases in budgeted revenues. The current Administration has also committed to a policy of annual increases in unrestricted aid to cities and towns equal to the growth in projected budgetary fund tax revenues.

REPORTING ENTITY

The financial statements incorporate activity from over 150 departments. These departments include the various agencies, boards, and commissions, the 25 Institutions of Higher Education, the judicial and legislative branches of government, and constitutional offices. The departments record their daily financial operations in the state accounting system, MMARS, operated by the Office of the Comptroller.

In addition, the financial statements include 40 independent public authorities. These entities are defined as component units and meet the criteria for inclusion in the Commonwealth's reporting entity in accordance with GAAP. They are further described in [Note 14](#) to the basic financial statements. The Massachusetts School Building Authority (MSBA) is blended into the Commonwealth's operations.

INDEPENDENT AUDIT

The Commonwealth's independent auditors, KPMG LLP, have performed an independent audit of the Commonwealth for the fiscal year ended June 30, 2018. The [independent auditors' report](#) is presented in the Financial Section.

The Office of the Comptroller prepares these financial statements and is responsible for the completeness and reliability of the information presented in this report. To provide a reasonable basis for making these representations, the Office of the Comptroller, working in conjunction with the State Auditor, has established a comprehensive internal control framework that is designed to protect the Commonwealth's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the Commonwealth's financial statements in conformity with GAAP. Because of the cost, internal controls should not outweigh their benefits. The Commonwealth's comprehensive framework of internal controls has been designed to provide reasonable, rather than absolute assurance that the financial statements will be free from material misstatement.

We would like to express our sincere thanks to the dedicated employees of the Office of the Comptroller, and in particular Deputy Comptrollers Chris Guido, Jenny Hedderman, Howard Merkwowitz, and Kathy Sheppard, whose tireless efforts serve the citizens of the Commonwealth well on a daily basis. We are proud to have them all on this team as we embark on another year of innovation within the Comptroller's Office and establish a model for good governance nationwide.

Respectfully submitted,



Thomas G. Shack III, Esq.
Comptroller of the Commonwealth



Jeffrey S. Shapiro, Esq.
First Deputy Comptroller

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Governor

Karyn E. Polito
Lieutenant Governor

William F. Galvin
Secretary of State

Maura Healey
Attorney General

Deborah B. Goldberg
Treasurer and Receiver-General

Suzanne Bump
Auditor

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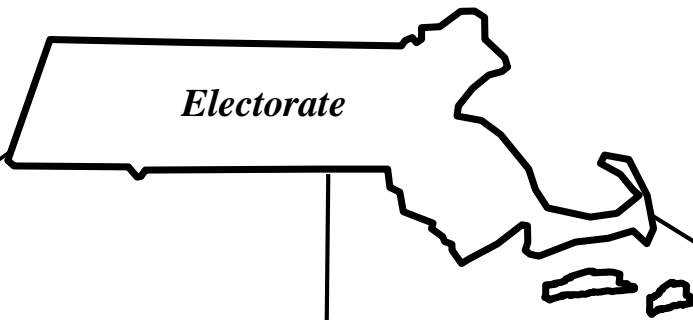
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Chief Justice, Supreme Judicial Court

Mark Green
Chief Justice, Appeals Court

Jonathan Williams
Court Administrator, Trial Court



Legislative Branch	Executive Branch	Judicial Branch
House of Representatives Senate	Governor and Lieutenant Governor [#] Governor's Council Attorney General Sheriffs State Auditor Secretary of the Commonwealth Treasurer and Receiver-General District Attorneys Independent Offices and Commissions*	Supreme Judicial Court Appeals Court Trial Court Committee for Public Counsel Board of Bar Examiners Commission on Judicial Conduct Mental Health Legal Advisors

Executive Branch Independent Offices and Commissions*		
Board of Library Commissioners Campaign and Political Finance Cannabis Control Commission Center for Health Information & Analysis Commission Against Discrimination	Commission on the Status of Women Disabled Persons Protection Commission Massachusetts Gaming Commission Office of the Child Advocate Office of the Comptroller	Office of the Inspector General State Ethics Commission State Retiree Benefits Trust Fund Board University of Massachusetts System

Executive Departments Under Gubernatorial Authority[#]		
<u>Administration and Finance</u> Executive Office for Administration and Finance Appellate Tax Board Bureau of the State House Civil Service Commission Department of Revenue Developmental Disabilities Council Division of Administrative Law Appeals Division of Capital Asset Management and Maintenance George Fingold Library Group Insurance Commission Health Policy Commission Human Resource Division Massachusetts Office on Disability Massachusetts Teachers' Retirement System Operational Services Division Public Employee Retirement Administration Commission	<u>Housing and Economic Development</u> Executive Office of Housing and Economic Development Department of Business Development Office of Consumer Affairs & Business Regulations Massachusetts Marketing Partnership Department of Housing & Community Development Department of Telecommunications and Cable Division of Banks Division of Insurance Division of Professional Licensure Division of Standards	<u>Executive Office of Labor and Workforce Development</u> <u>Health and Human Services</u> Executive Office of Health and Human Services Executive Office of Elder Affairs Department of Children and Families Department of Developmental Services Department of Mental Health Department of Public Health Department of Transitional Assistance Department of Veterans' Services Department of Youth Services Massachusetts Commission for the Blind Massachusetts Commission for the Deaf and Hard of Hearing Massachusetts Rehabilitation Commission Office for Refugees and Immigrants Soldiers' Home, Holyoke Soldiers' Home, Massachusetts
<u>Education</u> Executive Office of Education Department of Early Education and Care Department of Elementary and Secondary Education Department of Higher Education Community Colleges State Universities	<u>Energy and Environmental Affairs</u> Executive Office of Energy and Environmental Affairs Department of Agricultural Resources Department of Conservation and Recreation Department of Energy Resources Department of Environmental Protection Department of Fish and Game Department of Public Utilities State Reclamation Board	<u>Public Safety</u> Executive Office of Public Safety and Security Chief Medical Examiner Department of Criminal Justice Information Services Department of Correction Department of Fire Services Department of State Police Massachusetts Emergency Management Agency Military Division/ Massachusetts National Guard Municipal Police Training Committee Parole Board Sex Offender Registry
	<u>Technology and Security</u> Executive Office of Technology Services and Security	
	<u>Transportation and Public Works</u> Executive Office of Transportation and Public Works	

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Secretary of Administration and Finance

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Treasurer and Receiver-General

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Chief Financial Officer
Massachusetts Convention Center Authority
Gubernatorial Appointee

Natalie Monroe
First Assistant Inspector General
Office of the Inspector General
Gubernatorial Appointee

REPORT PREPARED BY:

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Program Coordinator

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Finance Intern

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Director of Strategic Communications



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for the Fiscal Year Ended

June 30, 2017

Christopher P. Morill

Executive Director/CEO



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Financial Section

Independent Auditors' Report

Management's Discussion and Analysis

Basic Financial Statements

Notes to the Basic Financial Statements

Required Supplementary Information Other Than Management's Discussion and Analysis

Other Supplementary Information



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KPMG LLP
Two Financial Center
60 South Street
Boston, MA 02111

Independent Auditors' Report

Mr. Thomas G. Shack III, Comptroller
The Commonwealth of Massachusetts
Boston, Massachusetts

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of Massachusetts (the Commonwealth), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Commonwealth's basic financial statements as listed in the accompanying table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the following entities and funds:

- Governmental Activities
 - Massachusetts School Building Authority, which is a major governmental fund and represents 8.0% and 1.6% of the total assets and total revenues, respectively, of the Governmental Activities.
- Business-Type Activities
 - University of Massachusetts which is a major enterprise fund
 - Individual state universities listed in note 14 which represent 100% of the total assets and total revenues of the State Universities major enterprise fund
 - Individual community colleges listed in note 14 which represent 100% of the total assets and total revenues of the Community Colleges major enterprise fund

These entities and funds collectively represent 87.0% and 73.9% of the total assets and total revenues, respectively, of the Business-Type Activities.

- Discretely Presented Component Units
 - Individual nonmajor component units listed in note 14 which represent 7.6% and 6.8% of the total assets and total revenues, respectively, of the aggregate discretely presented component units.



Those financial statements were audited by other auditors, whose reports thereon have been furnished to us. We have applied audit procedures to the adjustments to the other post-employment benefits (OPEB) amounts reported for the State Universities and Community Colleges major enterprise funds as described in note 14. Our opinions, insofar as they relate to the amounts included for these entities and funds indicated above, prior to the OPEB adjustments described in note 14 for the State Universities and Community Colleges major enterprise funds, are based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of certain entities identified in note 14 of the basic financial statements were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of Massachusetts as of June 30, 2018, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in Note 1 to the basic financial statements, in fiscal year 2018, the Commonwealth adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis and required supplementary information, as listed in the accompanying table of contents (collectively referred to as RSI) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the RSI in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any



assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Commonwealth's basic financial statements. The introductory section, other supplementary information and statistical section as listed in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The other supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us and other auditors. In our opinion, based on our audit, the procedures performed as described above, and the reports of the other auditors, the other supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 18, 2019 on our consideration of the Commonwealth's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Commonwealth's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Commonwealth's internal control over financial reporting and compliance.

KPMG LLP

January 18, 2019



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Management's Discussion and Analysis (Unaudited)

Financial Highlights – Primary Commonwealth Government

Government–Wide Highlights

This analysis, prepared by the Office of the Comptroller, offers readers of the Commonwealth's financial statements a narrative overview of the activities of the Commonwealth for the fiscal year ended June 30, 2018 (FY18). We encourage readers to consider this information in conjunction with the additional information that is furnished in the letter of transmittal and with the Commonwealth's financial statements, which follow. This analysis is required by the Governmental Accounting Standards Board (GASB), which provides preparers with guidelines on what must be included in and excluded from this analysis.

Net Position – The liabilities and deferred inflows of resources of the primary government exceeded its assets and deferred outflows of resources at the end of FY18 by \$69.136 billion, an increase in the net deficit of \$1.796 billion from FY17 after restating the FY17 net position for the implementation in FY18 of new accounting standards affecting the recording of other post-employment benefits (OPEB).

Of the \$69.136 billion deficit, “unrestricted net position” has a deficit of \$74.849 billion and there is a \$2.334 billion positive balance attributable to net investment in capital assets. There are five primary reasons for the negative unrestricted net position:

- In FY10, the Commonwealth implemented transportation reform, which created the Massachusetts Department of Transportation (MassDOT) and transferred to that entity virtually all highway and bridge assets of the Commonwealth totaling approximately \$15.521 billion, as of the date of the transfer, net of depreciation. These and subsequently constructed road and bridge assets were valued at \$35.729 billion as of June 30, 2018. However, the Commonwealth originally paid and continues to pay for the construction of these assets and retains approximately \$13.076 billion in transportation-related debt, which is now unrelated to any capital asset owned by the Commonwealth.
- The Commonwealth has a net liability of \$5.491 billion for its share of the construction costs of schools owned and operated by municipalities through the Massachusetts School Building Authority (MSBA).
- The Commonwealth, through debt issuances, also pays for non-transportation capital assets held by quasi-public entities, local governments, and housing authorities.
- With the implementation of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, which was effective starting in FY15, the Commonwealth was required to place on its books the full amount of its unfunded pension liability (known as the “net pension liability”), which totaled \$37.441 billion as of June 30, 2018.
- In FY18, the Commonwealth implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which requires governments to record on its statement of net assets its unfunded non-pension retiree benefits (or OPEB, mostly health insurance benefits). As a result the Commonwealth has recorded a liability of \$16.681 billion as of June 30, 2018.

At the end of FY18, the Commonwealth also held \$3.379 billion in “restricted net position”, which are assets restricted primarily for payment of debt service, unemployment insurance benefits, and the Institutions of Higher Education. Approximately \$1.545 billion in restricted net position balances were set aside for unemployment benefits, an additional \$940 million was restricted for debt retirement (of which \$912 million was restricted for MSBA debt retirement), \$288 million was restricted for Higher Education, and \$606 million was restricted for other governmental purposes.

The Commonwealth's governmental activity (which excludes the "business-type activities" of the Institutions of Higher Education and Unemployment Insurance) net deficit increased by \$2.007 billion, to \$74.155 billion, and its governmental activities unrestricted net deficit increased by approximately \$1.500 billion, to \$74.254 billion, as of June 30, 2018.

Total revenues of the primary government increased by \$3.976 billion, or 6.8% in FY18, to \$62.613 billion. Total expenses of the primary government increased by \$1.371 billion, or approximately 2.2%, to \$64.409 billion. Detail on revenue and expenses can be found on pages 24–28.

The net position of business-type activities increased by \$211 million, due to surpluses of approximately \$139 million in Higher Education activity and \$72 million in the Unemployment Insurance program.

On a "funds perspective" basis, at June 30, 2018, the Commonwealth's governmental funds reported a combined ending fund balance of \$6.838 billion, an increase of \$1.241 billion from June 30, 2017. Of the ending balances:

- There are no nonspendable balances, \$1.520 billion is restricted, \$3.302 billion is committed, \$956 million is assigned and \$1.061 billion is unassigned fund balance (a full discussion of these classifications is included in [Note 1](#) to the basic financial statements, on pages 67–69).
- The MSBA's fund balance of \$1.403 billion is blended with the Commonwealth. Within this fund balance is \$1.278 billion in cash and restricted investments, which resulted primarily from the issuance of debt in FY18 and previous fiscal years, less approximately \$38 million in liabilities. In FY18, \$851 million was dedicated to the MSBA from Commonwealth sales taxes, and the MSBA issued \$395 million in long-term dedicated sales tax bonds to retire outstanding Commercial Paper Notes and close Commercial Paper program.

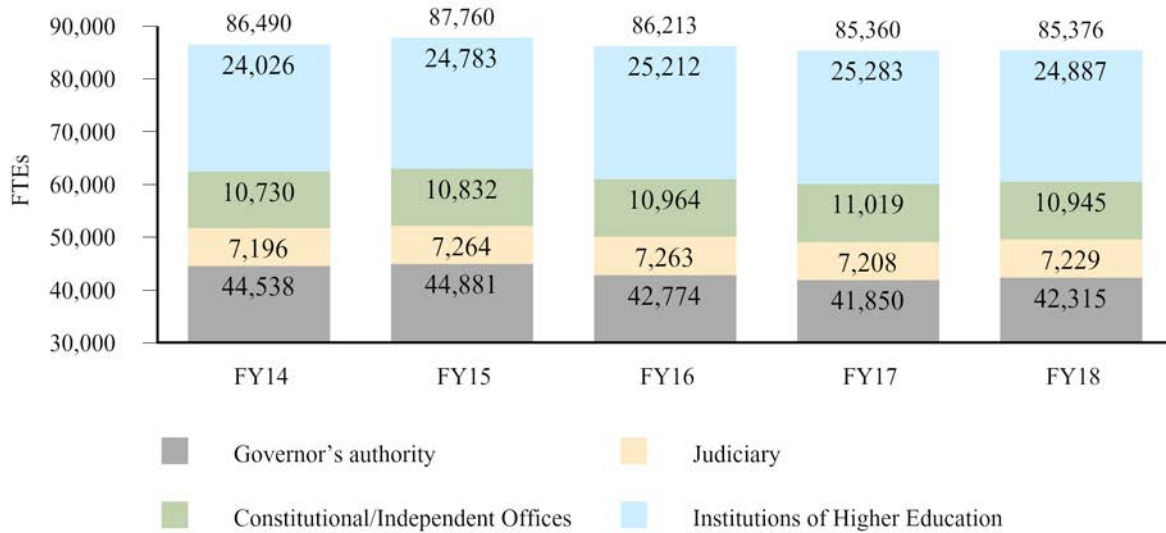
Other highlights of FY18 financial operations include:

- Tobacco settlement proceeds for the year were approximately \$257 million on a GAAP basis, an increase of approximately \$3 million from FY17. Approximately \$140 million has been reported as a receivable in the governmental funds, equal to half of the anticipated tobacco settlement proceeds to be received in FY19. In FY18 approximately \$73 million, or the equivalent of 30% of tobacco settlement proceeds, was transferred to the State Retiree Benefits Trust Fund (SRBTF) to fund the Commonwealth's liability for retiree health care. Per statute, the proportion of tobacco settlement revenues transferred to the SRBTF increases annually until an amount equal to 100% of the tobacco settlement proceeds is to be transferred to the SRBTF in FY23, although the requirement to transfer increasing percentages of tobacco settlement proceeds was modified for FY18 with the required percentage reduced to 30%.
- During the fiscal year, the Commonwealth passed or agreed to terms of approximately \$444 million in bond authorizations. There were no bond de-authorizations of previously approved capital appropriations during the fiscal year. The Commonwealth determines the timing and extent of capital spending and bonding as part of its five-year capital plan.
- Lottery revenues for FY18 were \$5.443 billion, an increase of approximately \$184 million, or 3.5%, from FY17. Prizes were approximately \$4.345 billion. Lottery profits, after deducting administrative expenses and fringe benefit charges to reimburse the Commonwealth's General Fund for pension and employee health insurance benefits, but prior to distributions to reimburse the Massachusetts Cultural Council and compulsive gamblers appropriation as mandated in the FY18 budget, totaled \$997 million a decrease of \$43 million, or 4.1%, from FY17. Mandated transfers to the General Fund to reimburse it for administrative expense appropriations and other spending totaled \$1.097 billion.

Full-Time Equivalent Employment

The chart on the following page shows the Commonwealth's full-time equivalent employment, including the Massachusetts Department of Transportation (MassDOT) for all state funding sources (budgetary, non-budgetary, capital, federal, and trust) over the past five fiscal years. As of June 30, 2018, the number of Commonwealth employees was virtually the same as on June 30, 2017, increasing over the year by a net of approximately 16 full-time equivalent employees (FTE's), to a total of 85,376.

**Full Time Equivalent Workforce
Including Higher Education
June 2014 – June 2018**



OVERVIEW OF THE FINANCIAL STATEMENTS

This MD&A is intended to serve as an introduction to the Commonwealth’s basic financial statements. The Commonwealth’s basic financial statements comprise the following: 1) government-wide financial statements; 2) fund financial statements; and 3) notes to the financial statements. This report also contains additional required supplementary information in the form of budgetary schedules, which are prepared on the statutory basis of accounting, as well as pension and other post-employment benefits (OPEB) schedules. Other supplementary information is also provided to furnish additional detail to support the basic financial statements.

Government–Wide Financial Statements

The government-wide financial statements present the reader with a broad overview of the Commonwealth’s finances in a manner similar to a private sector business. The statements include the [Statement of Net Position](#), which presents the assets and deferred outflows of resources, liabilities and deferred inflows of resources and net position for the government as a whole. Also presented is the [Statement of Activities](#), which presents the functional expenses, offsetting revenues and changes in net position of the Commonwealth. The statements report the Commonwealth’s net position and changes in net position. An increase or decrease in the Commonwealth’s net position is one way to measure financial health as well as the trend of increases or decreases over time. Non-financial measures such as the types of capital investments, changes in taxation, population, employment and economic conditions are also indicators of the overall health of any government.

Both the statement of net position and the statement of activities have separate sections for three different categories of the Commonwealth’s operations. These activities are Governmental Activities, Business-type Activities, and Discretely Presented Component Units. Governmental activities are where the Commonwealth’s basic services are reported. Business-type activities are those for which fees are charged for particular services. For the Commonwealth, business-type activities comprise the unemployment insurance compensation system and the Institutions of Higher Education. The component units are separate legal entities that are included in this report due to the nature of their governance and financial relationship with the Commonwealth.

The government–wide financial statements can be found on [pages 36-39](#) of this report.

Fund Financial Statements and Component Unit Financial Statements

Funds are groups of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The Commonwealth, like other governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Within the funds, budgetary compliance is demonstrated at the appropriation level for budgeted expenditures.

Only the major funds are shown separately in the fund financial statements, with the remaining funds aggregated and reported as nonmajor funds.

Fund financial statements focus on individual parts of the Commonwealth, reporting its operations in more detail than the government-wide statements. The Commonwealth's funds can be divided into three categories: [*Governmental Funds*](#), [*Proprietary Funds*](#), and [*Fiduciary Funds*](#). It is important to realize that these fund categories use different bases of accounting and should be interpreted differently. Further discussion of the funds can be found in the section "Financial Analysis of the Commonwealth's Funds" and in [Note 1](#) to the basic financial statements.

Component unit financial statements are presented for entities where the Commonwealth has financial accountability, but the entities are independent of the core Commonwealth operations. Most component units operate similar to private-sector businesses.

Although the Massachusetts School Building Authority (MSBA) is a component unit of the Commonwealth, the MSBA's operations have been determined by management to operate in a similar fashion to a Commonwealth department due to the MSBA's service to the Commonwealth and because it relies on a pledged portion of the Commonwealth's sales tax revenue to fund its debt service. In FY05, legislation changed the funding of school construction from a direct appropriation of the Commonwealth to a dedicated portion of the sales tax allocated to the MSBA. Because of the nature of transactions between the Commonwealth and this authority, per GASB [Statement No. 39, *Determining Whether Certain Organizations Are Component Units*](#) as amended by [GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*](#), the authority's operations are blended with the primary government and reported as a governmental fund in the government-wide financial statements.

Notes to the Financial Statements, Required Supplementary Information and Other Supplementary Information

The notes to the financial statements provide additional information that is essential to a full understanding of the financial statements as of the date provided in the government-wide and the fund financial statements. The notes to the financial statements can be found on [pages 61–136](#).

The required supplementary information section includes a budgetary comparison schedule for the General Fund, along with a reconciliation comparing the original General Appropriation Act and supplemental appropriations to actual budgetary spending. A variance column is also provided. A further reconciliation schedule of the budgeted revenues and expenses to governmental fund perspective revenues and expenditures for the General Fund is also provided. Required pension and OPEB schedules are also presented in this section.

Other supplementary information is not required, but is included to present combining schedules of various nonmajor funds, fiduciary funds, and component units.

GOVERNMENT-WIDE ANALYSIS

The primary government's combined net position (governmental and business-type activities) showed a net deficit of \$69.136 billion at the end of FY18, an increase in the net deficit of \$1.796 billion from the end of FY17. Governmental activities unrestricted net position is negative by \$74.254 billion. As explained previously, in addition to the \$37.441 billion government-wide net pension liability and the \$16.681 billion OPEB liabilities recorded on the Commonwealth's books, a substantial portion of this deficit is a result of programs where the Commonwealth has funded assets owned

by political subdivisions of the Commonwealth (in particular the result of the transfer of assets to MassDOT during FY10), as well as continued borrowing by the Commonwealth that funds, through its capital budget and debt issuance, construction of new assets owned by MassDOT, local governments, and local authorities. MassDOT reports its capital assets on its financial statements, which are incorporated into the Commonwealth's financial statements similarly to other component units.

***Major Long – Term Obligations for
Assets of Political Subdivisions
(amounts in thousands)***

Massachusetts School Building Authority net deficit.....	\$ 5,490,802
Outstanding bonds issued to fund the MBTA.....	207
Debt related to MassDOT assets.....	13,075,757
Effect on unrestricted net position of item unique to the Commonwealth	\$ 18,566,766

Of the Commonwealth's approximately \$2.631 billion in FY18 state funded capital spending, about \$2.006 billion did not result in capital assets attributed to governmental activities of the Commonwealth, including approximately \$1.315 billion in transportation spending (with \$437 million in grants and other financial assistance to cities and towns), \$123 million for Institutions of Higher Education (which are included in the Commonwealth's business-type activities) and approximately \$269 million in other capital grants and financial assistance to local governments and quasi-public entities. Between FY05 and FY18 the Commonwealth's capital spending on projects owned by non-Commonwealth entities or by the Institutions of Higher Education totaled \$23.175 billion. These include Higher Education capital projects totaling approximately \$1.936 billion, capital spending for transportation projects now owned by the Massachusetts Department of Transportation totaling approximately \$11.721 billion, transportation-related financial assistance to local governments totaling more than \$3.481 billion and other grants and financial assistance for non-Commonwealth entities such as cities and towns and quasi-public authorities funded through the Commonwealth's capital budget of almost \$5.828 billion, including \$1 billion in FY05 and FY06 to capitalize the Massachusetts School Building Authority.

The Commonwealth also funds school construction through debt issued by the MSBA (beyond its initial \$1 billion capitalization), and includes the MSBA's debt on its statement of net position, but the assets paid for with that debt are owned by Massachusetts cities, towns, and school districts.

Current assets and liabilities are amounts that are available in the current period and obligations that will be paid within one year of the financial statement date, respectively. As of June 30, 2018, the Commonwealth's government-wide current unrestricted cash and cash equivalents totaled \$5.774 billion, an increase of \$1.451 billion from June 30, 2017. Total current assets were \$13.809 billion, an increase of \$1.830 billion from June 30, 2017. As of June 30, 2018, the Commonwealth's current liabilities were \$9.912 billion, a decrease of \$53 million from June 30, 2017.

As of June 30, 2018, the primary government's non-current assets were virtually unchanged from June 30, 2017, totaling \$17.934 billion, an increase of \$84 million.

The Commonwealth holds \$12.602 billion in traditional capital assets such as land, construction in process, buildings, infrastructure, and equipment, net of accumulated depreciation. GASB requires the reporting of the value of investments in the Commonwealth's infrastructure, including roads, bridges, beaches, dams and other immovable assets on the face of the Commonwealth's financial statements. As these assets provide services to citizens, they are not available to finance future spending unless they are sold. Although the Commonwealth's investment in its capital assets is also reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The following table shows the Commonwealth's net position. Restricted net position represents resources that are subject to external constraints.

Net Position as of June 30, 2018 and 2017
(in thousands of dollars)

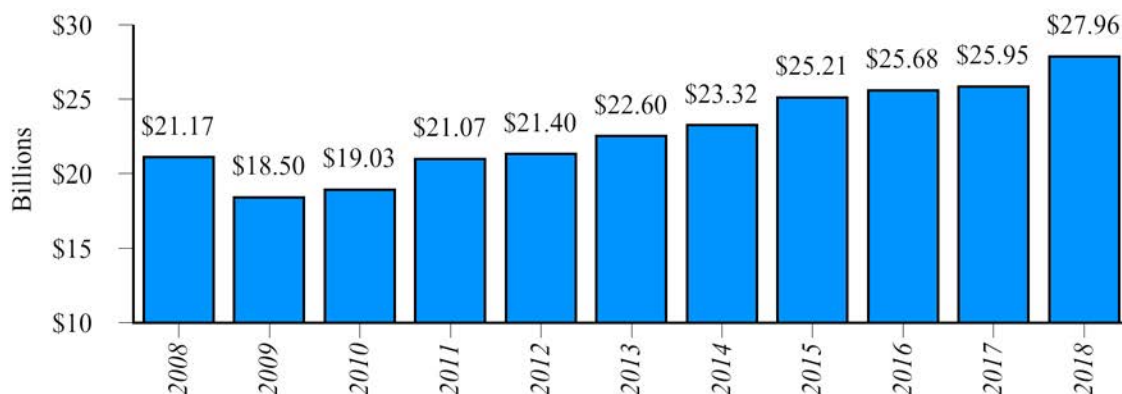
	Governmental Activities		Business-Type Activities		Total Primary Government	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Current assets.....	\$ 11,877,637	\$ 10,199,139	\$ 1,931,540	\$ 1,780,484	\$ 13,809,177	\$ 11,979,623
Non-capital non-current assets	2,557,081	2,823,600	2,774,128	2,621,920	5,331,209	5,445,520
Capital assets	4,783,689	4,793,086	7,818,611	7,610,936	12,602,300	12,404,022
Total assets	19,218,407	17,815,825	12,524,279	12,013,340	31,742,686	29,829,165
Deferred outflows of resources.....	7,675,378	8,646,181	564,243	437,529	8,239,621	9,083,710
Total assets and deferred outflows	26,893,785	26,462,006	13,088,522	12,450,869	39,982,307	38,912,875
Current liabilities	8,916,003	8,971,117	996,367	994,622	9,912,370	9,965,739
Long term liabilities.....	88,837,409	80,227,342	6,795,506	5,276,554	95,632,915	85,503,896
Total liabilities	97,753,412	89,198,459	7,791,873	6,271,176	105,545,285	95,469,635
Deferred inflows of resources.....	3,295,107	650,580	277,753	97,229	3,572,860	747,809
Total liabilities and deferred inflows	101,048,519	89,849,039	8,069,626	6,368,405	109,118,145	96,217,444
Net Position:						
Net investment in capital assets.....	(1,446,934)	(1,320,834)	3,780,850	3,623,966	2,333,916	2,303,132
Restricted	1,546,202	1,926,716	1,833,109	1,735,575	3,379,311	3,662,291
Unrestricted.....	(74,254,002)	(63,992,915)	(595,063)	722,923	(74,849,065)	(63,269,992)
Total Net Position	\$ (74,154,734)	\$ (63,387,033)	\$ 5,018,896	\$ 6,082,464	\$ (69,135,838)	\$ (57,304,569)

Changes in Net Position

As noted earlier, the Commonwealth's total primary government net deficit increased by approximately \$1.796 billion between FY17 and FY18, to \$69.136 billion. The primary reasons for the \$1.796 billion growth in the net deficit were the increase in the Commonwealth's pension liability, which, net of deferrals, increased by \$1.851 billion, a \$1.276 billion increase in the Commonwealth's net outstanding debt, offset by a \$1.052 billion decrease in the Commonwealth's OPEB liability due to better than projected medical cost experience and changes in the rate at which the Commonwealth's liabilities are discounted.

The following table shows the major categories of government-wide revenues and expenses for FY17 and FY18, as well as net position for the two fiscal years. In FY18, approximately 45% of the primary government's total revenue came from taxes, while the remainder resulted from programmatic revenues, including charges for services and grants and contributions, the bulk of which was federal aid. FY18 revenues totaled \$62.613 billion, an increase of \$3.976 billion, or 6.8% from FY17, with tax revenue totaling \$27.964 billion, an increase of \$2.015 billion, or 7.8%, from FY17. The increase in tax revenue was attributable primarily to income tax revenue, which increased by \$1.393 billion, or 9.5%, as withholding on wages and capital gains tax revenue growth was strong. Sales tax revenue grew by \$236 million, or 3.7%, corporate excise tax increased by \$180 million, or 8.5% .

**Revenue from Taxation
FY08 - FY18**



**Changes in Net Position during the Fiscal Years Ended June 30, 2018 and 2017
(in thousands of dollars except percentages)**

	Governmental Activities		Business - Type Activities		Total Primary Government		Total Primary Government		
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017	June 30, 2018 Distribution	June 30, 2017 Distribution	'17 to '18 % Change
Revenues									
Program Revenues:									
Charges for services	\$ 11,107,419	\$ 10,373,902	\$ 4,411,816	\$ 4,280,429	\$ 15,519,235	\$ 14,654,331	24.8%	25.0%	(0.8)%
Operating grants and contributions	16,230,934	15,519,380	932,962	909,228	17,163,896	16,428,608	27.4%	28.0%	(2.1)%
Capital grants and contributions	99,002	58,354	160,201	238,621	259,203	296,975	0.4%	0.5%	(20.0)%
General Revenues:									
Taxes	27,964,093	25,949,577	—	—	27,964,093	25,949,577	44.7%	44.3%	0.9 %
Other	1,283,168	994,982	423,390	312,347	1,706,558	1,307,329	2.7%	2.2%	22.7 %
Total Revenues	56,684,616	52,896,195	5,928,369	5,740,625	62,612,985	58,636,820	100.0%	100.0%	0.7 %
Expenses									
Medicaid	18,105,722	17,182,691	—	—	18,105,722	17,182,691	28.1%	27.3%	2.9 %
Direct local aid	5,900,634	5,734,682	—	—	5,900,634	5,734,682	9.2%	9.1%	1.1 %
Health and human services ..	8,298,704	8,131,843	—	—	8,298,704	8,131,843	12.9%	12.9%	— %
Lottery	4,325,321	4,128,209	—	—	4,325,321	4,128,209	6.7%	6.5%	3.1 %
Higher education	—	—	5,288,632	5,167,033	5,288,632	5,167,033	8.2%	8.2%	— %
Early elementary and secondary education	6,101,603	6,243,115	—	—	6,101,603	6,243,115	9.5%	9.9%	(4.0)%
Unemployment compensation	—	—	1,552,404	1,514,002	1,552,404	1,514,002	2.4%	2.4%	— %
Other	14,835,823	14,936,034	—	—	14,835,823	14,936,034	23.0%	23.7%	(3.0)%
Total Expenses	57,567,807	56,356,574	6,841,036	6,681,035	64,408,843	63,037,609	100.0%	100.0%	0.1 %
Excess/(Deficiency)									
before transfers	(883,191)	(3,460,379)	(912,667)	(940,410)	(1,795,858)	(4,400,789)			
Transfers	(1,123,731)	(1,286,709)	1,123,731	1,286,709	—	—			
Change in net position (deficits)	(2,006,922)	(4,747,088)	211,064	346,299	(1,795,858)	(4,400,789)			
Net position/(deficit) - beginning, as restated	(72,147,812)	(58,639,945)	4,807,832	5,736,165	(67,339,980)	(52,903,780)			
Net position/(deficit) - ending	(\$74,154,734)	(\$63,387,033)	\$ 5,018,896	\$ 6,082,464	(\$69,135,838)	(\$57,304,569)			

Operating grants and contributions (including federal revenue for Medicaid and Unemployment Insurance) totaled \$17.164 billion, an increase of \$735 million, or 4.5%, in FY18, with Medicaid reimbursements increasing by \$42 million, or 0.4%, as enrollment in the program expanded and some reimbursement rates increased due to implementation of the federal Affordable Care Act.

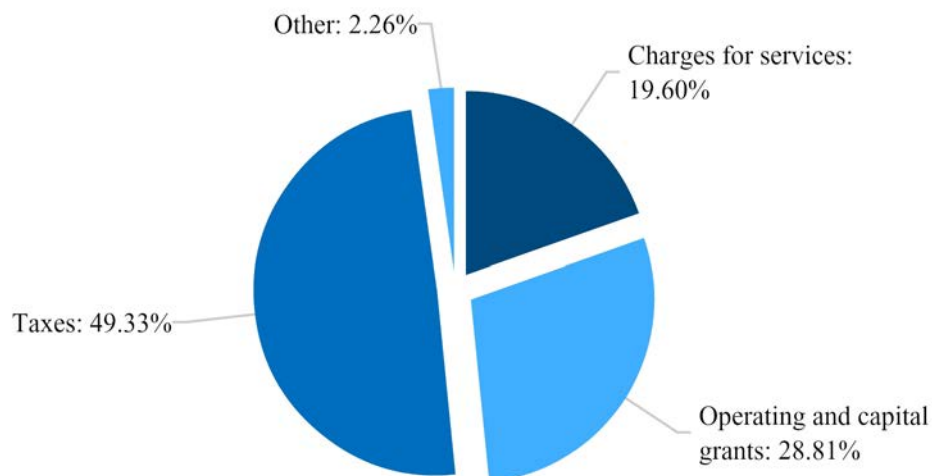
Charges for services totaled \$15.519 billion increasing of \$865 million, or 5.9% from FY17, with increases in charges in Health and Human Services Medicaid and general government, almost fully offset by declines in Lottery ticket purchases and a decrease in Energy and Environmental Affairs charges.

As of June 30, 2018, government-wide restricted net position totaled \$3.379 billion, a decrease of \$285 million, with the majority of the decrease due to assets restricted for other purposes.

Primary government spending totaled \$64.409 billion, an increase of \$1.371 billion, or 2.2%, from FY17, with governmental activities spending (i.e., excluding business-type activities such as Higher Education and the Unemployment Insurance program) totaling \$57.568 billion, an increase of \$1.211 billion, or 2.1%, and business-type activities spending totaling \$6.841 billion, an increase of \$160 million, or 2.4%. Medicaid expenses totaled \$18.106 billion, an increase of \$923 million, or 5.4%, from FY17, as cost saving measures offset increased enrollment growth and higher medical costs. Unemployment insurance compensation expenditures totaled \$1.552 billion, an increase of \$38 million, or 2.5%. Other significant spending changes occurred in Health and Human services, where spending totaled \$8.299 billion, an increase of \$167 million or 2.1%, in transportation and public works, where spending totaled \$2.484 billion, a decrease of \$51 million, or 2.0%, in direct local aid, where spending totaled \$5.901 billion, an increase of \$166 million, or 2.9%, and in general government expenses, where spending totaled \$2.793 billion, an increase of \$28 million, or 1.0%.

Income taxes comprise the bulk of tax revenue. Of the \$27.964 billion in FY18, tax revenue within governmental activities, \$16.048 billion, or approximately 57.4%, of total taxes, was from income taxes, \$6.517 billion, or 23.3%, was from sales taxes, \$2.296 billion, or 8.2%, was from corporate taxes, \$774 million, or 2.8%, was from motor fuels taxes and \$2.329 billion, or 8.3%, was from other forms of taxation. Lottery revenues of \$5.437 billion made up 48.9% of the Commonwealth’s governmental charges for services. The largest operating grants were federal Medicaid subsidies, which totaled \$10.188 billion, or approximately 63%, of all grants, other health and human services grants of \$3.118 billion, or 19.2% of all grants, and education grants of \$1.269 billion, or 7.8% of grants. Most of the state’s capital grants are for highway construction, and those federal grants are recorded not in the Commonwealth’s financial statements but in the financial statements of the Massachusetts Department of Transportation.

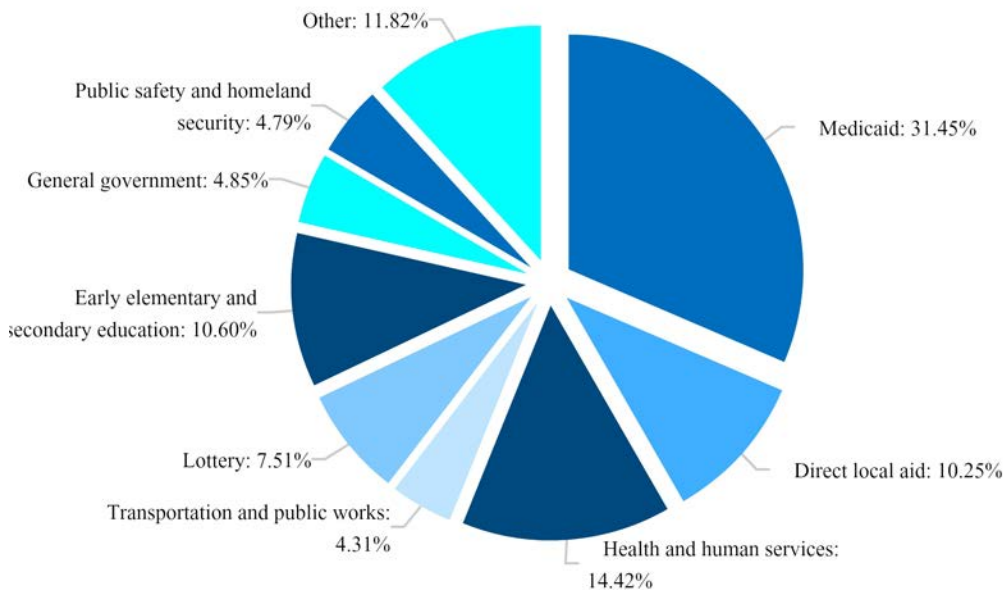
**Revenue—Governmental Activities
Fiscal Year Ending June 30, 2018**



Medicaid expenses of \$18.106 billion accounted for 31.5% of the Commonwealth’s governmental activities expenses. Historically, approximately half of Medicaid expenses have been reimbursed by the federal government, although under the Affordable Care Act some Medicaid expenditures are reimbursed at higher rates. The largest expense that is not subsidized by program revenues is direct local aid to the municipalities of the Commonwealth of approximately \$5.901 billion.

Other large expenditures for governmental activities included non-Medicaid health and human services costs of approximately \$8.299 billion, accounting for 14.4% of governmental expenses, pre-kindergarten through secondary education costs of approximately \$6.102 billion, accounting for 10.6% of governmental expenses and public safety and homeland security costs of approximately \$2.757 billion, accounting for 4.8% of governmental expenses. State employees’ pensions and other post-employment benefits, which are included in the department spending amounts above, were \$3.445 billion.

Major Expenses—Governmental Activities
Fiscal Year Ending June 30, 2018



Business–Type Activities

Business–type activities are functions that equate to activities of a private enterprise. In the Commonwealth, the Institutions of Higher Education are deemed to be business–type activities because of their lack of separate taxation. Also, Unemployment Compensation is considered to be a business–type activity.

As of June 30, 2018, business–type activities' net position totaled \$5.019 billion, an increase of \$211 million, or 4.4%, from FY17, with the net position of the Institutions of Higher Education increasing by \$139 million to \$3.474 billion and the net position of the Unemployment Insurance program increasing by \$72 million, to \$1.545 billion. Program revenues of business–type activities totaled \$5.505 billion, an increase of \$77 million, or 1.4%, charges for services totaled \$4.412 billion, an increase of \$131 million, or 3.1%, with Unemployment Insurance charges increasing by \$114 million, or 7.8%, and Higher Education charges increasing by \$17 million, 0.6%. Operating grants and contributions totaled \$933 million, an increase of \$24 million, or 2.6%, and capital grants and contributions totaled \$160 million, a decrease of \$78 million, or 32.9%.

**Unemployment Compensation Fund
Net Position
Fiscal Years 2014 - 2018
(amounts in millions)**



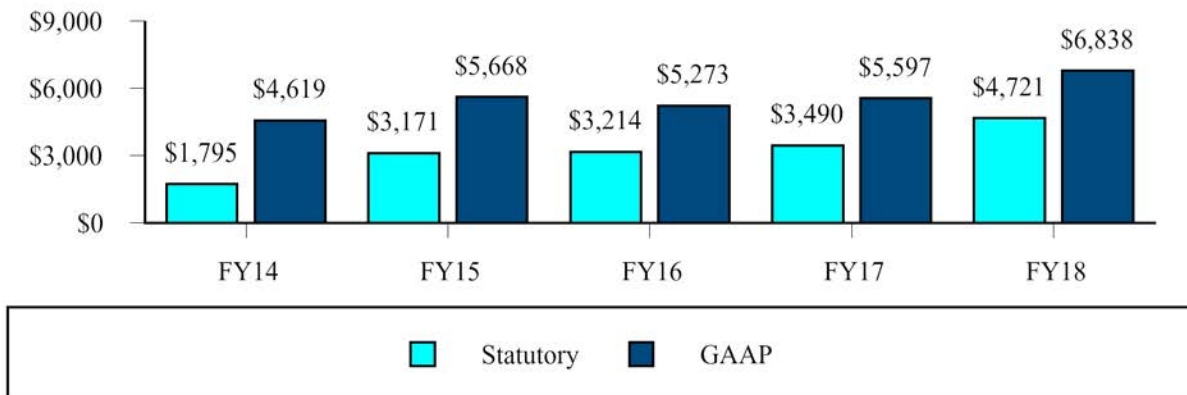
FINANCIAL ANALYSIS OF THE COMMONWEALTH'S FUNDS

The Commonwealth uses fund accounting to demonstrate inter-period equity and the extent to which current resources are financing the full cost of services that citizens are receiving. The basic governmental funds financial statements can be found immediately following the government-wide financial statements.

Governmental Funds

Governmental funds account for the near term inflows, outflows, and balances of expendable resources of the Commonwealth's core functions and services. Each major fund is presented in a separate column in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances. The General Fund is the primary operating fund of the Commonwealth. At the end of FY18, the fund balance of the General Fund was \$3.516 billion. Of this amount, \$2.001 billion represents the balance in the Commonwealth's Stabilization Fund. \$350 million was classified as assigned for continuing appropriations from FY18 into FY19 and \$1.165 billion was unassigned.

**Governmental Fund Balance
Statutory* vs. GAAP
(amounts in millions)**



*Statutory basis includes the Massachusetts Department of Transportation (MassDOT) and excludes expendable trust funds

Governmental Fund Operations - GAAP Basis - Fund Perspective
(amounts in thousands)

	FY18	FY17	FY16	FY15	FY14
Beginning fund balances.....	\$ 5,596,870	\$ 5,273,305	\$ 5,305,219	\$ 4,619,434	\$ 4,869,951
Revenues and other financing sources.....	68,990,309	68,437,099	67,749,586	60,658,637	57,209,970
Expenditures and other financing uses.....	67,748,981	68,113,534	67,781,500	59,972,852	57,460,487
Excess/(deficiency).....	1,241,328	323,565	(31,914)	685,785	(250,517)
Ending fund balances.....	<u>\$ 6,838,198</u>	<u>\$ 5,596,870</u>	<u>\$ 5,273,305</u>	<u>\$ 5,305,219</u>	<u>\$ 4,619,434</u>

FY18 governmental fund revenues and other financing sources totaled \$68.990 billion, an increase of \$553 million, or 0.8%, from FY17, with a decrease of \$1.757 billion in Massachusetts School Building Authority (MSBA) long term debt and commercial paper issuance offsetting an increase of \$2.250 billion, or 3.5%, in non-MSBA revenues and other financing sources. Tax revenues totaled \$28.243 billion, an increase of \$2.415 billion, or 9.4%, primarily due to growth in withholding income, capital gains, sales, and corporate taxes as the Massachusetts economy continued to expand. Federal grants and reimbursements totaled \$16.331 billion, an increase of \$764 million, or 4.9%, due primarily to growth in reimbursable Medicaid spending. Assessments, fees, and investment earnings totaled \$12.880 billion, an increase of \$884 million, or 7.4%. Revenues from other financing sources totaled \$11.536 billion, a decrease of \$3.509 billion, or 23.3%, due to previously mentioned decreases in debt issuance at the MSBA and by the Commonwealth generally.

FY18 governmental fund expenditures and other financing uses totaled \$67.749 billion, a decrease of \$365 million, or 0.5% from FY17, with the decline resulting from a decrease of \$1.676 billion in payments related to debt refunding transactions during FY18 offset by increases in various programmatic spending. Excluding the MSBA, governmental fund expenditures and other financing uses totaled \$64.617 billion, an increase of \$824 million, or 1.3%, from FY17. Medicaid expenditures totaled \$18.106 billion, an increase of \$923 million or 5.4%, with the increase due primarily to enrollment growth and higher medical costs. Debt service expenditures totaled \$5.087 billion, a decrease of \$851 million, or 14.3%, due almost entirely to the decline in MSBA debt service payments. Post-employment benefits totaled \$1.294 billion, an increase of \$167 million, or 14.9%, with the growth mainly due to increased pension contributions. Direct local aid totaled \$5.901 billion, an increase of \$166 million, or 2.9%. Other financing uses totaled \$7.466 billion, a decrease of \$2.054 billion, or 21.6%, with the decrease due primarily to the decline in FY18 debt refundings.

As of June 30, 2018 the Commonwealth's governmental funds reported combined ending fund balance of \$6.838 billion, an increase of \$1.241 billion, or 22.2%, from the previous year.

Governmental Funds - Fund Balance Classification
(amounts in thousands)

	2018	2017	Change	% Change
Restricted.....	\$ 1,519,833	\$ 1,926,716	\$ (406,883)	(21.1)%
Unrestricted:				
Committed.....	3,301,976	2,351,175	950,801	40.4%
Assigned.....	955,830	684,655	271,175	39.6%
Unassigned.....	1,060,559	634,324	426,235	67.2%
Total Unrestricted.....	5,318,365	3,670,154	1,648,211	44.9%
Total fund balances.....	<u>\$ 6,838,198</u>	<u>\$ 5,596,870</u>	<u>\$ 1,241,328</u>	22.2%

GAAP requires that fund balances be classified by the degree of restriction placed upon their use by constitutional, statutory, or contractual requirements, and these classifications are shown in the table on the previous page. Restricted fund balances represent amounts restricted for Commonwealth and MSBA debt service or restricted by bond covenants, funds that are restricted in capital projects and special revenue funds, balances in the federal grants funds, and some balances held in expendable trusts. Unrestricted amounts include fund balances classified as committed, including those generated by revenue sources directed to specific purposes but with a lower level of constraint on their use than restricted balances, as well the fund balance of the Stabilization Fund. Unrestricted amounts also included prior appropriations continued, and residual balances in the General Fund, both of which are classified as unassigned. The \$951 million, or 40.4%, increase in committed balances results primarily from growth in the Stabilization Fund balance in FY18, and the \$426 million, or 67.2%, growth in unassigned balances is due mainly to an increase in General Fund tax receivables resulting from the increase in the Commonwealth's tax base between FY17 and FY18. A full discussion of the Commonwealth's fund balance classification policy under GASB 54 can be found in [Note 1](#) to the basic financial statements, on pages [65–69](#).

Proprietary Funds

Proprietary Funds report activities of the Commonwealth that are structured similar to for-profit businesses. Proprietary fund financial statements provide the same type of information as the government-wide financial statements, only in greater detail.

As discussed above, the business-type activities increased the Commonwealth's net position by approximately \$211 million.

BUDGETARY HIGHLIGHTS

The FY18 budget enacted by the Legislature (the General Appropriation Act) included an FY18 tax revenue estimate of \$26.422 billion (a reduction from the FY18 consensus estimate of \$27.072 billion, which had been adjusted downward by \$650 million after tax revenue was below forecast at the end of FY17), further adjusted upward by \$321 million to \$26.743 billion as a result of \$196 million in tax law changes and \$125 million in tax settlements included in the budget. \$24.864 billion of that revenue was to be deposited in the budgeted funds and \$1.879 billion was to be deposited directly into non-budgeted funds for transfers of sales tax revenue dedicated to the Massachusetts Bay Transportation Authority (\$1.007 billion) and the Massachusetts School Building Authority (\$847 million), and revenue deposited in the non-budgeted Workforce Training Fund (\$25 million). (However, the Governor, in signing the FY18 budget, notified the Legislature that his administration assumed that FY18 tax revenues would be \$26.629 billion (including \$125 million in tax settlement revenues), \$114 million lower than in the Legislature's enacted budget, primarily because he believed that the consensus tax revenue estimate should be reduced by approximately \$750 million, not \$650 million.) The FY18 budget appropriations also reflected the assumption that a reduction in the personal income tax rate would not be triggered during FY18, as had been previously projected in the FY18 consensus tax revenue estimate.

In October 2017, with tax revenues tracking estimates assumed in the FY18 enacted budget, the Secretary of Administration and Finance affirmed the FY18 tax revenue estimate. In January 2018, the Secretary of Administration and Finance revised the Fiscal Year 2018 state tax revenue estimate upward to \$26.761 billion (including \$100 million in projected judgment and settlement revenue), to reflect strong growth in year-to-date income tax withholding.

FY18 tax revenues upon which the FY18 General Appropriation Act was based ended the year at \$27.788 billion (including \$11 million in tax settlements exceeding \$10 million each -- the Commonwealth also received \$26 million in non-tax settlements), of which \$25.907 billion was deposited in the budgeted funds. Tax revenue deposited in the budgeted funds grew by \$2.078 billion, or 8.7%, from FY17, and was \$1.024 billion above the final FY18 tax estimate.

The FY18 General Appropriation Act (GAA) authorized approximately \$40.877 billion in spending, exclusive of approximately \$2.395 billion in required pension contributions and \$109 million in FY17 spending authorized to be continued into FY18 as part of FY17 end-of-year supplemental budgets.

Approximately \$947 million in supplemental appropriations were authorized during FY18, \$464 million of which were enacted prior to June 30, 2018. Subsequent to year end, a supplemental budget was enacted totaling approximately \$483 million in new appropriations, \$135 million of which was to fund FY18 Medicaid expenses, \$40 million of which supplemented local road and bridge capital spending, \$33 million of which was for snow and ice removal costs incurred

by the Massachusetts Department of Transportation in FY18, \$29 million of which was to fund county Sheriffs' FY18 payroll expenses in FY18, with virtually all of the remainder continued to FY19 and reappropriated. In addition to the year-end FY18 supplemental appropriations just described, the year's significant supplemental appropriation activity included:

- \$295 million for transfers to the Medical Assistance Trust Fund;
- \$116 million to fund collective bargaining contracts (\$101 million to be paid in FY19);
- \$26 million for transitional aid to families with dependent children;
- \$20 million for the Underground Storage Tank Program;
- \$19 million for emergency housing assistance to low-income families.

FY18 budgeted revenues and other financing sources (before transfers between the budgeted funds, which are included in both spending and revenue and thus have no effect on fund balances) totaled \$43.819 billion, an increase of \$2.652 billion, or 6.4%, from FY17. As the Massachusetts economy continued to expand robustly, tax revenue grew by \$2.078 billion, or 8.7%. Personal income tax withholding increased by \$762 million, or 6.4%, capital gains revenue (part of the personal income tax) increased by \$498 million, or 42.0%, from FY17, sales and use tax grew by \$196 million, or 4.4%, corporate taxes grew by \$199 million, or 9.1%, and estate taxes increased by \$136 million, or 33.9%. Federal reimbursements totaled \$11.377 billion, an increase of \$519 million, or 4.8%, primarily due to growth in reimbursements for increased Medicaid program spending and for Medical Assistance Trust payments to local hospitals that care for Medicaid-eligible patients. Departmental revenue, which consists primarily of assessments and fees for state licenses and state services, totaled \$4.742 billion, an increase of \$360 million, or 8.2%, from FY17, driven largely by an increase of \$165 million in revenues from a new universal health insurance assessment, a \$58 million, or 60.3%, increase in payments from the University of Massachusetts Medical Center to the Commonwealth's General Fund, and a \$57 million, or 10.3%, increase in payments from Massachusetts cities and towns to the Group Insurance Commission to reimburse the Commonwealth for local health insurance programs managed by the GIC. Interfund transfers from non-budgeted funds totaled \$1.793 billion, a decrease of \$306 million, or 14.6%, from FY17, due primarily to reduced trust fund closeouts and other non-budgeted fund transfers to the General Fund.

FY18 budgeted expenditures and other financing uses, including transfers to non-budgeted funds (but before transfers between the budgeted funds) totaled \$42.880 billion, an increase of \$1.679 billion, or 4.1%, from FY17, with the increase primarily attributable to higher spending on Medicaid and other health care spending, pension contributions, and Local Aid.

Spending on programs and services totaled \$36.132 billion, an increase of \$1.165 billion, or 3.3%, from FY17. Medicaid expenditures totaled \$15.745 billion, an increase of \$493 million, or 3.2%, from FY17, with the growth primarily due to increased medical services utilization, Medicare premium increases, and health care cost growth, especially pharmacy costs for emerging drugs. Spending for direct local aid (both education aid and unrestricted aid), at \$5.886 billion, was up \$182 million, also up 3.2%, from FY17.

Spending on state employee health benefits paid through the Group Insurance Commission (excluding benefits paid to retirees) decreased by \$29 million, or 1.7%, declining from \$1.663 billion to \$1.634 billion. Budgeted debt service totaled \$2.323 billion, up \$39 million, or 1.7%, from FY17.

Interfund transfers to non-budgeted funds (primarily the Universal Health Care funds) totaled \$1.534 billion, an increase of \$243 million or 18.9%, primarily due to an increase in transfers to the Medical Assistance Trust Fund (where expenditures vary greatly from year-to-year, depending on the timeliness of federal government approval of certain reimbursements), which grew by \$177 million, or 43.8% from FY17, and growth in post-employment benefits (for pension contributions and retiree health insurance), which totaled \$2.891 billion, an increase of \$232 million, or 8.7%, as the Commonwealth increased its pension contribution by \$196 million, or 8.9%, from FY17 and increased its transfer to the State Retiree Benefits Trust Fund (to fund retiree health insurance benefits) by \$48 million, from \$25 million to \$73 million.

CAPITAL ASSETS

Capital assets of the Commonwealth include land, buildings, improvements, equipment, vehicles and infrastructure. The Commonwealth's investment in capital assets for its governmental and business-type activities as of June 30, 2018 amounts to approximately \$22.511 billion, with accumulated depreciation of approximately \$9.909 billion, leaving a net book value of \$12.602 billion. Infrastructure includes assets that are normally immovable and of value only to the Commonwealth, such as roads, bridges, piers and dams. (The investments in capital assets noted above do not include capital assets owned by MassDOT.) The total increase in the Commonwealth's net investment in capital assets from 2017 to 2018 was approximately \$275 million, with a \$9 million decrease in governmental activities, offset by a \$284 million increase in business-type activities. The major increases in the net value of capital assets was in construction in process for governmental activities and construction in process, buildings and machinery and equipment for the business-type activities.

The table below details the capital assets for the Commonwealth.

	Capital Assets at Year - End					
	(net of depreciation)					
	(amounts in thousands)					
	Governmental Activities		Business - Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Land.....	\$ 914,565	\$ 894,529	\$ 229,109	\$ 158,275	\$ 1,143,674	\$ 1,052,804
Historical treasures	—	—	1,464	1,365	1,464	1,365
Construction in process	659,462	866,377	852,119	979,065	1,511,581	1,845,442
Buildings	2,584,028	2,593,744	6,412,902	5,588,573	8,996,930	8,182,317
Machinery and equipment	484,434	288,416	266,330	820,537	750,764	1,108,953
Infrastructure, excluding central artery	141,200	150,020	—	—	141,200	150,020
Library collections.....	—	—	56,687	63,121	56,687	63,121
Total	\$ 4,783,689	\$ 4,793,086	\$ 7,818,611	\$ 7,610,936	\$ 12,602,300	\$ 12,404,022

Additional detail on the Commonwealth's FY18 capital asset activity can be found in [Note 5](#) to the basic financial statements ("Capital Assets") on pages 90–91.

DEBT ADMINISTRATION

The Commonwealth issues short-term and long-term debt. Debt that is general obligation in nature is backed by the full faith and credit of the Commonwealth and paid from governmental funds. Additionally, short-term notes are issued and redeemed annually.

To fund the FY18 capital budget, the Commonwealth borrowed by issuing \$2.384 billion in long-term bonds, \$1.734 billion of which was general obligation debt and \$650 million of which was special obligation debt secured by motor fuels taxes, motor vehicle license and registration fees, and future federal reimbursements for transportation spending. All new bond sales were either for general government purposes, for road and bridge repair, or unallocated as of year-end and assumed to be for general purposes, including for construction and equipment purchases. In addition, the Commonwealth issued \$993 million in debt to refund already existing debt, taking advantage of continued low interest rates in FY18. During the year, the Commonwealth also issued \$1.5 billion in Revenue Anticipation Notes (RANs) in three separate \$500 million series which were retired in April, May and June 2018.

Approximately 13.2% percent of the Commonwealth's \$23.143 billion in general obligation debt outstanding as of June 30, 2018 was issued as variable rate bonds. During fiscal 2018 there were no changes to credit ratings on any of the Commonwealth's outstanding debt.

The following table details the Commonwealth’s debt by type for the fiscal year compared to the prior fiscal year, excluding premiums and discounts.

Additional detail on the Commonwealth’s short-term debt can be found in [Note 6](#) (“Short-Term Financing and Credit Arrangements”) on pages 91–92 and [Note 7](#) (“Long-Term Obligations”) on pages 92–108.

Outstanding Long - Term Debt Obligations
(amounts in thousands)

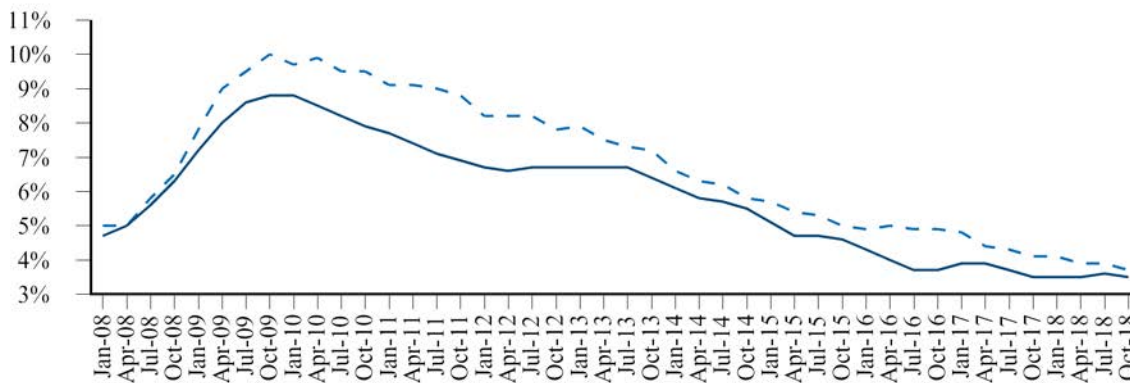
	Governmental Activities		Business - Type Activities		Total	
	2018	2017	2018	2017	2018	2017
General obligation bonds	\$ 23,143,374	\$ 22,716,695	\$ —	\$ —	\$ 23,143,374	\$ 22,716,695
Special obligation bonds (excluding GANs) ...	3,469,000	2,990,960	—	—	3,469,000	2,990,960
Revenue obligation bonds	—	—	4,438,502	4,529,353	4,438,502	4,529,353
Grant anticipation notes	748,445	738,010	—	—	748,445	738,010
Subtotal	27,360,819	26,445,665	4,438,502	4,529,353	31,799,321	30,975,018
Massachusetts School Building Authority	5,990,554	5,828,790	—	—	5,990,554	5,828,790
Total	\$ 33,351,373	\$ 32,274,455	\$ 4,438,502	\$ 4,529,353	\$ 37,789,875	\$ 36,803,808

ECONOMIC FACTORS AFFECTING NEXT YEAR’S BUDGET

The Commonwealth, with an international reputation for medical, cultural, historical and educational institutions remains the economic and educational hub of New England. The Commonwealth’s economy remains diversified, but its strongest component is its knowledge-based technology and service industries and consequently the state relies heavily on a highly educated workforce. The Commonwealth is home to sixteen S&P 500 companies, among them thirteen Fortune 500 headquarters.

The Massachusetts economy, with its concentration of higher education institutions, life sciences and medical industries and high technology companies has outperformed the nation’s economy as a whole during and immediately following the most recent recession. In July 2018 the Massachusetts unemployment rate was 3.6%, lower than the national rate of 3.9%, and by October 2018 the Massachusetts rate had fallen to 3.5% compared to the national rate of 3.7%.

*Unemployment Rate
July 2008 – October 2018*



The General Appropriation Act for FY19 is based on an FY19 tax revenue estimate of approximately \$28.509 billion, an increase of \$721 million, or 2.6%, from FY18 actual tax collections. Of that amount, \$23.959 billion represents taxes available for budget after adjusting for \$4.549 billion in tax revenue that is allocated to state pension contributions (\$2.609 billion), sales tax revenue dedicated to the Massachusetts Bay Transportation Authority (\$1.038 billion) and the Massachusetts School Building Authority (\$878 million), and revenue allocated to the non-budgetary Workforce Training Fund (\$24 million).

Through November 30, 2018, FY19 year-to-date tax collections totaled \$10.746 billion, up \$829 million, or 8.4%, from the same period in FY18, \$423 million above the year-to-date benchmark based on the \$28.509 billion FY18 tax revenue estimate. In October 2018 the Secretary of Administration and Finance re-affirmed the FY19 tax revenue estimate of \$28.509 billion and tax revenues available for budget.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Commonwealth's finances and accountability for all of the Commonwealth's citizens, taxpayers, customers, investors and creditors. Questions concerning any of the information provided in this report or requests for additional information should be addressed via email to comptroller.info@state.ma.us or mail to: Commonwealth of Massachusetts, Office of the State Comptroller, 1 Ashburton Place, 9th Floor, Boston, Massachusetts, 02108. You may also download this report at: <https://www.macomptroller.org/cafr>.

Basic Financial Statements

Government-wide Financial Statements
Statement of Net Position
Statement of Activities

Statement of Net Position

June 30, 2018

(Amounts in thousands)

	Primary Government			Discretely Presented Component Units
	Governmental Activities	Business-Type Activities	Government Wide Total	
ASSETS AND DEFERRED OUTFLOWS				
Current assets:				
Cash and cash equivalents.....	\$ 5,206,115	\$ 567,685	\$ 5,773,800	\$ 3,417,913
Restricted cash with fiscal agent.....	294,857	—	294,857	—
Short-term investments.....	272,468	551,249	823,717	—
Assets held in trust.....	—	—	—	46,153
Receivables, net of allowance for uncollectibles:				
Taxes.....	3,345,403	—	3,345,403	—
Federal grants and reimbursements receivable.....	2,209,037	97,472	2,306,509	105,795
Loans.....	7,165	59,903	67,068	634,219
Other receivables.....	503,999	610,471	1,114,470	317,298
Due from cities and towns.....	38,050	—	38,050	—
Due from component units.....	543	1,404	1,947	—
Due from primary government.....	—	—	—	666,177
Other current assets.....	—	43,356	43,356	82,164
Total current assets	11,877,637	1,931,540	13,809,177	5,269,719
Noncurrent assets:				
Cash and cash equivalents - restricted.....	—	360,101	360,101	869,818
Long-term investments.....	—	983,757	983,757	1,430,353
Investments, restricted investments and annuity contracts.....	1,968,398	849	1,969,247	54,892
Receivables, net of allowance for uncollectibles:				
Taxes.....	235,651	—	235,651	—
Federal grants and reimbursements receivable.....	69,759	—	69,759	—
Loans.....	94,238	7,326	101,564	4,098,380
Other receivables.....	93,379	64,640	158,019	40,028
Due from component units.....	7,935	—	7,935	—
Due from primary government.....	—	—	—	5,600
Non-depreciable capital assets.....	1,574,027	1,082,692	2,656,719	12,817,767
Depreciable capital assets, net.....	3,209,662	6,735,919	9,945,581	24,038,243
Other noncurrent assets.....	87,274	136,943	224,217	43,303
Other noncurrent assets - restricted.....	447	1,220,512	1,220,959	—
Total noncurrent assets	7,340,770	10,592,739	17,933,509	43,398,384
Total assets	19,218,407	12,524,279	31,742,686	48,668,103
Deferred outflows of resources:				
Deferred change in fair value of interest rate swaps.....	139,684	19,842	159,526	21,710
Deferred loss on refunding.....	156,594	115,139	271,733	302,920
Deferred outflows related to pension.....	6,860,403	225,692	7,086,095	396,928
Deferred outflows related to OPEB.....	518,697	203,570	722,267	92,586
Total deferred outflows of resources	7,675,378	564,243	8,239,621	814,144
Total assets and deferred outflows	26,893,785	13,088,522	39,982,307	49,482,247
LIABILITIES AND DEFERRED INFLOWS				
Current liabilities:				
Accounts payable and other liabilities.....	3,875,323	340,795	4,216,118	1,162,666
Accrued payroll.....	109,625	178,799	288,424	1,833
Compensated absences.....	417,490	144,501	561,991	25,384
Accrued interest payable.....	416,834	23,100	439,934	212,995
Tax refunds and abatements payable.....	1,515,582	48,239	1,563,821	—
Due to component units.....	562,581	13	562,594	—
Due to primary government.....	—	—	—	1,947
Due to federal government.....	18,673	—	18,673	—
Claims and judgments.....	12,498	—	12,498	—
Unearned revenue.....	—	16,227	16,227	246,047

Statement of Net Position

June 30, 2018

(Amounts in thousands)

	Primary Government			Discretely Presented Component Units
	Governmental Activities	Business-Type Activities	Government Wide Total	
Deposits and unearned revenue.....	—	83,689	83,689	—
School construction grants payable.....	219,505	—	219,505	—
Capital leases.....	3,272	2,180	5,452	—
Massachusetts School Building Authority bonds and unamortized premiums....	184,054	—	184,054	—
Bonds payable and unamortized premiums	1,574,414	158,824	1,733,238	722,305
Environmental remediation liability	6,152	—	6,152	—
Total current liabilities	8,916,003	996,367	9,912,370	2,373,177
Noncurrent liabilities:				
Compensated absences.....	187,838	67,066	254,904	15,923
Accrued interest payable.....	—	—	—	198,917
Due to component units	5,600	—	5,600	—
Due to primary government	—	—	—	7,935
Due to federal government - grants.....	—	6,157	6,157	—
Claims and judgments	10,000	—	10,000	—
Unearned revenue.....	—	—	—	15,860
Prizes payable.....	971,434	—	971,434	—
Capital leases.....	19,220	7,645	26,865	58,517
Bonds payable and unamortized premiums	27,921,987	4,279,678	32,201,665	10,564,268
Massachusetts School Building Authority bonds and unamortized premiums....	6,419,231	—	6,419,231	—
School construction grants payable.....	262,151	—	262,151	—
Environmental remediation liability	524,459	—	524,459	—
Liability for derivative instruments.....	139,684	42,557	182,241	251,950
Net pension liability	36,724,303	716,650	37,440,953	1,973,209
Net OPEB liability	15,289,604	1,391,846	16,681,450	3,082,223
Other noncurrent liabilities	361,898	283,907	645,805	211,593
Total noncurrent liabilities	88,837,409	6,795,506	95,632,915	16,380,395
Total liabilities	97,753,412	7,791,873	105,545,285	18,753,572
Deferred inflows of resources:				
Deferred service concession arrangements.....	—	13,394	13,394	1,003
Deferred inflows related to pension	880,386	96,419	976,805	90,383
Deferred gain on refunding	459,888	—	459,888	8,858
Deferred inflows related to OPEB	1,954,833	166,753	2,121,586	280,213
Other.....	—	1,187	1,187	—
Total deferred inflows of resources	3,295,107	277,753	3,572,860	380,457
Total liabilities and deferred inflows	101,048,519	8,069,626	109,118,145	19,134,029
NET POSITION				
Net investment in capital assets	(1,446,934)	3,780,850	2,333,916	30,350,557
Restricted for:				
Unemployment benefits.....	—	1,544,991	1,544,991	—
Retirement of indebtedness.....	939,900	—	939,900	—
Higher education endowment funds	—	28,800	28,800	—
Higher education academic support and programs.....	—	2,500	2,500	—
Higher education scholarships and fellowships:				
Nonexpendable	—	3,627	3,627	—
Expendable	—	8,110	8,110	—
Other nonexpendable purposes.....	—	221	221	—
Capital projects - expendable purposes.....	—	6,374	6,374	—
Other purposes	606,302	238,486	844,788	3,787,635
Unrestricted (deficits).....	(74,254,002)	(595,063)	(74,849,065)	(3,789,974)
Total net position	\$ (74,154,734)	\$ 5,018,896	\$ (69,135,838)	\$ 30,348,218

The notes to the financial statements are an integral part of this statement.

(concluded)

Statement of Activities
Fiscal Year Ended June 30, 2018
(Amounts in thousands)

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets			Discretely Presented Component Units
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business- Type Activities	Total	
Primary government:								
Governmental Activities:								
General government	\$ 2,792,578	\$ 652,138	\$ 687,012	\$ 1,653	\$ (1,451,775)	\$ —	\$ (1,451,775)	\$ —
Judiciary	1,162,698	91,500	2,067	—	(1,069,131)	—	(1,069,131)	—
Direct local aid	5,900,634	—	—	—	(5,900,634)	—	(5,900,634)	—
Medicaid	18,105,722	1,054,698	10,187,968	76,933	(6,786,123)	—	(6,786,123)	—
Group health insurance	1,648,278	941,946	—	—	(706,332)	—	(706,332)	—
Energy and environmental affairs	732,161	273,504	70,114	—	(388,543)	—	(388,543)	—
Housing and economic development	1,544,103	213,530	530,660	—	(799,913)	—	(799,913)	—
Health and human services	8,298,704	1,292,584	3,117,650	—	(3,888,470)	—	(3,888,470)	—
Transportation and public works	2,483,768	625,595	454	20,416	(1,837,303)	—	(1,837,303)	—
Early elementary and secondary education	6,101,603	7,846	1,269,241	—	(4,824,516)	—	(4,824,516)	—
Public safety and homeland security	2,757,266	248,234	213,280	—	(2,295,752)	—	(2,295,752)	—
Labor and workforce development	295,061	269,293	152,488	—	126,720	—	126,720	—
Lottery	4,325,321	5,436,551	—	—	1,111,230	—	1,111,230	—
Interest (unallocated)	1,419,910	—	—	—	(1,419,910)	—	(1,419,910)	—
Total governmental activities	57,567,807	11,107,419	16,230,934	99,002	(30,130,452)	—	(30,130,452)	—
Business-Type Activities:								
Unemployment Compensation	1,552,404	1,582,755	41,420	—	—	71,771	71,771	—
Higher Education:								
University of Massachusetts	3,307,087	1,907,824	567,678	67,437	—	(764,148)	(764,148)	—
State Universities	1,089,554	658,608	96,944	2,344	—	(331,658)	(331,658)	—
Community Colleges	891,991	262,629	226,920	90,420	—	(312,022)	(312,022)	—
Total business-type activities	6,841,036	4,411,816	932,962	160,201	—	(1,336,057)	(1,336,057)	—
Total primary government	\$ 64,408,843	\$ 15,519,235	\$ 17,163,896	\$ 259,203	(30,130,452)	(1,336,057)	(31,466,509)	—
Discretely Presented Component Units:								
Massachusetts Department of Transportation	\$ 5,540,247	\$ 1,581,834	\$ 2,204,163	\$ 2,374,926	—	—	—	\$ 620,676
Commonwealth Health Insurance Connector	789,356	746,057	47,316	—	—	—	—	4,017
Massachusetts Clean Water Trust	142,579	113,643	26,003	72,520	—	—	—	69,587
Other nonmajor component units	497,313	343,282	54,629	46,260	—	—	—	(53,142)
Total discretely presented component units	\$ 6,969,495	\$ 2,784,816	\$ 2,332,111	\$ 2,493,706	—	—	—	641,138

(continued)

	Primary Government			Discretely Presented Component Units
	Governmental Activities	Business-Type Activities	Total	
General revenues:				
Taxes:				
Income	16,048,087	—	16,048,087	—
Sales taxes	6,517,085	—	6,517,085	—
Corporate taxes	2,295,833	—	2,295,833	—
Motor and special fuel taxes	774,417	—	774,417	—
Other taxes	2,328,671	—	2,328,671	—
Miscellaneous:				
Investment earnings/(loss)	84,341	(74,878)	9,463	64,922
Tobacco settlement	257,313	—	257,313	—
Contribution from municipalities	80,768	—	80,768	—
Other revenue	860,746	498,268	1,359,014	136,321
Transfers	(1,123,731)	1,123,731	—	—
Total general revenues and transfers	28,123,530	1,547,121	29,670,651	201,243
Change in net position	(2,006,922)	211,064	(1,795,858)	842,381
Net position (deficits) - beginning, as restated	(72,147,812)	4,807,832	(67,339,980)	29,505,837
Net position (deficits) - ending	\$ (74,154,734)	\$ 5,018,896	\$ (69,135,838)	\$ 30,348,218

The notes to the financial statements are an integral part of this statement.

(concluded)



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Governmental Fund Financial Statements

Balance Sheet
Governmental Funds
June 30, 2018
(Amounts in thousands)

	General	Lotteries	Massachusetts School Building Authority	Other Governmental Funds	Total
ASSETS					
Cash and cash equivalents	\$ 2,451,807	\$ 46,658	\$ 206,192	\$ 2,501,458	\$ 5,206,115
Restricted cash with fiscal agent.....	—	—	74,816	220,041	294,857
Investments and restricted investments	272,468	—	996,964	—	1,269,432
Receivables, net of allowance for uncollectibles:					
Taxes	3,326,733	—	68,586	185,735	3,581,054
Due from federal government.....	1,910,956	—	—	367,840	2,278,796
Loan receivable.....	—	—	86,403	15,000	101,403
Other receivables	411,436	3,505	8,715	142,247	565,903
Due from cities and towns	38,050	—	—	—	38,050
Due from other funds	26,651	—	—	71,734	98,385
Due from component units.....	543	—	—	—	543
Total assets	\$ 8,438,644	\$ 50,163	\$ 1,441,676	\$ 3,504,055	\$ 13,434,538
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 2,922,654	\$ 44,219	5,072	\$ 863,255	\$ 3,835,200
Accrued payroll.....	99,118	—	—	10,507	109,625
Tax refunds and abatements payable	1,514,831	—	320	431	1,515,582
Due to other funds.....	—	—	—	98,385	98,385
Due to component units	45,998	—	—	516,583	562,581
Due to federal government.....	18,673	—	—	—	18,673
Claims and judgments.....	12,498	—	—	—	12,498
School construction grants payable	—	—	32,883	—	32,883
Other accrued liabilities	51	—	—	40,073	40,124
Total liabilities	4,613,823	44,219	38,275	1,529,234	6,225,551
Deferred inflows of resources.....	309,029	4,760	—	57,000	370,789
Total liabilities and deferred inflows of resources	4,922,852	48,979	38,275	1,586,234	6,596,340
Fund balances:					
Restricted	—	—	968,324	551,509	1,519,833
Committed.....	2,001,299	1,184	—	1,299,493	3,301,976
Assigned.....	349,927	—	435,077	170,826	955,830
Unassigned (deficits)	1,164,566	—	—	(104,007)	1,060,559
Fund balances	3,515,792	1,184	1,403,401	1,917,821	6,838,198
Total liabilities, deferred inflows of resources and fund balances	\$ 8,438,644	\$ 50,163	\$ 1,441,676	\$ 3,504,055	\$ 13,434,538

The notes to the financial statements are an integral part of this statement.

Reconciliation of Governmental Fund Balances to the Statement of Net Position

June 30, 2018

(Amounts in thousands)

Total fund balances - governmental funds \$ **6,838,198**

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. Those assets consist of:

Capital assets not being depreciated	1,574,027	
Capital assets being depreciated, net	3,209,662	
Capital assets, net of accumulated depreciation		4,783,689

Revenues are not available soon enough after year end to pay for the current period's expenditures and therefore are unavailable deferred inflows of resources in the governmental funds..... 370,789

Deferred inflows of resources are not reported in the governmental funds:

Gain on refunding	(459,888)	
Pension related	(880,386)	
OPEB related	(1,954,833)	
Total deferred inflow of resources.....		(3,295,107)

Deferred outflows of resources are not reported in the governmental funds:

Loss on refunding	156,594	
Pension related	6,860,403	
OPEB related	518,697	
Total deferred outflow of resources.....		7,535,694

Massachusetts School Building Authority assets and deferred outflows 91,196

Long-term receivables 28,000

Lottery annuity contracts 971,434

Due from component units 7,935

Certain liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. These liabilities include:

Retirement systems' net pension liability.....	(36,724,303)	
Net OPEB liability	(15,289,604)	
Commonwealth bonded debt	(27,360,819)	
Unamortized bond premiums.....	(2,135,582)	
Accrued interest on bonds.....	(416,834)	
Massachusetts School Building Authority bonded debt	(6,603,285)	
Massachusetts School Building Authority grants to municipalities	(448,773)	
Prizes payable	(971,434)	
Capital leases	(22,492)	
Environmental remediation liability	(530,611)	
Claims and judgments.....	(10,000)	
Employee benefits, including compensated absences, health insurance benefits and other compensation claims	(972,825)	
Long-term liabilities (including current portions).....		(91,486,562)

Total net (deficit) - governmental activities..... **\$ (74,154,734)**

The notes to the financial statements are an integral part of this statement.

Statement of Revenues, Expenditures and Changes in Fund Balances
 Governmental Funds
 Fiscal Year Ended June 30, 2018
 (Amounts in thousands)

	General	Lotteries	Massachusetts School Building Authority	Other Governmental Funds	Total
REVENUES					
Taxes.....	\$ 24,627,517	\$ 487	\$ 850,569	\$ 2,764,802	\$ 28,243,375
Assessments.....	417,109	—	—	936,687	1,353,796
Federal grants and reimbursements.....	11,472,046	—	—	4,858,712	16,330,758
Departmental.....	3,356,390	5,436,938	—	1,523,625	10,316,953
Miscellaneous.....	595,547	5,108	38,818	569,616	1,209,089
Total revenues.....	40,468,609	5,442,533	889,387	10,653,442	57,453,971
EXPENDITURES					
Current:					
Legislature.....	67,850	—	—	—	67,850
Judiciary.....	919,012	—	—	2,084	921,096
Inspector General.....	4,369	—	—	396	4,765
Governor and Lieutenant Governor.....	6,574	—	—	5	6,579
Secretary of the Commonwealth.....	39,339	—	—	5,710	45,049
Treasurer and Receiver-General.....	171,110	4,344,864	12,388	1,325,408	5,853,770
Auditor of the Commonwealth.....	18,610	—	—	142	18,752
Attorney General.....	47,969	—	—	49,669	97,638
Ethics Commission.....	2,042	—	—	—	2,042
District Attorney.....	119,206	—	—	9,765	128,971
Office of Campaign and Political Finance.....	1,594	—	—	—	1,594
Sheriff's Departments.....	620,510	—	—	14,839	635,349
Disabled Persons Protection Commission.....	3,131	—	—	571	3,702
Board of Library Commissioners.....	25,443	—	—	2,791	28,234
Massachusetts Gaming Commission.....	—	—	—	44,236	44,236
Comptroller.....	13,877	—	—	2,444	16,321
Administration and Finance.....	2,188,035	—	—	286,992	2,475,027
Energy and Environmental Affairs.....	212,803	—	—	242,467	445,270
Health and Human Services.....	5,922,254	—	—	1,891,141	7,813,395
Executive Office of Technology Services.....	73,528	—	—	7,746	81,274
Massachusetts Department of Transportation.....	—	—	—	2,387,223	2,387,223
Office of the Child Advocate.....	706	—	—	—	706
Cannabis Control Commission.....	2,241	—	—	—	2,241
Executive Office of Education.....	2,668,507	—	—	1,054,400	3,722,907
Center for Health and Information Analysis.....	21,452	—	—	5	21,457
Massachusetts School Building Assistance.....	—	—	550,332	—	550,332
Public Safety and Homeland Security.....	1,164,730	—	—	234,924	1,399,654
Housing and Economic Development.....	532,560	—	—	556,837	1,089,397
Labor and Workforce development.....	55,392	—	—	199,802	255,194
Medicaid.....	15,811,390	—	—	2,294,331	18,105,721
Post employment benefits.....	1,247,765	—	1,602	45,059	1,294,426
Direct local aid.....	5,836,291	—	—	64,343	5,900,634
Capital outlay:					
Capital acquisition and construction.....	—	—	—	1,252,995	1,252,995
Debt service/commercial paper repayments.....	—	—	2,568,049	2,518,969	5,087,018
Principal on current refundings.....	—	—	—	521,865	521,865
Total expenditures.....	37,798,290	4,344,864	3,132,371	15,007,159	60,282,684
Excess/(deficiency) of revenues over/(under) expenditures.....	2,670,319	1,097,669	(2,242,984)	(4,353,717)	(2,828,713)
OTHER FINANCING SOURCES					
Bonds premium.....	—	—	51,136	510,383	561,519
Issuance of general and special obligation bonds.....	—	—	395,000	2,384,443	2,779,443
Issuance of current refunding bonds.....	—	—	—	466,735	466,735
Issuance of advance refunding bonds.....	—	—	—	526,180	526,180
Commercial paper proceeds.....	—	—	1,487,665	—	1,487,665
Proceeds of capital leases.....	228	—	—	—	228
Transfers in for debt service.....	—	—	—	2,480,756	2,480,756
Transfers in.....	1,651,451	—	—	1,582,361	3,233,812
Total other financing sources.....	1,651,679	—	1,933,801	7,950,858	11,536,338
OTHER FINANCING USES					
Payments to refunding bond escrow agent.....	—	—	—	627,998	627,998
Transfers out.....	809,611	1,097,398	—	1,176,986	3,083,995
Transfers of appropriations.....	1,150,483	—	—	1,396	1,151,879
Transfers of bond proceeds.....	—	—	—	121,669	121,669
Transfers out for debt service.....	1,184,124	—	—	1,296,632	2,480,756
Total other financing uses.....	3,144,218	1,097,398	—	3,224,681	7,466,297
Total other financing sources and uses.....	(1,492,539)	(1,097,398)	1,933,801	4,726,177	4,070,041
Net change in fund balances/(deficits).....	1,177,780	271	(309,183)	372,460	1,241,328
Fund balances at beginning of year.....	2,338,012	913	1,712,584	1,545,361	5,596,870
Fund balances at end of year.....	\$ 3,515,792	\$ 1,184	\$ 1,403,401	\$ 1,917,821	\$ 6,838,198

The notes to the financial statements are an integral part of this statement.

Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities

For the fiscal year ended June 30, 2018

(Amounts in thousands)

Net change in fund balances - total governmental funds	\$ 1,241,328
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This amount represents capital outlays including increases to construction in process, but excluding reductions and dispositions	224,845
Current year depreciation expense	(234,243)
Amounts presented in the statement of activities, but not in the change in fund balances due to difference in revenue and expense recognition under different bases of accounting	(284,351)
Long-term receivables	28,000
The issuance of long - term debt provides current financial resources to governmental funds, while the repayment of principal of long - term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net assets. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized as part of the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.....	(1,349,826)
Decrease in capital leases.....	8,364
Massachusetts School Building Authority.....	561,790
Net pension costs	(1,804,625)
Net OPEB costs.....	(383,954)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore, are not reported as expenditures in governmental funds. These expenses include accrued interest, lottery prizes, claims and benefits that are reported in the statement of activities, but not in funds.....	(14,250)
Change in net position of governmental activities	<u>\$ (2,006,922)</u>

The notes to the financial statements are an integral part of this statement



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Proprietary Fund Financial Statements

Statement of Net Position
Proprietary Funds
June 30, 2018
(Amounts in thousands)

	Unemployment Compensation Trust Fund	University of Massachusetts	State Universities	Community Colleges	Total
ASSETS AND DEFERRED OUTFLOWS:					
Current assets:					
Cash and cash equivalents.....	\$ 23,402	\$ 103,152	\$ 302,904	\$ 138,227	\$ 567,685
Short-term investments	—	470,139	30,662	50,448	551,249
Receivables, net of allowance for uncollectibles:					
Federal grants and reimbursements receivable.....	—	92,784	1,328	3,360	97,472
Loans	—	58,571	1,332	—	59,903
Other receivables	389,388	116,860	23,947	38,120	568,315
Due from affiliates	—	42,156	—	—	42,156
Due from foundation	—	142	402	860	1,404
Other current assets	—	34,881	5,157	3,318	43,356
Total current assets	412,790	918,685	365,732	234,333	1,931,540
Noncurrent assets:					
Cash and cash equivalents - restricted.....	—	327,237	31,659	1,205	360,101
Long-term investments	—	775,294	156,667	51,796	983,757
Investments and restricted investments	—	—	849	—	849
Other receivables, net	—	64,251	364	25	64,640
Loans receivable, net	—	—	7,175	151	7,326
Non-depreciable capital assets.....	—	786,856	95,160	200,676	1,082,692
Depreciable capital assets, net	—	4,288,620	1,896,364	550,935	6,735,919
Other noncurrent assets	—	124,527	11,806	610	136,943
Other noncurrent assets - restricted	1,220,512	—	—	—	1,220,512
Total noncurrent assets	1,220,512	6,366,785	2,200,044	805,398	10,592,739
Total assets	1,633,302	7,285,470	2,565,776	1,039,731	12,524,279
Deferred outflows of resources:					
Deferred change in fair value of interest rate swaps	—	18,887	—	955	19,842
Deferred outflows related to pensions	—	126,244	65,046	34,402	225,692
Deferred outflows related to OPEB	—	121,761	57,319	24,490	203,570
Loss on debt refunding	—	74,443	40,696	—	115,139
Total deferred outflows of resources	—	341,335	163,061	59,847	564,243
Total assets and deferred outflows	1,633,302	7,626,805	2,728,837	1,099,578	13,088,522
LIABILITIES AND DEFERRED INFLOWS:					
Current liabilities:					
Accounts payable and other liabilities.....	40,072	230,265	37,901	32,557	340,795
Accrued payroll	—	107,820	42,627	28,352	178,799
Compensated absences	—	76,749	35,028	32,724	144,501
Accrued interest payable	—	22,308	675	117	23,100
Tax refunds and abatements payable.....	48,239	—	—	—	48,239
Unearned revenue.....	—	—	12,996	3,231	16,227
Student deposits and unearned revenues	—	52,884	8,182	22,623	83,689
Due to foundation.....	—	13	—	—	13
Capital leases	—	635	909	636	2,180
Bonds, notes payable and other obligations	—	105,584	48,598	4,642	158,824
Total current liabilities	88,311	596,258	186,916	124,882	996,367
Noncurrent liabilities:					
Compensated absences	—	31,556	19,582	15,928	67,066
Due to federal government - grants	—	—	6,157	—	6,157
Capital leases	—	1,627	4,946	1,072	7,645
Bonds, notes payable and other obligations	—	2,915,253	1,299,979	64,446	4,279,678
Liability for derivative instruments	—	41,602	—	955	42,557
Net pension liability.....	—	420,234	187,369	109,047	716,650
Net OPEB liability.....	—	817,357	362,388	212,101	1,391,846
Other noncurrent liabilities.....	—	272,549	6,860	4,498	283,907
Total noncurrent liabilities	—	4,500,178	1,887,281	408,047	6,795,506
Total liabilities	88,311	5,096,436	2,074,197	532,929	7,791,873

Statement of Net Position
Proprietary Funds
June 30, 2018
(Amounts in thousands)

	Unemployment Compensation Trust Fund	University of Massachusetts	State Universities	Community Colleges	Total
Deferred inflows of resources:					
Deferred service concession arrangements.....	—	—	12,982	412	13,394
Deferred inflows related to pensions	—	45,540	20,737	30,142	96,419
Deferred inflows related to OPEB	—	95,945	42,540	28,268	166,753
Other	—	—	—	1,187	1,187
Total deferred inflows of resources.....	—	141,485	76,259	60,009	277,753
Total liabilities and deferred inflows.....	88,311	5,237,921	2,150,456	592,938	8,069,626
NET POSITION:					
Net investment in capital assets.....	—	2,288,599	810,612	681,639	3,780,850
Restricted for:					
Unemployment benefits	1,544,991	—	—	—	1,544,991
Higher education endowment funds.....	—	28,022	347	431	28,800
Higher education academic support and programs	—	—	867	1,633	2,500
Higher education scholarships and fellowships:					
Nonexpendable	—	—	3,627	—	3,627
Expendable	—	—	5,591	2,519	8,110
Other nonexpendable purposes	—	—	221	—	221
Capital projects - expendable purposes.....	—	—	1,974	4,400	6,374
Other purposes.....	—	222,343	14,641	1,502	238,486
Unrestricted	—	(150,080)	(259,499)	(185,484)	(595,063)
Total net position.....	\$ 1,544,991	\$ 2,388,884	\$ 578,381	\$ 506,640	\$ 5,018,896

The notes to the financial statements are an integral part of this statement.

(concluded)

Statement of Revenues, Expenses and Changes in Net Position

Proprietary Funds

Fiscal Year Ended June 30, 2018

(Amounts in thousands)

	Unemployment Compensation Trust Fund	University of Massachusetts	State Universities	Community Colleges	Total
Operating revenues:					
Unemployment compensation contribution	\$ 1,550,379	\$ —	\$ —	\$ —	\$ 1,550,379
Net tuition and fees	—	874,826	420,735	210,343	1,505,904
Grants and reimbursements	—	560,990	96,944	226,920	884,854
Auxiliary enterprises	—	416,733	128,414	11,444	556,591
Sales & services	—	480,106	93,662	24,814	598,582
Miscellaneous	32,376	136,159	15,797	16,028	200,360
Total operating revenues	1,582,755	2,468,814	755,552	489,549	5,296,670
Operating expenses:					
Unemployment compensation	1,552,404	—	—	—	1,552,404
Instruction	—	876,235	347,318	327,474	1,551,027
Research	—	471,135	216	15	471,366
Academic support	—	187,495	102,590	101,448	391,533
Student services	—	156,934	111,323	133,491	401,748
Scholarships and fellowships	—	50,410	37,981	53,532	141,923
Public service	—	78,238	7,913	6,000	92,151
Operation and maintenance of plant	—	255,825	103,553	82,181	441,559
Institutional support	—	271,535	122,749	125,979	520,263
Other operating expenses	—	377,427	3,293	—	380,720
Depreciation	—	261,417	102,460	37,450	401,327
Auxiliary operations	—	313,741	149,413	11,496	474,650
Total operating expenses	1,552,404	3,300,392	1,088,809	879,066	6,820,671
Operating income/(loss)	30,351	(831,578)	(333,257)	(389,517)	(1,524,001)
Nonoperating revenues/(expenses):					
Other federal revenues	18,095	6,688	—	—	24,783
Other revenues	—	398,684	99,584	—	498,268
Other expenses	—	(6,695)	(745)	(12,925)	(20,365)
Investment income/(loss)	23,325	(37,763)	(41,755)	4,640	(51,553)
Total nonoperating revenues/(expenses)	41,420	360,914	57,084	(8,285)	451,133
Income/(loss) before capital grants and contributions and transfers	71,771	(470,664)	(276,173)	(397,802)	(1,072,868)
Capital grants and contributions	—	67,437	2,344	90,420	160,201
Transfers, net	—	480,813	254,152	388,766	1,123,731
Total capital grants and contributions and transfers	—	548,250	256,496	479,186	1,283,932
Change in net position	71,771	77,586	(19,677)	81,384	211,064
Total net position - beginning, as restated	1,473,220	2,311,298	598,058	425,256	4,807,832
Total net position - ending	\$ 1,544,991	\$ 2,388,884	\$ 578,381	\$ 506,640	\$ 5,018,896

The notes to the financial statements are an integral part of this statement.

Statement of Cash Flows
Proprietary Funds
Fiscal Year Ended June 30, 2018
(Amounts in thousands)

	Unemployment Compensation Trust Fund	University of Massachusetts	State Universities	Community Colleges	Total
CASH FLOWS FROM OPERATING ACTIVITIES					
Collection of unemployment contributions.....	\$ 1,451,051	\$ —	\$ —	\$ —	\$ 1,451,051
Tuition, residence, dining and other student fees.....	—	974,631	425,214	213,046	1,612,891
Research grants and contracts.....	—	569,408	185,015	247,918	1,002,341
Payments to suppliers.....	—	(848,595)	(261,761)	(167,326)	(1,277,682)
Payments to employees.....	—	(2,093,622)	(529,531)	(509,215)	(3,132,368)
Payments to students.....	—	(50,402)	(28,215)	(53,533)	(132,150)
Payments for unemployment benefits.....	(1,535,097)	—	—	—	(1,535,097)
Collection of loans to students and employees.....	—	683	1,390	234	2,307
Income from contract services.....	—	—	2,235	1,756	3,991
Maintenance costs.....	—	—	(2,079)	—	(2,079)
Auxiliary enterprise charges.....	—	416,628	77,478	(765)	493,341
Other receipts.....	32,376	688,416	18,871	27,074	766,737
Net cash (used in) operating activities.....	(51,670)	(342,853)	(111,383)	(240,811)	(746,717)
CASH FLOW FROM NON-CAPITAL FINANCING ACTIVITIES					
State appropriations.....	—	751,894	257,407	276,627	1,285,928
Grants and contracts.....	18,095	127,087	3,718	3,555	152,455
Student organizations agency transactions.....	—	1,549	—	58	1,607
Net cash provided by non-capital financing activities.....	18,095	880,530	261,125	280,240	1,439,990
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Capital appropriations.....	—	67,437	2,706	16,512	86,655
Purchases of capital assets.....	—	(487,912)	(60,188)	(41,794)	(589,894)
Proceeds from sales of capital assets.....	—	—	—	(169)	(169)
Proceeds from debt issuance.....	—	105,380	27,789	125	133,294
Other capital asset activity.....	—	8,945	(8,550)	—	395
Principal paid on capital debt and leases.....	—	(96,325)	(50,120)	(5,024)	(151,469)
Interest paid on capital debt and leases.....	—	(125,825)	(57,510)	(2,449)	(185,784)
Net cash (used in) capital financing activities.....	—	(528,300)	(145,873)	(32,799)	(706,972)
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from sales and maturities of investments.....	—	1,244,020	47,579	69,867	1,361,466
Purchases of investments.....	—	(1,396,424)	(50,096)	(81,757)	(1,528,277)
Investment earnings.....	23,325	19,774	10,116	12,107	65,322
Net cash provided by/(used in) investing activities.....	23,325	(132,630)	7,599	217	(101,489)
Net increase (decrease) in cash and cash equivalents.....	(10,250)	(123,253)	11,468	6,847	(115,188)
Cash and cash equivalents, restricted cash and cash equivalents at the beginning of the fiscal year, as restated.....	33,652	553,642	323,095	132,585	1,042,974
Cash and cash equivalents, restricted cash and cash equivalents at the end of the fiscal year.....	\$ 23,402	\$ 430,389	\$ 334,563	\$ 139,432	\$ 927,786
Reconciliation of net operating revenues and expenses to cash used by operating activities:					
Operating income/(loss).....	\$ 30,351	\$ (831,578)	\$ (333,257)	\$ (389,517)	\$ (1,524,001)
Adjustments to reconcile operating income/(loss) to net cash (used in) operating activities:					
Depreciation expense.....	—	261,417	102,460	37,450	401,327
Fringe benefits paid by the Commonwealth.....	—	—	82,016	96,363	178,379
Changes in assets and liabilities:					
Accounts receivable, prepaids and other assets.....	24,288	6,308	72	2,130	32,798
Accounts payable, accrued liabilities and benefits.....	17,307	41,749	9,649	2,466	71,171
Student deposits and other unearned and deferred revenues.....	—	67,108	12,478	320	79,906
Other noncurrent assets - restricted and liabilities.....	(123,616)	112,143	15,199	9,977	13,703
Net cash (used in) by operating activities.....	\$ (51,670)	\$ (342,853)	\$ (111,383)	\$ (240,811)	\$ (746,717)
Non-cash investing, capital and financing activities:					

The University System had approximately \$73 million of non-cash activities, and the State Universities and Community Colleges had approximately \$145 million and \$191 million, respectively, of non-cash activities, including new capital leases.

The notes to the financial statements are an integral part of this statement.



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Fiduciary Fund

Financial Statements

Statement of Net Position

Fiduciary Funds

June 30, 2018

(Amounts in thousands)

	Post-Employment Benefits and OPEB Trust Funds	External Investment Trust Funds	Private Purpose Trust Funds	Agency Funds
ASSETS				
Cash and cash equivalents	\$ 313,090	\$ 4,147,267	\$ 766	\$ 603,492
Short-term investments	—	39,075	—	—
Net investment in PRIT at fair value	57,434,848	14,362,901	—	—
Investments, restricted investments and annuity contracts	—	—	—	1,490,929
Receivables, net of allowance for uncollectibles:				
Taxes	—	—	—	41,382
Other receivables	122,961	6,054	—	127,101
Other assets	109,974	—	—	—
Total assets	57,980,873	18,555,297	766	\$ 2,262,904
LIABILITIES				
Accounts payable and other accrued liabilities	6,572	36,185	—	\$ 41,530
Due to cities and towns	—	—	—	43,416
Due to federal government	—	—	—	1
Lottery prizes payable	—	—	—	971,434
Agency liabilities	—	—	—	1,206,523
Total liabilities	6,572	36,185	—	\$ 2,262,904
NET POSITION				
Restricted for employees' post-employment benefits	57,974,301	—	—	
Restricted for external investment trust fund participants	—	18,519,112	—	
Restricted for private purposes	—	—	766	
Total net position	\$ 57,974,301	\$ 18,519,112	\$ 766	

The notes to the financial statements are an integral part of this statement.

Statement of Changes in Net Position

Fiduciary Funds

Fiscal Year Ended June 30, 2018

(Amounts in thousands)

	Post-Employment Benefits and OPEB Trust Funds	External Investment Trust Funds	Private Purpose Trust Funds
ADDITIONS			
Contribution:			
Employer contributions - Commonwealth.....	\$ 1,383,886	\$ —	\$ —
Non-employer contributions - Commonwealth.....	1,349,967	—	—
Employer contributions - other employers.....	9,564	—	—
Employee contributions.....	1,356,393	—	—
ERIP funding contribution - Commonwealth.....	28,724	—	—
Boston teachers' contribution from Commonwealth.....	131,298	—	—
Other additions.....	218,693	1,192,119	100
Proceeds from sale of units.....	—	25,164,571	—
Total contributions.....	4,478,525	26,356,690	100
Net investment gain/(loss):			
Investment gain/(loss).....	5,391,040	1,627,280	—
Less: investment expense.....	(294,408)	(296,767)	—
Net investment gain/(loss).....	5,096,632	1,330,513	—
Total additions.....	9,575,157	27,687,203	100
DEDUCTIONS			
Administration.....	36,047	—	—
Retirement benefits and refunds.....	5,750,788	995,258	—
Payments to State Boston Retirement System.....	131,298	—	—
Other deductions.....	99,971	—	—
Cost of units redeemed.....	—	24,813,579	—
Distribution to unit holders.....	—	60,030	—
Total deductions.....	6,018,104	25,868,867	—
Change in net position.....	3,557,053	1,818,336	100
Net position - beginning.....	54,417,248	16,700,776	666
Net position - ending.....	\$ 57,974,301	\$ 18,519,112	\$ 766

The notes to the financial statements are an integral part of this statement.



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***Discretely Presented
Component Unit
Financial Statements***

Statement of Net Position
Discretely Presented Component Units
June 30, 2018
(Amounts in thousands)

	Massachusetts Department of Transportation	Commonwealth Health Insurance Connector	Massachusetts Clean Water Trust	Nonmajor Component Units	Total
ASSETS AND DEFERRED OUTFLOWS					
Current assets:					
Cash and cash equivalents	\$ 318,873	\$ 59,938	\$ 478,627	\$ 246,922	\$ 1,104,360
Short-term investments	1,552,366	—	223,467	303,744	2,079,577
Restricted cash and investments	—	—	—	233,976	233,976
Assets held in trust	—	—	26,704	19,449	46,153
Receivables, net of allowance for uncollectibles:					
Federal grants and reimbursement receivable	65,259	—	40,536	—	105,795
Loans	—	—	561,902	72,317	634,219
Other receivables	219,728	11,714	52,323	33,533	317,298
Due from primary government	603,473	16,693	—	46,011	666,177
Inventory	—	—	—	85	85
Other current assets	69,315	273	—	12,491	82,079
Total current assets	2,829,014	88,618	1,383,559	968,528	5,269,719
Noncurrent assets:					
Cash and cash equivalents - restricted	842,080	—	—	27,738	869,818
Long-term investments	—	—	614,802	815,551	1,430,353
Restricted investments and annuity contracts	—	—	—	54,892	54,892
Other receivables, net	22,923	—	—	17,105	40,028
Loans receivables, net	—	—	3,428,689	669,691	4,098,380
Due from primary government	5,600	—	—	—	5,600
Non-depreciable capital assets	12,601,641	—	—	216,126	12,817,767
Depreciable capital assets, net	23,127,244	246	—	910,753	24,038,243
Other noncurrent assets	28,218	—	—	15,085	43,303
Total noncurrent assets	36,627,706	246	4,043,491	2,726,941	43,398,384
Total assets	39,456,720	88,864	5,427,050	3,695,469	48,668,103
Deferred outflows of resources:					
Deferred change in fair value of interest rate swaps	19,721	—	1,841	148	21,710
Deferred loss on refunding	236,205	—	66,715	—	302,920
Deferred outflows related to pension	390,028	—	—	6,900	396,928
Deferred outflows related to OPEB	92,548	—	—	38	92,586
Total deferred outflows of resources	738,502	—	68,556	7,086	814,144
Total assets and deferred outflows	40,195,222	88,864	5,495,606	3,702,555	49,482,247
LIABILITIES AND DEFERRED INFLOWS					
Current liabilities:					
Accounts payable and other liabilities	998,721	18,092	26,818	119,035	1,162,666
Accrued payroll	—	141	—	1,692	1,833
Compensated absences	22,354	506	—	2,524	25,384
Accrued interest payable	157,308	—	53,470	2,217	212,995
Due to primary government	—	—	—	1,947	1,947
Unearned revenue	109,077	39,645	25,982	71,343	246,047
Bonds, notes payable and other obligations	445,313	—	230,280	46,712	722,305
Total current liabilities	1,732,773	58,384	336,550	245,470	2,373,177
Noncurrent liabilities:					
Compensated absences	13,920	—	—	2,003	15,923
Accrued interest payable	198,917	—	—	—	198,917
Due to primary government	—	—	—	7,935	7,935
Unearned revenue	15,298	—	—	562	15,860
Capital leases	58,517	—	—	—	58,517
Bonds, notes payable and other obligations	7,250,463	—	2,702,398	611,407	10,564,268
Net pension liability	1,933,505	—	—	39,704	1,973,209
Net OPEB liability	3,068,095	5,602	—	8,526	3,082,223
Liability for derivative instruments	250,109	—	1,841	—	251,950
Other noncurrent liabilities	130,950	—	—	80,643	211,593
Total noncurrent liabilities	12,919,774	5,602	2,704,239	750,780	16,380,395
Total liabilities	14,652,547	63,986	3,040,789	996,250	18,753,572
Deferred inflows of resources:					
Deferred gain on refundings	179	—	8,679	—	8,858
Deferred service concession arrangements	—	—	—	1,003	1,003
Deferred inflows related to pension	86,946	—	—	3,437	90,383
Deferred inflows related to OPEB	276,767	3,446	—	—	280,213
Total deferred inflows of resources	363,892	3,446	8,679	4,440	380,457
Total liabilities and deferred inflows	15,016,439	67,432	3,049,468	1,000,690	19,134,029
NET POSITION					
Net investment in capital assets	29,256,837	246	—	1,093,474	30,350,557
Restricted for:					
Other purposes	713,192	—	1,964,713	1,109,730	3,787,635
Unrestricted	(4,791,246)	21,186	481,425	498,661	(3,789,974)
Total net position	\$ 25,178,783	\$ 21,432	\$ 2,446,138	\$ 2,701,865	\$ 30,348,218

The notes to the financial statements are an integral part of this statement.

Statement of Revenues, Expenses and Changes in Net Position

Discretely Presented Component Units

Fiscal Year Ended June 30, 2018

(Amounts in thousands)

	Massachusetts Department of Transportation	Commonwealth Health Insurance Connector	Massachusetts Clean Water Trust	Nonmajor Component Units	Total
Operating revenues:					
Charges for services	\$ 1,581,834	\$ 745,791	\$ 5,615	\$ 258,688	\$ 2,591,928
Other	—	266	108,028	84,594	192,888
Total operating revenues	1,581,834	746,057	113,643	343,282	2,784,816
Operating expenses:					
Cost of services	3,503,438	714,551	140,248	279,631	4,637,868
Administration costs	920,857	74,695	2,331	141,024	1,138,907
Depreciation	1,115,952	110	—	76,658	1,192,720
Total operating expenses	5,540,247	789,356	142,579	497,313	6,969,495
Operating income/(loss)	(3,958,413)	(43,299)	(28,936)	(154,031)	(4,184,679)
Nonoperating revenues/(expenses):					
Operating grants	2,204,163	47,316	26,003	54,629	2,332,111
Interest income/(loss)	26,886	530	—	37,506	64,922
Other nonoperating revenue/(expense)	84,329	1,932	—	50,060	136,321
Nonoperating revenues/(expenses), net	2,315,378	49,778	26,003	142,195	2,533,354
Income/(loss) before contributions	(1,643,035)	6,479	(2,933)	(11,836)	(1,651,325)
Capital contributions	2,374,926	—	72,520	46,260	2,493,706
Change in net position	731,891	6,479	69,587	34,424	842,381
Net position - beginning, as restated	24,446,892	14,953	2,376,551	2,667,441	29,505,837
Net position - ending	\$ 25,178,783	\$ 21,432	\$ 2,446,138	\$ 2,701,865	\$ 30,348,218

The notes to the financial statements are an integral part of this statement.



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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. FINANCIAL REPORTING ENTITY – BASIS OF PRESENTATION

The accompanying financial statements of the Commonwealth of Massachusetts (Commonwealth) have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles. The significant Commonwealth accounting policies are described below.

The Commonwealth is comprised of three branches: the Executive Branch, with the Governor as the chief executive officer; the Legislative Branch, consisting of a Senate of 40 members and a House of Representatives of 160 members; and the Judicial Branch, made up of the Supreme Judicial Court, the Appeals Court, and the Trial Court. In addition, the Legislature has established 57 independent authorities and agencies. Below the level of state government are 351 cities and towns exercising the functions of local governments. The cities and towns of the Commonwealth are also organized into 14 counties.

For financial reporting purposes, the Commonwealth has included all funds, organizations, agencies, boards, commissions, and institutions. The Commonwealth has also considered all potential component units for which it is financially accountable, as well as other organizations for which the nature and significance of their relationship with the Commonwealth is such that exclusion would cause the Commonwealth's financial statements to be misleading or incomplete. As required by GAAP, these financial statements present the Commonwealth (the primary government) and its component units. The Commonwealth has included 40 entities as component units in the reporting entity because of the significance of their operational and/or financial relationships with the Commonwealth. Additional information related to the component units is found in [Note 14](#) to the basic financial statements.

Blended Component Units – Blended component units are entities that are legally separate from the Commonwealth but are so closely related to the Commonwealth, that they are, in substance, the same as the Commonwealth or entities providing services entirely or almost entirely to the Commonwealth. The net position and results of operations of the following legally separate entities are presented as part of the Commonwealth's operations:

The Massachusetts School Building Authority (MSBA) is charged with administering the Commonwealth's school construction and renovation program. The MSBA's revenues are derived almost entirely from dedicated sales taxes from the Commonwealth which is 1% of applicable sales tax in the Commonwealth. The MSBA's bonded debt is secured by these sales tax revenues. Expenditures by the MSBA are made on behalf of the Commonwealth as a successor to a long-standing Commonwealth program of school construction. The MSBA's operations and results thereon are blended with the Commonwealth and as such are reported as a major governmental fund.

The Pension Reserves Investment Trust Fund (PRIT) is the investment portfolio for the pension assets of the Commonwealth and as such, is presented as a blended component unit. PRIT is managed by the Pension Reserves Investment Management (PRIM) Board. Certain portions of PRIT's net position totaling approximately \$14.363 billion relate to holdings on behalf of cities and towns that participate in the Pool and are reported as an external investment trust within the fiduciary fund type.

The Massachusetts Municipal Depository Trust (MMDT) is an investment pool of the Commonwealth and its political subdivisions. The various local governments and other political subdivisions share of net position is approximately \$4.156 billion at June 30, 2018, and is reported as an external investment trust within the fiduciary fund type.

Departments Audited Separately from the Commonwealth but not legally separate from the Commonwealth - the following entities are audited separately from the Commonwealth but are not legally separate from the Commonwealth:

The Massachusetts State Lottery Commission, a division of the Office of the State Treasurer and Receiver-General, operates the Commonwealth's lottery. The net position of the Commission and results thereon are presented as a major

governmental fund.

The Institutions of Higher Education of the Commonwealth are also not legally separate from the Commonwealth and have operations and net position that are presented as part of the Commonwealth's business-type activities. These systems include:

The University of Massachusetts System including the University of Massachusetts Building Authority, and the Worcester City Campus Corporation. The Worcester City Campus Corporation includes a not-for-profit subsidiary, the Worcester Foundation for Biomedical Research, Inc.

The State University and Community College Systems including the 9 state universities and 15 community colleges located throughout the Commonwealth and the Massachusetts State College Building Authority.

Other Discretely Presented Component Units that are Separately Audited – Discrete component units are entities that are legally separate (often called Authorities) but financially accountable to the Commonwealth, or whose relationships with the Commonwealth are such that exclusion would cause the Commonwealth's financial statements to be misleading or incomplete. The component units column of the basic financial statements includes the financial data of the following entities:

Major component units:

The Massachusetts Department of Transportation (MassDOT) incorporates the former Massachusetts Turnpike Authority and has jurisdiction over the Massachusetts Bay Transportation Authority (MBTA) and the Regional Transit Authorities. MassDOT has attributes of a state department as well as an authority. It operates like a state department for purposes of state finance laws and is reported as part of the Commonwealth for compliance with federal and state tax law. In this unique relationship all road and bridge assets of the Commonwealth (including the former Turnpike Authority (MTA)) have been transferred to MassDOT, while the Commonwealth will continue to hold current and future debt for the construction repair, improvement, and replacement of these assets.

The Massachusetts Clean Water Trust provides a combination of federal and Commonwealth funds for water and sewer projects around the Commonwealth as operator of the Commonwealth's State Revolving Fund.

Commonwealth Insurance Connector Authority administers the Commonwealth health insurance programs to facilitate subsidized health insurance for individuals without access to employer-sponsored health insurance as well as offer an affordable commercial health insurance product named Commonwealth Care for small businesses that are eligible for the program.

Related Organizations

The following are "related organizations" under GASB Statement No. 14, *The Financial Reporting Entity*, as amended by Statement No. 39, *Determining Whether Certain Organizations are Component Units – an Amendment of GASB Statement No. 14* and Statement No. 61, *The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34*: Massachusetts Port Authority, Massachusetts Housing Finance Agency, MassVentures, and Massachusetts Educational Finance Authority. The Commonwealth is responsible for appointing a voting majority of the members of each entity's board, but the Commonwealth's authority does not extend beyond the appointments. These entities do not meet the criteria for inclusion as component units of the Commonwealth and therefore are not part of these financial statements.

Availability of Financial Statements

The separately audited financial statements of the Commonwealth's component units and funds may be obtained from the various entities, or by contacting the Statewide Financial Reporting and Analysis Team in the Office of the Comptroller at (617) 973-2660 for component unit contact information.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The Statement of Net Position and the Statement of Activities report information on all non-fiduciary activities of the primary government and its component units. Primary government activities are defined as either governmental or business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods and services.

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING*Government-Wide Financial Statements*

The **Statement of Net Position** presents all of the reporting entity's non-fiduciary assets and liabilities, with the difference reported as net position. Net position is reported in three categories:

- **Net investment in capital assets** consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt that are attributed to the acquisition, construction or improvement of those assets.
- **Restricted net position** results when constraints placed on net position use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through enabling legislation.
- **Unrestricted net position** consists of net position which does not meet the definition of the two preceding categories.

Resources from restricted net position are used prior to those from unrestricted net position.

The **Statement of Activities** demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function. Program revenues include charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not meeting the definition of program revenues are instead reported as general revenue and offset or supplant the net operating deficit or surplus from governmental or business-type operations.

Fund Financial Statements

The fund financial statements present a balance sheet and a statement of revenues, expenditures, and changes in fund balances for its major and aggregated non-major funds.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. Major individual governmental funds and major individual proprietary funds are reported as separate columns in the fund financial statements pursuant to GASB reporting standards, with non-major funds being combined into a single column. The Commonwealth reports its financial position and results of operations in funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures/expenses. Transactions between funds within a fund type, if any, have not been eliminated.

Governmental Activities – Government-wide financial statements are reported using the economic resources management focus and the full accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements have been met.

Governmental Funds – Fund financial statements account for the general governmental activities of the Commonwealth. Governmental fund statements are reported using the current financial resources measurement focus

and the modified accrual basis of accounting. Revenues are recognized as they become susceptible to accrual and are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. Significant revenues susceptible to accrual include income, sales and use, corporation, and other taxes, federal grants, federal reimbursements and other reimbursements for use of materials and services which are recognized in the year the materials are received, the grants are expended, or services are provided. The measurement period for accrual for taxes earned is generally one year for income, corporate and other taxes and within thirty days for sales and use taxes. For federal and other reimbursements, the measurement period for accrual is generally sixty days if the related expenditures being reimbursed occurred prior to year-end. Expenditures are recorded in the period in which the related fund liability is incurred. Principal and interest on general long-term obligations are recorded as fund liabilities when due. Compensated absences, claims and judgments, termination benefits and similar activities are recognized to the extent that they are normally expected to be liquidated with expendable available financial resources. Amounts incurred but not reported for Medicaid are reported to the extent that services are rendered before June 30th.

Business-Type Activities – Government-wide financial statements account for activities for which a fee is charged to external users for goods or services. In these services, debt may be issued backed solely by these fees and charges.

There may be also a legal requirement or a policy decision to recover costs. As such, these funds account for operations similarly to a for-profit business. The Commonwealth's Institutions of Higher Education's operations are reported as systems within the proprietary funds. Proprietary fund types are described in more detail below.

Proprietary and Fiduciary Funds – Fund financial statements are presented on the same basis of accounting as the business-type activities in the government-wide financial statements. For fiduciary funds, post-employment benefits and refunds are recognized when due and payable.

The Commonwealth reports the following fund types:

Governmental Fund Types:

General Fund, a governmental fund, is the primary operating fund of the Commonwealth. It is used to account for all governmental transactions except those required to be accounted for in another fund.

Special Revenue Funds account for specific revenue sources that have been aggregated according to Commonwealth general laws to support specific governmental activities.

Debt Service Fund accounts for the accumulation of resources for and the payment of debt.

Capital Projects Funds account for the acquisition or construction of major Commonwealth capital facilities financed primarily from bonds and federal reimbursements.

Within the governmental fund types, the Commonwealth has established the following major funds, in addition to the General Fund:

Lottery Funds are governmental funds and account for the operations of the State and Arts Lotteries, which primarily reimburse the General Fund for local aid to cities and towns.

The Massachusetts School Building Authority is presented as a governmental fund, reflecting the activity of the blended component unit, the Massachusetts School Building Authority, accounting for grants to cities, towns and regional school districts for school construction and renovation projects.

Proprietary Fund Types:

Business-Type Activities account for programs financed in whole or in part by fees charged to external parties for goods and services.

The proprietary funds include the following:

Unemployment Compensation Fund reports the taxes collected from employers and held by the United States Treasury in the Federal Unemployment Trust Fund, from which funds are drawn for the payment of benefits to the unemployed.

College and University Information, is presented here, aggregated by the University's activity, the State Universities' activity and the Community Colleges' activity.

Fiduciary Fund Types:

Post-Employment Benefit and OPEB Trust Funds report resources that are required to be held in trust for the members and beneficiaries of the Commonwealth's post-employment and OPEB benefit plans. These funds recognize employer contributions when legally due and employee contributions in the period when due. Further information on the significant accounting policies for post-employment and OPEB benefit trust funds may be found in [Notes 9 and 10](#) to the basic financial statements on pages [108-126](#).

External Investment Trust Funds account for the portion of pooled cash and pension assets held under the custodianship of the Commonwealth for the benefit of cities, towns and other political subdivisions of the Commonwealth.

Private Purpose Funds account for various gifts and bequests held by the Commonwealth of which only the income is expendable for purposes specified by the donor. The majority of the individual accounts are for perpetual cemetery care endowments on behalf of deceased individuals.

Agency Funds account for assets the Commonwealth holds on behalf of others. Agency Funds are custodial in nature and do not involve measurement of operations.

Fund Balances:

Governmental fund balances are considered nonspendable, restricted, committed, assigned, and unassigned, based on the relative strength of spending constraints.

Nonspendable fund balances are those that cannot be spent because they are either: (a) not in spendable form; or (b) legally or contractually required to be maintained intact, such as balances in the form of inventories, permanent funds, and notes receivable. As of June 30, 2018, there were no nonspendable fund balances.

Restricted fund balances are those where constraints on their use are: a) externally imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments; or b) imposed by constitutional provisions or enabling legislation such that there is a legally enforceable requirement that those resources be used only for the specific purposes stipulated. Legal enforceability means that a government can be compelled by an external party—such as citizens, public interest groups, or the judiciary—to use resources created by enabling legislation only for the stipulated purposes.

Committed fund balances are those that can be used only for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, which in the case of the Commonwealth is the Legislature and Governor. Committed amounts cannot be used for other than the specified purposes unless the Governor and Legislature remove or change the specified use through legislation. The authorization specifying the purposes for which amounts can be used must have the consent of both the legislative and executive branches of the government prior to the end of the reporting period.

Assigned fund balances are amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. Intent should be expressed by: (a) the governing body itself; or (b) a body (a budget or finance committee, for example) or official to which the governing body has delegated the authority to assign amounts to be used for specific purposes. The Massachusetts Legislature has the authority to assign or modify previously assigned fund balance. In distinction to restricted and committed balances, the authority for making an assignment is not required to be the government's highest level of decision-making authority, i.e., the Legislature and Governor, and the action to assign fund balance can occur after the end of the year. Furthermore, the nature of the actions necessary

to remove or modify an assignment is not as prescriptive as it is with committed fund balances—constraints imposed on the use of assigned amounts are more easily removed or modified than those imposed on amounts that are classified as committed. Per GASB 54, assigned balances include those funds remaining at the end of the fiscal year that are reappropriated for the following fiscal year. Assigned balances also include administratively established accounts whose purpose is defined by Secretary of Administration and Finance and other cabinet secretaries.

Unassigned fund balance is the residual classification for the General Fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes in the General Fund. The General Fund is the only fund that reports a positive unassigned fund balance amount. In addition, in accordance with GASB No. 54, negative balances in other governmental funds are classified as unassigned.

While the Commonwealth has not announced a formal policy governing the priority of spending fund balances, in conformance with GASB 54 requirements, when an expenditure is incurred for purposes for which both restricted and unrestricted resources are available, restricted resources are spent first, followed by committed resources, assigned resources, and unassigned resources.

Detail of FY18 ending fund balances is shown below.

Governmental Fund Balances at June 30, 2018

(amounts in thousands)

	Restricted Purposes	Committed Purposes	Assigned Purposes	Unassigned Purposes	Totals
General Fund					
General Government.....	\$ —	\$ —	\$ —	\$ 1,164,566	\$ 1,164,566
Stabilization Fund.....	—	2,001,299	—	—	2,001,299
FY18 Authorizations Reappropriated in FY19.....	—	—	349,927	—	349,927
Subtotals, General Fund	—	2,001,299	349,927	1,164,566	3,515,792
Lottery Funds					
Lottery Operations.....	—	1,184	—	—	1,184
Subtotals, Lottery Funds	—	1,184	—	—	1,184
Massachusetts School Building Authority (MSBA)					
Debt Service.....	911,511	—	—	—	911,511
Grants to Cities, Towns and Local School Districts.....	56,813	—	435,077	—	491,890
Subtotals, MSBA	968,324	—	435,077	—	1,403,401
Other Governmental Funds					
Restricted by Federal Grantors.....	22,127	—	—	—	22,127
Child Support -- Restricted by Federal Grantors.....	12,046	—	—	—	12,046
Environmental.....	—	14,942	1,000	—	15,942
Regional Greenhouse Gas Auction and Mitigation.....	—	14,409	—	—	14,409
Public Safety -- Enhanced 911 Services.....	—	110,670	—	—	110,670
Public Safety -- Other.....	—	4,224	—	—	4,224
Universal Health Care.....	—	219,097	—	—	219,097
Medical Marijuana.....	—	17,822	—	—	17,822
Other Health Care.....	—	15,512	—	—	15,512
Social Innovation Financing.....	—	10,983	—	—	10,983
Workforce Training.....	—	46,993	—	—	46,993
Department of Industrial Accidents.....	—	21,864	—	—	21,864
Convention Centers.....	8,393	216,275	—	—	224,668
General Government Capital Projects Fund.....	219,561	—	—	—	219,561
Highway Capital Projects Fund.....	—	—	—	(54,537)	(54,537)
General Government Debt Service.....	9,016	—	—	—	9,016
Transportation (GANS*/Commonwealth Transportation Fund).....	19,373	51,777	—	—	71,150
Gaming Administration.....	—	12,519	—	—	12,519
Gaming -- Community Mitigation.....	—	12,674	—	—	12,674
Race Horse Development.....	—	12,517	—	—	12,517
Housing Preservation.....	—	12,912	—	—	12,912
Expendable Trusts.....	245,579	328,813	169,827	—	744,219
Other.....	15,414	175,490	(1)	(49,470)	141,433
Subtotals, Other Governmental Funds	551,509	1,299,493	170,826	(104,007)	1,917,821
Totals	\$ 1,519,833	\$ 3,301,976	\$ 955,830	\$ 1,060,559	\$ 6,838,198

*Federal Grant Anticipation Notes

The Commonwealth does not have a formally adopted minimum fund balance policy. However, most governmental funds cannot end a fiscal year in deficit. Those funds that are authorized to end a fiscal year in deficit are discussed in [Note 8](#) to the basic financial statements, “Individual Fund Deficits” on page [108](#).

Stabilization Fund Arrangements:

In accordance with Section 2H of Chapter 29 of the Massachusetts General Laws, the Commonwealth maintains a Stabilization (“Rainy Day”) Fund. Per Chapter 29, balances in the Stabilization Fund can be expended only when non-routine budget shortfalls occur and upon appropriation by the Legislature and approval by the Governor. Chapter 29 requires that after calculating the Commonwealth’s “consolidated net surplus” (the sum of the “undesignated” balances in certain specific state budgeted funds, equal to balances that are neither restricted nor reappropriated for the following fiscal year) any remaining surplus be transferred to the Stabilization Fund. In addition, withholding taxes on certain Lottery transfers are required to be transferred to the Stabilization Fund. Starting in FY10, statute requires the Comptroller, after certification by the Commissioner of Revenue, to transfer any capital gains tax revenues in excess of \$1 billion (adjusted annually for economic growth) during a fiscal year to the Stabilization Fund. Starting in FY12, statute requires the Comptroller, after certification by the Commissioner of Revenue and the Attorney General, to transfer to the Stabilization Fund all revenue from individual settlements and judgments greater than \$10 million each that exceeds the five year rolling annual average of such settlements and judgments. During FY18, the settlements and judgments revenue did not reach the five year average threshold and all such revenue was retained in the General Fund.

Historically, balances in the Stabilization Fund have been used almost exclusively during recessionary periods to offset budget shortfalls after other budgetary measures have been taken. Per Chapter 29, the Commonwealth is required to maintain a balanced budget, and if a revenue shortfall is projected, the Secretary of Administration and Finance is required to reduce state agencies’ spending authorizations in an amount equal to any projected shortfall.

The Stabilization Fund ended FY18 with a balance of \$2.001 billion. For the fiscal year ending June 30, 2018, the Stabilization Fund’s balance increased by \$15 million from investment income, approximately \$272 thousand in statutorily mandated deposits of withholding taxes on certain Lottery proceeds, \$514 million in above-threshold capital gains tax revenue from the general fund and \$209 million from budgeted funds as part of the FY18 close out and transfer of the consolidated net surplus, off set by \$51 million in transfers to the State Pension Fund and the State Retiree Benefits Trust Fund. In accordance with GASB 54 requirements, balances in the Stabilization Fund are classified as committed.

Fiscal Year-End

All funds and component units are reported using fiscal years, which end on June 30.

Program Revenue

Program revenue is defined by the Commonwealth to be the revenue from fees and assessments collected by departments that are directly applicable to that department’s operations.

Operating and non-operating revenues and expenses

Revenues and expenses of business-type activities and proprietary funds are classified as operating or non-operating and are subclassified by object. Operating revenues and expenses generally result from providing services and producing and delivering goods. All other revenues and expenses are reported as non-operating.

D. CASH, CASH EQUIVALENTS, SHORT-TERM INVESTMENTS AND INVESTMENTS

The Commonwealth follows the practice of pooling cash and cash equivalents. Cash equivalents consist of short-term investments with an original maturity of three months or less and are stated at cost. Interest earned on pooled cash is allocated to the General Fund and, when so directed by law, to certain other Governmental Funds.

The Office of the Treasurer and Receiver-General (Treasury) manages the Commonwealth’s short-term external mixed

investment pool, the Massachusetts Municipal Depository Trust (MMDT). MMDT is comprised of two portfolios: a Cash Portfolio and a Short Term Bond Portfolio. The Cash Portfolio is a money-market-like investment pool; its investments are carried at amortized cost. As of June 30, 2018, the MMDT's entire cash fund is included as cash equivalents in the accompanying financial statements. The Short Term Bond Portfolio investments are carried at fair value. As of June 30, 2018, the MMDT's entire bond fund is included as short-term investments in the accompanying financial statements.

Investors in MMDT are not allowed to overdraw their shares. For a complete copy of MMDT's separately issued financial statements, please contact the Office of the State Treasurer's Cash Management Department, at (617) 367-9333 or download the statements from the Cash Management section of the Office of the State Treasurer's website at www.mass.gov/treasury. Massachusetts General Law Chapter 29, Section 38 enumerates the Commonwealth's investment policy for non-pension assets.

The post-employment and OPEB benefit trust funds invest in the Pension Reserves Investment Trust (PRIT) Fund, a diversified external investment pool managed by the Pension Reserves Investment Management (PRIM) Board and are reported at fair value in the accompanying financial statements. The State Employees', Teachers' Public Employee Retirement Systems (PERS) and the State Retirees' Benefit Trust (SRBT) are required to invest in the PRIT Fund and comprise approximately 38.7%, 39.8% and 1.5% respectively, of the net position of the PRIT Fund. For a complete copy of PRIT's separately issued financial statements, contact the PRIM Board at 84 State Street, Boston, MA 02109.

Other Commonwealth investments are comprised of equities (marketable securities) and fixed income securities, as well as interests in alternative investment funds such as private equity, debt and real estate. Marketable securities are reported at fair value based upon quoted market prices. Investments in fixed income securities, including U.S. government agency obligations, are reported at fair value using independent pricing services. In determining the price, the services may reflect such factors as market prices, yields, maturities, and ratings, supplemented by deal quotations. Alternative investments are generally reported at net asset values (NAV) reported by the investment manager for the respective securities, which are used as a practical expedient to estimate the fair value of the Commonwealth's interests therein, unless it is probable that all or a portion of the investment will be sold for an amount different from NAV. As of June 30, 2018, the Commonwealth had no plans or intentions to sell investments at amounts different from NAV.

Reported fair values for shares in registered mutual funds are based on share prices reported by the funds as of the last business day of the fiscal year.

Investments also include pooled investment funds with Commonfund which are valued at fair value based upon estimated net asset values provided by the management of Commonfund. These pooled investment funds are invested in marketable debt and equity securities.

Certificates of deposit and guaranteed investment/annuity contracts are carried at amortized cost.

E. RECEIVABLES

In general, tax revenue is recognized on the government-wide statements when assessed or levied and on the governmental financial statements to the extent that it is both measurable and available, based upon collection experience. If revenue is not received within the availability period, receivables are deferred. Receivables are stated net of estimated allowances for uncollectible accounts.

Reimbursements due to the Commonwealth for its expenditures on federally-funded-reimbursement and grant programs are reported as "Federal grants and reimbursements" or "Due from federal government" in the statement of net position.

"Other Receivables" represent amounts due to the Commonwealth including Lottery revenues and Higher Education receivables from students, amounts due to the University of Massachusetts from related organizations and other items. Also included in other receivables for FY18 are amounts due to the Commonwealth under provisions of the Master Settlement Agreement among five tobacco companies and 46 states, including the Commonwealth. Pursuant to provisions of GASB Technical Bulletin No. 2004-1 "Tobacco Settlement Recognition and Financial Reporting Entity Issues", a receivable has been recorded in the general fund for approximately \$140 million, representing 50% of the

amounts expected to be received during FY18. Also, included as a long-term receivable is approximately \$28 million representing the Commonwealth's share of the Nonparticipating Manufacturer (NPM) adjustment for 2004 tobacco sales which were not contested by the manufacturers.

“Loans Receivables” - The MSBA has entered into various loan agreements with municipalities at a 2.0% interest rate with principal to be paid in equal installments for varying terms. Currently, the longest repayment schedule has a final payment in FY43. This program is designed to assist school districts with unanticipated inflationary construction costs over the district's original amount budgeted for a project. The loans outstanding as of June 30, 2018 were \$86 million, of which \$6 million is due in FY19. During FY18, the MSBA collected \$6 million of scheduled principal payments.

F. DUE FROM CITIES AND TOWNS

“Due from Cities and Towns” represents reimbursements due to the Commonwealth for its expenditures on certain programs for the benefit of cities and towns.

G. CAPITAL ASSETS

Capital assets, which include property, plant, equipment and infrastructure (e.g. roads, bridges, ramps and other similar items), are reported in the applicable governmental or business-type activity columns of the government-wide financial statements.

Methods used to value capital assets

Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of acquisition.

Capitalization policies

All land, non-depreciable land improvements and donated historical treasures or works of art are capitalized. Single pieces of equipment, vehicles, computer equipment and software that equal or exceed \$50,000 are capitalized. Buildings and infrastructure projects with a cost that equals or exceeds \$100,000 are capitalized. The costs of normal maintenance and repairs that do not add to the value of assets or materially extend asset lives are not capitalized.

Capital assets of the Component Units are capitalized upon purchase and depreciated on a straight-line basis over the estimated useful lives of the assets.

Depreciation and useful lives

Applicable capital assets are depreciated using the straight-line method. Unless unallocable, depreciation expense is charged to the function of the capital asset being depreciated. Estimated useful lives are as follows:

<i>Type of Asset</i>	Estimated Useful Life (in years)
Buildings	40
Infrastructure - roads, bridges and tunnels	40
Infrastructure - beaches, boardwalks, bike ways, etc	20
Infrastructure - dams, water and sewer systems.....	50
Furniture	10
Library collections that are not historical treasures	15
Equipment, office equipment and life safety equipment.....	10
Computer hardware and software	3 to 7
Vehicles	5

Construction in process

Construction in process includes all associated cumulative costs of a constructed capital asset. Construction in process is relieved at the point at which an asset is placed in service for its intended use.

H. INTERFUND / INTRAFUND TRANSACTIONS

As a general rule, the effect of interfund activity has been eliminated in the government-wide statements. Exceptions to this rule are: 1) activities between funds reported as governmental activities and funds reported as business-type activities and 2) activities between funds that are reported in different functional categories in either the governmental or business-type activities column. Elimination of these activities would distort the direct costs and program revenues for the functions concerned. Interfund receivables and payables have been eliminated from the government-wide Statement of Net Position, except for the residual amounts due between governmental and business-type activities.

I. STATEWIDE COST ALLOCATION PLAN – FRINGE BENEFIT COST RECOVERY

The Commonwealth has elected not to present its cost allocation and recovery separately on the Statement of Activities. Certain costs of nine “central service” agencies of the Commonwealth are recovered from the remaining agencies in a federally approved statewide cost allocation plan. These costs that are allocated are based upon benefits received by the user agency that benefit from these services. The Commonwealth also appropriates and pays the fringe benefit costs of its employees and retirees, as well as MassDOT employees and retirees, through the General Fund. These fringe benefits include the costs of employees’ group health insurance, pensions, unemployment compensation, and other costs necessary to support the workforce. As directed by Massachusetts General Laws, these costs are assessed to other funds based on payroll costs, net of credits for direct payments. Since fringe benefit costs are not separately appropriated or otherwise provided for in these funds, the required assessment creates an unfavorable budget variance in the budgeted funds. The employees’ group health insurance and workers’ compensation activity is accounted for in the governmental funds.

J. SCHOOL CONSTRUCTION GRANTS, CONTRACT ASSISTANCE AND OTHER PAYABLES

Under the former school building assistance program (prior to the creation of the MSBA) the Commonwealth reimbursed 50% to 90% of approved eligible construction and borrowing costs for school construction and renovation to municipalities and regional school districts for 728 previously approved projects noted by MSBA as Prior Grant projects. The MSBA has assumed responsibility for these projects under its enabling statute.

The MSBA records a liability for its share of total eligible project costs differently depending on the type of project. However, for all projects, the MSBA recognizes a liability for its estimated share of total eligible project costs when the applicable eligibility requirements have been met.

Prior Grants - All of the 728 Prior Grant projects had been receiving an annual payment under the former program. The liability for these projects will be reduced over time through annual payments, and savings from debt refundings by the local communities in which the MSBA shares in the savings based on the reimbursement rate of the project. As of June 30, 2018, the liability for prior grant projects is approximately \$277 million.

Waiting List - The MSBA funds Waiting List projects using two different methods, lump sum and progress payments. Each funding method has different eligibility requirements.

Waiting List projects that are under the lump sum method were recognized as a liability once construction started. The liability for these projects will be reduced over time through annual payments and savings from debt refundings by the local communities in which the MSBA shares in the savings based on the reimbursement rate of the project. These projects operate similar to Prior Grant projects.

Under the progress payment method, the MSBA's shares of costs incurred are generally recognized as a liability once a grantee requests reimbursement from the MSBA. Of the \$75 million liability associated with Waiting List projects, none of the liability is related to the progress payment method.

Waiting List projects that are not currently recognized as a liability are considered commitments of the MSBA. As of June 30, 2018, the amount of commitments outstanding for the Waiting List project is \$1 million, and is anticipated to be funded under the progress payment method.

New Program - The MSBA funds New Program projects on a progress payment basis. Under this process, communities may submit reimbursement requests no more frequently than once per month. Upon review, audit, and approval, the MSBA processes payment for its share of eligible costs incurred. The MSBA's share of costs incurred for New Program projects are recognized as a liability once a grantee's request for reimbursement is reviewed, audited, and approved by the MSBA. The MSBA has recorded a liability of \$33 million in the governmental funds for reimbursements received, reviewed, and approved for payment by June 30, 2018. Additionally, a liability of \$98 million was recorded for the reimbursements not reviewed or approved for payment prior to June 30, 2018, as well as final project hold back payments subject to final audit and Board approval after year end. The long-term portion of this liability is estimated at \$40 million. New Program projects that are not currently recognized as a liability are considered commitments of the MSBA. As of June 30, 2018, the amount of commitments outstanding for the New Program projects is \$1.5 billion, and will be funded under the progress payment method.

For all projects, regardless of the funding mechanism, costs incurred by the grantees are subject to audit by the MSBA. Completion of these audits will allow the MSBA to determine the final approved cost of these projects, and the MSBA will adjust the payments it makes for these projects, as necessary, in accordance with the results of those audits.

As of June 30, 2018, MSBA had an outstanding liability of \$130 million, and \$1.5 billion of commitments outstanding, for the New Program projects. The Commonwealth dedicates a 1% statewide sales tax (drawn from the existing statewide 6.25% sales tax), excluding sales tax revenues on meals and from certain additional statutorily exempted revenues from sales, to the School Modernization and Reconstruction Trust Fund (the "SMART Fund"), in support of these grant programs and for all other operations of the MSBA, including debt service.

The Commonwealth recognizes contract assistance on an annual basis due to the Massachusetts Clean Water Trust (the Trust). This assistance is applied as a subsidy to repayments from the Trust loan borrowers. The expectation is that the assistance will be available for the life of the Trust financing agreement. The assistance is drawn from the Commonwealth on a 20-year repayment stream, even if the loan is for a longer period. If there is a differential between the assistance received and the amounts needed for loan subsidies, that amount is invested by the Trust in an annuitized fashion to be used beyond year 20. If assistance is not provided by the Commonwealth, the Trust borrower is obligated for any shortfall.

Accounts payable includes amounts due to vendors of the Commonwealth for goods and services delivered before June

30th but paid for after year-end, the largest of which is Medicaid for \$1.758 billion.

K. COMPENSATED ABSENCES

Compensated absences are recorded as a long-term liability in the Statement of Net Position. For the governmental fund statements, accumulated vacation and sick leave are reported as expenditures and fund liabilities when incurred upon retirement, termination or death. Sick and vacation payments to terminated employees as of June 30, 2018 but paid after the fiscal year ends are also reported in the funds.

Employees are granted vacation and sick leave in varying amounts based on collective bargaining agreements and state laws. Upon retirement, termination or death, certain employees are compensated for unused vacation and sick leave (subject to certain limitations) at their current rate of pay.

Compensated absences in the governmental funds are liquidated from the same sources that fund the personnel expenses of the employees who are compensated for unused vacation and sick leave pay. In most cases, this is the General Fund, but also includes non-General Fund sources to the extent that personnel expenses are charged to those funding sources. In the business-type activity and the discretely presented component units, employees' accumulated vacation and sick leave are recorded as an expense and liability as the benefits accrue.

L. DEDICATED REVENUES AND PLEDGES

The Commonwealth has a number of pledges of revenue streams for its own bonds and various other bond issues of other authorities. Commonwealth debt supported by dedicated revenue streams include special obligation bonds for road and bridge construction secured by motor fuels taxes and federal grant anticipation notes (GANS) secured by federal grants for highway construction. Detailed information on pledges for the Commonwealth's own debt is included in sections [B](#) and [C](#) of [Note 7](#), on pages 97-98.

The Commonwealth dedicates receipts from the sales tax (other than the tax on meals) to the Massachusetts Bay Transportation Authority (MBTA) and the Massachusetts School Building Authority (MSBA). Each entity receives 1.0% of the sales tax. The MBTA's portion is subject to an inflation-adjusted floor.

The amount dedicated to the MBTA is accounted for in a nonbudgeted special revenue fund and is subject to adjustment equal to the lesser of the annual increase in the Boston consumer price index or prior calendar year annual sales taxes, with a floor of 0.0% and a ceiling of 3.0%. Legislation approved by the Governor on October 31, 2014 increased the amount statutorily required to be credited to the MBTA by \$160 million annually, starting in fiscal 2015. The \$160 million increase in the dedicated sales tax revenue amount and the amount included in the inflation-adjusted floor was intended to replace the \$160 million annual state appropriation the MBTA received from fiscal 2010 through fiscal 2014.

In FY18, approximately \$1.011 billion and \$851 million of the dedicated sales tax revenue stream was directed to the MBTA and the MSBA, respectively.

The Commonwealth has also pledged sales tax revenue and rooms tax surcharges from areas contiguous to convention centers and the Worcester DCU Arena and Convention Center to support such centers' operations. As of June 30, 2018, taxes within the Convention Center districts support approximately \$552 million of outstanding principal and approximately \$291 million of interest on debts related to these Convention Centers. Taxes collected in FY18 were approximately \$149 million, while debt service on the bonds was approximately \$54 million.

Under additional transportation finance reform effective July 1, 2013, motor vehicle sales tax collections were shifted from the General Fund to the Commonwealth Transportation Fund (CTF), while also eliminating a 0.385% pledge of regular and meals sales tax to the CTF. During FY18, approximately \$565 million in motor vehicle sales tax revenue was transferred to MassDOT. From the Commonwealth Transportation Fund, \$127 million was dedicated to funding the operations of the MBTA while an additional \$80 million was dedicated to funding the operations of the regional transit authorities. These amounts are transferred through the CTF.

M. LOTTERY REVENUE AND PRIZES

Ticket revenues and prizes awarded by the Massachusetts Lottery Commission are recognized as drawings are held. For certain prizes payable in installments, the Commonwealth purchases annuities and principal-only and interest-only treasury strips in the Commonwealth's name, which are recorded as annuity contracts and prizes payable in the agency fund and on the Statement of Net Position. Though the annuities are in the Commonwealth's name in the case of a default, they are solely for the benefit of the prizewinner. The Commonwealth retains the risk related to such annuities.

N. RISK FINANCING

The Commonwealth self-insures for employees' workers' compensation, casualty, theft, tort claims and other losses. Such losses, including estimates of amounts incurred but not reported, are included as accrued liabilities in the accompanying financial statements when the loss is incurred. For employees' workers' compensation, the Commonwealth assumes the full risk of claims filed under a program managed by the Human Resources Division. For personal injury or property damages, Massachusetts General Laws limit the risk assumed by the Commonwealth to \$100,000 per occurrence, in most circumstances. The Group Insurance Commission administers health care and other insurance for the Commonwealth's employees and retirees.

O. DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES

Deferred outflows of resources are defined as a consumption of net assets by the government that is applicable to a future reporting period. Deferred inflows of resources are defined as an acquisition of net assets by the government that is applicable to a future reporting period. Deferred outflows of resources increase net position, similar to assets, and deferred inflows of resources decrease net position, similar to liabilities.

P. NET POSITION

The Commonwealth reports net position as restricted where legally segregated for a specific future use by enabling legislation. Otherwise, these balances are considered unrestricted.

Net position has been restricted as follows:

"Restricted for unemployment benefits" – identifies amounts solely for the payment of unemployment compensation under federal labor laws.

"Restricted for retirement of indebtedness" – identifies amounts held by fiscal agents to fund future debt service obligations pertaining to Special Obligation Revenue Bonds authorized under Section 20 of Chapter 29 of the Massachusetts General Laws and Chapter 33, Acts of 1991. It also includes amounts held for Grant Anticipation Notes authorized by Chapter 11 of the Acts of 1997 and Chapter 121 of the Acts of 1998.

"Restricted for other purposes" – identifies amounts held for various externally imposed restrictions either by creditors, grantors or laws and regulations of other governments.

The net position of the Post-Employment Benefit and OPEB Trust Funds and the Pension Reserves Investment Trust portion of the External Investment Trust Funds are restricted for post-employment benefits. These restrictions identify resources held in trust for the members and beneficiaries of the Commonwealth's post-employment benefit plans. The Pension Reserves Investment Trust portion of the External Investment Trust Funds also includes pooled cash and pension assets held under the custodianship of the Commonwealth for the benefits of cities, towns and other political subdivisions of the Commonwealth.

Q. SERVICE CONCESSION AGREEMENTS

The higher education institutions of the Commonwealth (State Universities and Colleges) enter in to services concession agreements for campus dining facilities and bookstores. In exchange for these agreements the vendors provide contributions to the institutions to improve the facilities as well as revenue sharing arrangements. All improvements and equipment purchased with the payments remain the property of institutions. The contracts range from five to eighteen years in duration. These agreements generate deferred inflows of resources, and liability for the unamortized portion of assets transferred. Per terms of the agreements, either party can terminate the agreement at any time, without cause, by providing a written notice. In the event of termination, the unamortized portion is to be returned. Following is a summary of amounts of the arrangements as of June 30, 2018 (amounts in thousands):

State Universities	\$	12,982
Community Colleges		412
Total	\$	<u>13,394</u>

The amount of assets and liabilities associated with these service concession agreements are immaterial and are not disclosed in these footnotes.

R. RECLASSIFICATIONS

Certain amounts in the separately issued component units' financial statements have been reclassified to conform to the accounting classifications used by the Commonwealth.

S. ESTIMATES

The preparation of the Comprehensive Annual Financial Report requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures at the date of the financial report.

Estimates also affect the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

T. PENSIONS AND OPEB

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the State Employees' Retirement System (SERS) and the Massachusetts Teachers' Retirement System (MTRS) and additions to/deductions from the SERS and the MTRS fiduciary net position have been determined on the same basis as they are reported by SERS and MTRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

For purposes of measuring the liability, deferred outflows of resources and deferred inflows of resources, and expense associated with the Commonwealth's requirement to contribute to the Boston Retirement System (BRS) for Boston teachers, information about BRS's fiduciary net position and additions to/deductions from BRS's fiduciary net position have been determined on the same basis as they are reported by BRS. For this purpose, benefit payments (including refunds of contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the State Retiree Benefit Trust (SRBT) and additions to/deductions from the SRBT fiduciary net position have been determined on the same basis as

they are reported by the SRBT. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

U. SIGNIFICANT NEW ACCOUNTING PRONOUNCEMENTS

The Commonwealth has implemented the following significant new accounting pronouncements during FY18:

GASB Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This Statement replaces requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and specifies the required approach to measuring the OPEB liability of employers for benefits provided through the OPEB plan. This Statement requires employers to record a net OPEB liability measured as the as the total OPEB liability, as of a determined date, less the amount of the OPEB plan's fiduciary net position. See [Note 10D](#) for further information.

The following details the restatements (amounts in thousands):

	Governmental Activities	Business-Type Activities	Primary Government	Discretely Presented Component Units
Net position/(deficit) as of June 30, 2017, as previously reported.....	\$ (63,387,033)	\$ 6,082,464	\$ (57,304,569)	\$ 31,552,615
Less:				
Implementation of GASB Statement No. 75.....	(8,760,779)	(1,276,918)	(10,037,697)	(2,044,230)
Other.....	—	2,286	2,286	(2,548)
Net position/(deficit) as of July 1, 2017.....	<u>\$ (72,147,812)</u>	<u>\$ 4,807,832</u>	<u>\$ (67,339,980)</u>	<u>\$ 29,505,837</u>

2. DEPOSITS, SHORT-TERM INVESTMENTS AND INVESTMENTS

Primary Government

The Commonwealth's cash and cash equivalents and restricted cash is comprised of the following (amounts in thousands):

	Governmental Activities	Business-Type Activities	Government Wide Total	Fiduciary Funds
Cash	\$ 33,937	\$ 852,152 ⁽¹⁾	\$ 886,089	\$ 923,842
MMDT - cash fund	5,172,178	75,634 ⁽¹⁾	5,247,812	4,140,773
Restricted cash with fiscal agent.....	294,857	—	294,857	—
Total	<u>\$ 5,500,972</u>	<u>\$ 927,786</u>	<u>\$ 6,428,758</u>	<u>\$ 5,064,615</u>

(1) of which \$360,101 is presented as restricted cash in the accompanying financial statements.

Lottery Annuity Contracts and U.S. Treasury Strips

The Massachusetts State Lottery Commission, a division of the Office of the State Treasurer and Receiver-General, purchases annuity contracts from insurance companies and United States treasury strips to fund the Commonwealth's liability for future installment prize obligations. These annuities and treasury strips represent obligations of the insurance companies and the custodial banks, respectively, to provide a fixed series of payments over a specified period. Only the annuity investments are subject to credit risk. For the annuity contracts, risk is controlled by purchasing these investments only from insurance companies with the top two ratings issued by a national recognized ratings organization. However, due to the nature of these annuity contracts, the credit quality of the insurance company issuer is subject to

change. As of June 30, 2018, the amortized cost of annuities was approximately \$118 million. At June 30, 2018, the U.S Treasury Strips have a fair value of approximately \$853 million. Approximately 87.9% of these amounts are held in United States Treasury strips at a custodial bank. No insurance company has an amount of annuities over 5.2% of the overall portfolio.

MSBA Deposits and Investments

The MSBA is authorized to invest in obligations of the US Treasury, its agencies and instrumentalities, bonds or notes of public agencies or municipalities, bank time deposits, guaranteed investment contracts, money market accounts and repurchase agreements. These investments are recorded at fair value. The MSBA has an investment policy that establishes the minimum credit quality for certain instruments, outlines investment procedures and updates for periodic reporting. The MSBA investment policy does not specifically limit the amount the MSBA may invest in any one issuer.

As of June 30, 2018, the MSBA held the following deposits and investments which are a component of Governmental Activities above (amounts in thousands):

Cash and cash equivalents.....	\$ 206,192
Restricted cash with fiscal agent.....	74,816
Restricted investments	996,964
Total.....	<u>\$ 1,277,972</u>

Custodial Credit Risk – Pooled Cash

Custodial credit risk is the risk that in the event of a bank failure, deposits and investments may not be returned to the Commonwealth. Cash balances represent amounts held in bank depository accounts that may be subject to custodial credit risk.

The Commonwealth requires all bank deposits in excess of insurance coverage by the Federal Deposit Insurance Corporation (FDIC) to be collateralized with a perfected pledge of eligible collateral or a letter of credit. For programs created by the Treasury, such as the Small Business Banking Program, eligible collateral must be pledged in an amount equal to 102% of the amount of the deposits that exceed FDIC insurance. Sufficient collateral to cover total Commonwealth deposits in excess of the FDIC insured amount must be pledged and held in safekeeping by a custodian that is approved by and under the control of the Treasurer and Receiver General.

Membership by a financial institution in the Depositors Insurance Fund (DIF) or the Share Insurance Fund (SIF) will be accepted by the Treasurer and Receiver General's Office as alternative security, provided that the financial institution submits proof of membership in the DIF or the SIF. Membership in the DIF is limited to Massachusetts chartered savings banks while membership in the SIF is limited to Massachusetts cooperative banks.

Custodial Credit Risk – Higher Education

The Institutions of Higher Education have investment policies that may vary by institution for custodial credit risk. Each institution carries deposits that are fully insured by the FDIC, as well as uninsured deposits. As of June 30, 2018, the bank balances of uninsured deposits totaled approximately \$583 million.

Custodial Credit Risk – MSBA

The MSBA does not have a formal investment policy for custodial credit risk. The MSBA carries deposits that are fully insured by the Federal Deposit Insurance Corporation (FDIC) insurance, as well as deposits that are fully collateralized. As of June 30, 2018, all MSBA bank balances were fully protected against loss.

Interest Rate Risk – MMDT

Interest rate risk is the extent that changes in interest rates of debt investments will adversely affect the fair value of an investment. These investments include certain short-term cash equivalents, various long-term items and restricted assets by maturity in years. The Treasury cash portfolio minimizes the risk of the market value of securities falling

due to changes in interest rates by maintaining a dollar-weighted average portfolio maturity of 60 days or less. The Treasury cash portfolio's assets are managed to maintain a dollar-weighted average life to maturity of 120 days or less. The MMDT Cash Portfolio's dollar-weighted average maturity fluctuated from 43 days on July 1, 2017 to 28 days on June 30, 2018.

Investments in the MMDT Short Term Bond Portfolio are made in investment-grade securities as defined by national statistical rating agencies. The Commonwealth assesses risk for the Short Term Bond Portfolio by using duration. Duration is the weighted maturity of the security's cash flows, where the present values of the cash flows serve as weights.

For the MMDT Short Term Bond Portfolio, the duration fluctuated from 2.6 to 2.5 years. At June 30, 2018, investments in the MMDT Short Term Bond Portfolio had a total net position of \$770 million with investment maturities ranging from less than one year to more than ten years. At June 30, 2018, the Short Term Bond Portfolio's effective maturity schedule was as follows:

Securities with an Effective Maturity of	Percentage of Total Net Position
Less than one year.....	6.8%
One to five years.....	84.5%
Six to ten years.....	5.1%
Greater than ten years.....	0.0%
Total*	<u>96.4%</u>

*The remaining 3.6% consists of cash equivalents and other assets.

Interest Rate Risk – Higher Education

As of June 30, 2018, the Institutions of Higher Education had debt investments stated at fair value of approximately \$410 million and had investment maturities ranging from less than one year to more than ten years, with approximately 22.7% of the investment's fair values maturing in less than 1 year, approximately 58.4% from one to five years, approximately 9.8% from six to ten years, and approximately 9.1% more than ten years.

Interest Rate Risk - MSBA

The MSBA's investment policy does not specifically limit investment maturities as a means of managing its exposure to fair value losses arising from interest rates. As of June 30, 2018, the MSBA had approximately \$200 million invested in a collateralized guaranteed investment contract and approximately \$497 million invested in U.S. Treasury Bonds and Municipal Bonds. These investments are included in restricted investments on the balance sheet. The guaranteed investment contract matures on August 15, 2030 while the U. S. Treasury Bonds and Municipal Bonds mature from 2019 to 2045. These investments represent approximately 65% of the MSBA's total investments in debt service funds and debt service reserve funds.

Interest Rate Risk – Agency Funds

The agency funds hold certain debt investments in trust as collateral for regulatory purposes. As of June 30, 2018, these investments had a fair value of approximately \$519 million, with investment maturities ranging from less than one year to more than ten years. Of the total fair value, approximately 25.3% has maturities of less than one year, 46.1% from one to five years, 15.9% from six to ten years and 12.7% greater than ten years.

Credit Risk – MMDT

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Commonwealth, exclusive of Pension Trust Funds, minimizes concentration of credit risk, the risk attributed to the

magnitude of the investment in a single issuer. The Commonwealth's investment policy prohibits the Treasury from investing more than 5% of the total investment portfolio in any single financial institution or issuer, excluding various public entity securities and repurchase agreements. However, there are no restrictions on the amount that can be invested in public entity securities and the portfolio may be invested in U.S. Treasury and other Government Sponsored Enterprises (GSE's) obligations and repurchase agreements.

The Treasury cash portfolio is invested only in First Tier Securities as defined by the Securities and Exchange Commission's Rule 2A-7 of the [Investment Company Act of 1940](#). The Treasury does have additional policies regarding credit ratings of investments which can be found at <http://www.mymmdt.com/MMDT/daf/pdf/products/regulatory/G44885-27.pdf>. At June 30, 2018, the Cash Portfolio's securities were all rated as First Tier.

At June 30, 2018, the Short Term Bond Portfolio's follows:

Portfolio Composition	Percentage of Total Net Position
AAA.....	63.0%
AA.....	3.2%
A.....	13.3%
BBB.....	16.9%
Total*	96.4%

* The remaining 3.6% consists of cash equivalents and other assets.

Credit Risk – Higher Education

For the Institutions of Higher Education presented in the Business-Type Activities, fair values of debt investments were approximately \$135 million at AAA, approximately \$98 million from AA+ to A- and approximately \$177 million either unrated, BBB+ or less.

Credit Risk – MSBA

The MSBA's investment policy generally limits investments in fixed income products with institutions that have an investment grade rating as determined by one of the nationally recognized rating agencies. The MSBA's policy requires issuers of investment contracts to be rated AA or above by at least two of the nationally recognized rating agencies or A with pledged collateral equal to 102% of the principal balance. As of June 30, 2018, the guaranteed investment contracts were not rated; however, the issuer was rated AA by Standard & Poor's and A2 by Moody's and the guaranteed investment contracts were collateralized.

As of June 30, 2018, the MSBA's investments in municipal bonds were rated AA+ or above.

Credit Risk – Agency Funds

The agency funds debt investments with a fair value of \$520 million, of which approximately \$315 million were in U.S Government securities. Of the remaining \$205 million the majority were investment grade or above.

Interest Rate Risk – PRIT Funds

As pension and OPEB trust funds have a longer investment horizon than many of the Commonwealth's other investments, the PRIM Board manages PRIT's exposure to fair value loss arising from movements in interest rates by establishing duration guidelines with its fixed income investment managers. The guidelines with each individual manager require that the effective duration of the domestic fixed income investment portfolio be within a specified percentage or number of years of the effective duration band of the appropriate benchmark index. For emerging markets fixed income investments, the portfolio must have a duration with a band ranging from three to eight years.

Effective duration is a measure of a fixed income investment's exposure to fair value changes arising from changes in

interest rates. Effective duration makes assumptions regarding the most likely timing and amounts of variable cash flows. These assumptions take into consideration factors indicative of investments highly sensitive to interest rate changes, including callable options, prepayments and other factors.

The PRIM Board compares the effective duration of a manager's portfolio to their relevant benchmark including Barclays Capital Aggregate index, US Treasury STRIPS 20+ Year index, Barclays Capital US TIPS index, Barclays Capital Inflation Linked Bonds index, S&P LSTA Leveraged Loan index, JP Morgan Global Emerging Markets Bond index, JP Morgan Global Diversified Emerging Markets Bond index, and the Merrill Lynch High Yield Master II index. The PRIT Fund had fixed income and short-term investments totaling approximately \$19.195 billion at fair value with an effective weighted average duration range from 0.18 to 15.31 years at June 30, 2018.

Credit Risk – PRIT Funds

The PRIM Board establishes credit investment guidelines with each of its fixed income securities investment managers in establishing a diversified portfolio. These guidelines vary depending on the manager's strategy and the role of its portfolio to the overall diversification of the PRIT fund. The guidelines for the PRIT Fund's core fixed income portfolio establish the minimum credit rating for any security in the portfolio and the overall weighted average credit rating of the portfolio. The guidelines for the PRIT Fund's high yield, fixed income portfolio establish a market value range of securities to be held with a specific minimum credit rating and the overall weighted average credit rating of the portfolio.

Credit risk for derivative instruments held by PRIT results from counterparty risk. PRIT is exposed to credit risk resulting from counterparties being unable to meet their obligations under the terms of the derivative agreements. The weighted average quality rating of the debt securities portfolio, excluding pooled investments, investments explicitly backed by the United States Government and other nonrated investments was BBB+ at June 30, 2018.

Credit ratings associated with the Commonwealth's investment in the PRIT Fund ranged from AAA to A- investments with a fair value of approximately \$2.389 billion, BBB+ to B- investments with a fair value of approximately \$2.761 billion, \$633 million rated CCC+ to D, \$7.543 billion are unrated, and the remaining \$6.126 billion are investments that are explicitly backed by the U. S. Government.

Foreign Currency Risk – PRIT Funds

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of investments. The Treasury does not have a policy regarding foreign currency risk for the Pension Trust. The PRIM Board manages PRIT's exposure to foreign currencies by hedging a percentage of PRIT's non-U.S. dollar denominated investments through forward foreign currency contracts. The PRIT Fund's investments in foreign currency denominated investments as of June 30, 2018 were approximately \$209 million in cash and investments, \$14.362 billion in equities, \$1.560 billion in fixed income investments, \$376 million in portfolio completion strategies, \$1.158 billion in private equity investments and \$286 million in timber investments. An additional \$3.197 billion is invested in international investments denominated in U. S. dollars.

Concentration of Credit Risk – PRIT

The PRIM Board manages PRIT's exposure to concentration of credit risk by establishing guidelines with each investment manager that limit the percent of investment in any single issue or issuer.

PRIT has no investments at fair value that exceed 5% of PRIT's net position held in trust for pool participants as of June 30, 2018.

A. DERIVATIVE INSTRUMENTS

PRIT may invest in derivative instruments. In accordance with GASB Statement No 53, *Accounting and Financial Reporting for Derivative Instruments*, PRIT's derivatives are accounted for as investment derivatives and are reported at fair value.

Forward Currency Contracts

PRIT enters into forward currency contracts to hedge the exposure to changes in foreign currency exchange rates on foreign portfolio holdings. The market value of the contracts will fluctuate with changes in currency exchange rates. Risks may arise from the potential inability of counterparties to meet the terms of their contracts and from unanticipated movements in the value of a foreign currency relative to the U.S. dollar.

The contracts are marked-to-market daily and the change in fair value is recorded as an unrealized gain or loss by PRIT.

When a contract is closed, PRIT records a realized gain or loss equal to the difference between the value of the contract at the time it was opened and the value at the time it was closed.

As of June 30, 2018, PRIT had open foreign exchange contracts with combined net unrealized gain of approximately \$23 million with various delivery dates.

Further information on derivative instruments can be found in the notes to PRIT's basic financial statements.

Futures Contracts

PRIT may purchase and sell financial futures contracts to hedge against changes in the values of securities the fund owns or expects to purchase.

Upon entering such contracts, they must pledge to the broker an amount of cash or securities equal to a percentage of the contract amount.

The potential risk is that the change in the value of futures contracts may not correspond to the change in the value of underlying instruments, which may not correspond to the change in value of the hedged instruments. In addition, there is a risk that PRIT may not be able to close out its future positions due to a non-liquid secondary market. Risks may also arise from the potential inability of a counterparty to meet the terms of a contract and from unanticipated movements in the value of a foreign currency relative to the U.S. dollar.

PRIT may also invest in financial futures contracts for non-hedging purposes.

PRIT held contracts outstanding at June 30, 2018 with various expirations from FY19 to FY22. These contracts are for cash and cash equivalents, fixed income, equities and commodities. A portion of the contracts were short contracts. The aggregated notional exposure amount as of June 30, 2018 was approximately \$868 million with a fair value of \$865 million, yielding an unrealized net loss of approximately \$3 million.

Payments are made or received by PRIT each day, depending on the daily fluctuations in the value of the underlying security and are recorded as unrealized gains or losses. When the contracts are closed, the PRIT Fund recognizes a realized gain or loss.

Swaps – PRIT

PRIT has entered into swap agreements to gain exposure to certain markets and actively hedge other exposures to market and credit risk. The swap contracts are reported at fair value, which represents their estimated liquidation values on costs. PRIT either receives cash from the swap counterparties or pays the swap counterparties monthly depending on whether the fixed-rate interest is lower or higher than the variable-rate interest. Changes in fair value are included as part of investment income.

As of June 30, 2018, PRIT had contracts in effect with an aggregated notional amount of approximately \$7.071 billion to various investment banks that had maturity dates from FY19 to FY64. The contracts have an aggregate fair value gain of approximately \$14 million. PRIT values these contracts using standard methods and techniques including the discounted cash flow analysis and option pricing models.

PRIT's counterparty exposure was with various major investment companies with ratings ranging from AA- to A and various other banks with other ratings. Open swap contracts as of June 30, 2018 were as follows (amounts in thousands):

Counterparty	Credit Ratings	Interest Rate Swaps		Credit Default Swaps		Total Return and Other Swaps	
		Gross Notional	Fair Value	Gross Notional	Fair Value	Gross Notional	Fair Value
Bank of America NA.....	A+	\$ —	\$ —	\$ 28,171	\$ (4,247)	\$ —	\$ —
Citibank NA.....	A+	4,085	(51)	6,400	(271)	445,417	(4,433)
CME Group Inc.....	AA-	595,149	7,169	—	—	—	—
Credit Suisse.....	A	—	—	1,155,603	16,369	—	—
Deutsche Bank AG.....	A	—	—	7,777	42	885,001	(16,277)
Goldman Sachs.....	A+	—	—	69,560	(3,363)	32,481	(1,059)
LCH Clearent Ltd.....	A	1,543,716	11,577	—	—	279,131	(311)
Morgan Stanley.....	A+	—	—	36,661	(9,098)	—	—
SMBC Capital Markets Inc.....	A+	250,000	9,969	—	—	—	—
U.S. Bank National Association.....	A+	500,000	15,828	—	—	—	—
All others.....	Various	173,581	605	480,786	(10,722)	577,651	1,989
Totals.....		<u>\$ 3,066,531</u>	<u>\$ 45,097</u>	<u>\$ 1,784,958</u>	<u>\$ (11,290)</u>	<u>\$ 2,219,681</u>	<u>\$ (20,091)</u>

B. DISCRETELY PRESENTED COMPONENT UNIT INVESTMENTS

Component units invest in derivative transactions. Detailed information on those transactions is found in the notes to the basic financial statements of those component units.

C. FAIR VALUE MEASUREMENTS OF INVESTMENTS

In accordance with GASB 72, the Commonwealth categorizes the fair value measurements of its investments within the fair value hierarchy established by generally accepted accounting principles. The fair value hierarchy categorizes the inputs to valuation techniques used for fair value measurement into three levels as follows:

- Level 1 - Inputs are quoted prices for identical investments in active markets.
- Level 2 - Observable inputs other than quoted market prices.
- Level 3 - Unobservable inputs.

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. In certain instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy the level in the fair value hierarchy is based on the lowest level of input that is significant to the fair measurement.

The following tables present a summary of the fair value hierarchy of investments at June 30, 2018 (amounts in thousands):

<i>Primary government</i>	Total	Level		
		1	2	3
Debt securities:				
US Treasury and agency securities.....	\$ 529,625	\$ 527,978	\$ 1,647	\$ —
Municipal securities	107,411	16,974	90,437	—
Institutional money market funds.....	203,606	199,042	4,564	—
Corporate debt/bonds	80,378	6,370	73,964	44
Corporate stock.....	23,507	23,507	—	—
Asset backed securities.....	17,652	—	17,652	—
Registered investment companies	28,535	27,925	610	—
Mortgage backed securities	12,597	—	12,597	—
Other fixed income.....	145,780	111,655	34,125	—
Total debt securities.....	1,149,091	913,451	235,596	44
Equity securities	285,984	284,600	—	1,384
Other investments:				
REITS.....	18,015	18,015	—	—
Investments measured at the Net Asset Value (NAV):				
Commonfund (pooled investment funds).....	210,351			
Private equity.....	15,512			
Private debt.....	19,462			
Private real estate.....	4,762			
Other.....	16,216			
Total investments measured at the NAV.....	266,303			
Other investments at fair value:				
MMDT - bond fund.....	372,967			
Subtotal investments at fair value	2,092,360	\$ 1,216,066	\$ 235,596	\$ 1,428
Other investments:				
Guaranteed investment contracts.....	200,099			
Certificates of deposit.....	12,843			
Other.....	503,356			
Total other investments.....	716,298			
Total investments - primary government.....	\$ 2,808,658			
Derivative instruments:				
Interest rate swaps (liabilities).....	\$ 182,241	\$ —	\$ 182,241	\$ —

Included in the preceding schedule is approximately \$3 million of various money mutual fund investments related to the business type activities which are classified as cash equivalents in the accompanying financial statements.

Lottery annuity contracts and U.S. Treasury Strips of approximately \$971 million as of June 30, 2018 is presented in governmental activities on the Statement of Net Position and also in the fiduciary funds as further explained in the Reconciliation of Fund Balances to the Statement of Net Position. In these fair value tables, the Lottery annuity contracts and U.S. Treasury Strips are presented solely in the fiduciary funds.

<i>Fiduciary funds:</i>	Total	Level		
		1	2	3
Debt securities:				
US Treasury securities.....	\$ 1,194,892	\$ 1,194,892	\$ —	\$ —
Bonds.....	121,871	38,086	83,785	—
Total debt securities.....	1,316,763	1,232,978	83,785	—
Investments measured at the Net Asset Value (NAV):				
Mutual funds.....	56,170			
Other investments at fair value:				
MMDT - bond fund.....	39,075			
Net investment in PRIT.....	71,797,749			
Total other investments at fair value.....	71,836,824			
Subtotal investments at fair value.....	73,209,757	\$ 1,232,978	\$ 83,785	\$ —
Other investments:				
Annuity contracts.....	117,996			
Total investments - fiduciary funds.....	\$ 73,327,753			

3. RECEIVABLES AND TAX ABATEMENTS

A. RECEIVABLES

Taxes, federal reimbursements, loans and other receivables are presented in the statement of net position, exclusive of amounts due from cities and towns and component units as follows (amounts in thousands):

<i>Primary Government</i>	Taxes Receivable	Federal Grants and Reimbursements	Loans	Other Receivables	Total
<i>Governmental Activities:</i>					
Gross receivables.....	\$ 4,962,898	\$ 2,309,569	\$ 101,403	\$ 1,714,782	\$ 9,088,652
Less: allowance for uncollectibles.....	(1,381,844)	(30,773)	—	(1,117,404)	(2,530,021)
Receivables, net allowance for uncollectibles.....	3,581,054	2,278,796	101,403	597,378	6,558,631
Less: current portion.....	(3,345,403)	(2,209,037)	(7,165)	(503,999)	(6,065,604)
Noncurrent receivables.....	\$ 235,651	\$ 69,759	\$ 94,238	\$ 93,379	\$ 493,027
<i>Business-Type activities:</i>					
Gross receivables.....	\$ —	\$ 99,268	\$ 71,492	\$ 1,106,862	\$ 1,277,622
Less: allowance for uncollectibles.....	—	(1,796)	(4,263)	(431,751)	(437,810)
Receivables, net allowance for uncollectibles.....	—	97,472	67,229	675,111	839,812
Less: current portion.....	—	(97,472)	(59,903)	(610,471)	(767,846)
Noncurrent receivables.....	\$ —	\$ —	\$ 7,326	\$ 64,640	\$ 71,966

B. TAX ABATEMENTS

As of June 30, 2018, the Commonwealth provided tax abatements through the following three programs: The Massachusetts Economic Development Incentive Program Credit (EDIP), Life Sciences Tax Incentive Program and the Film Tax Credit.

Economic Development Incentive Program

Under the Economic Development Incentive Program (EDIP), companies receive state and local tax incentives in exchange for job creation, manufacturing job retention and private investment commitments. On or after January 1, 2010 and before January 1, 2017, the Economic Assistance Coordination Council (EACC) may award to taxpayers up to 40% of the cost of qualifying properties as credits to certain certified projects ("expansion project", "enhanced expansion project", or a "manufacturing retention project"). The EACC may also award EDIP credits of up to \$1,000 per job (\$5,000 per job in gateway municipalities) to certified job creation projects. The total award for a project may not exceed \$1 million. On or after January 1, 2017, the credit is instead determined by the EACC based on factors set out in M.G.L. c. 23A, § 3D.

The total dollar amount of the EDIP credit that may be used in a calendar year is \$30 million.

The taxes eligible for abatement using these credits include the corporate excise, financial institutions excise, insurance premiums excise and personal income tax, with tax payments reduced by applying the amount of the credits directly against the relevant calculation of tax liability as determined by the rules governing the particular tax to be abated.

For projects certified before January 1, 2017, if a project's certification is revoked, or if property upon which a certification is based is sold prior to the end of its useful life, the difference between the credit taken and the credit allowed for actual use must be added back as additional taxes due in the year of disposition, except if the property had been in qualified use for more than twelve consecutive years. For an expansion project where the actual number of permanent full-time employees employed by the controlling business at the project is less than 50% of the number of such permanent full-time employees projected in the project proposal, this shall be deemed a material variance for the purpose of a revocation determination. Upon such a revocation, all tax credits available to the controlling business as a result of project certification shall be revoked and forfeited for the year in which revocation occurred and all subsequent years, and the Commonwealth, in the case of a certified expansion project, shall recover the value of any tax credits received by the controlling business prior to or subsequent to such revocation.

For projects certified on or after January 1, 2017, recapture is required only if the EACC revokes certification. The amount of credit subject to recapture shall be proportionate to the corporation's job creation requirements applicable to the certified project. The corporation's proportion of compliance will be determined by the EACC as part of the revocation process and reported to DOR and the taxpayer at time of revocation.

Life Sciences Tax Incentive Program

The Massachusetts Life Sciences Center (MLSC) certifies and awards four types of tax abatements to life sciences companies, with the purpose of increasing Massachusetts' employment of companies in the life sciences sector of the economy. These abatements, which are 90%-refundable, together with other life sciences tax incentives, are subject to an aggregate \$25 million annual cap.

- The Life Sciences Investment Tax Credit is equal to 10% of the cost of qualifying property acquired, constructed, reconstructed or erected during the taxable year and used exclusively in Massachusetts.
- The Life Sciences User Fees Tax Credit is equal to 100% of the user fees paid to the U.S. Food and Drug Administration (U.S.F.D.A.) upon submission of an application to manufacture a human drug in Massachusetts, and may be claimed in the taxable year in which the application for licensure of an establishment to manufacture the drug is approved by the U.S.F.D.A. To be eligible for the credit, more than 50% of the research and development costs for the drug must have been incurred in Massachusetts.
- Taxpayers seeking to claim a Life Sciences Jobs Tax Credit must commit to the creation of a minimum of 50 net new permanent full-time positions in Massachusetts. The amount of the credit is determined by the Life Sciences Center.
- The Life Sciences Center may authorize a life sciences company to obtain refunds of existing Research Credits. Generally, the Research Credit for research expenses incurred in Massachusetts is based on a formula that

measures taxpayers' year-to-year increases in Massachusetts research expenses. See the regulations and public written statements cited below for a more detailed description of the formula.

Under each of these tax abatements, grantees agree to increase or maintain its employee headcount in Massachusetts, compared to the company's "baseline" employee headcount at the time of the award and the company's projected net increase in headcount in the tax year following award. Baseline and projected headcounts are summed to create a "total projected headcount" metric that is used for MLSC agreement and compliance purposes.

A company that has received tax incentives from the MLSC and subsequently fails to achieve the minimum net new headcount thresholds as specified in the MLSC's Annual Tax report and Multiple Awards policy will have the award terminated and must return the amount of the tax abatement claimed to the Commonwealth, although the company may be given an additional year to achieve the employment goals if the MLSC determines that it has the potential to meet those goals. The MLSC is required by statute to de-certify any company that fails to achieve at least 70% of its job target for two consecutive years. The MLSC has decided through administrative action that any company failing to achieve at least 80% of its job target by the end of any extension period and, in the case of the Life Sciences Job Incentive Refundable Credit, failing to create at least 50 net new jobs, will be de-certified. More information on these job creation and clawback requirements is available on the MLSC's website, <http://www.masslifesciences.com/programs/tax/>.

The taxes eligible for abatement using these credits include the corporate excise, financial institutions excise, insurance premiums excise and personal income tax, with tax payments reduced by applying the amount of the credits directly against the relevant calculation of tax liability as determined by the rules governing the particular tax to be abated.

Film Tax Incentive

Under M.G.L. c. 62, § 6(1) and M.G.L. c. 63, § 38X, the Department of Revenue is authorized to grant tax abatements to encourage the production in Massachusetts of motion pictures, television shows, and commercials. Entities that fund such productions (known under the statute as "motion picture production companies") may claim (1) a credit equal to 25% of the total qualifying aggregate payroll for employing persons within the Commonwealth in connection with filming and production of a motion picture and (2) a credit equal to 25% of their Massachusetts production expenses. Each credit has its own qualification requirements and a taxpayer is allowed to qualify for and claim both credits. The production companies must incur a minimum of \$50,000 in qualified expenses during a consecutive twelve-month qualification period. The credits are either transferable or 90% refundable to the motion picture production companies to the extent that the credits exceed the companies' Massachusetts tax liability. Transferees do not qualify for the 90%-refundability option.

The taxes eligible for abatement using these credits include the corporate excise, financial institutions excise, insurance premiums excise and personal income tax, with tax payments reduced by applying the amount of the credits directly against the relevant calculation of tax liability as determined by the rules governing the particular tax to be abated. There is no cap on the amount of the credits.

There are no provisions in statute to recapture the film tax credits.

In addition to the tax credit, sales of tangible personal property to a qualifying motion picture production company or to an accredited film school student for the production expenses related to a school film project are exempt from the sales tax. In order to qualify for the sales tax exemption, a motion picture production company must incur at least \$50,000 in total production costs in Massachusetts during a consecutive twelve-month period and must be conditionally pre-approved as a qualifying company by the Commissioner of Revenue. Any taxpayer that has been conditionally pre-approved for the sales tax exemption that then fails to expend the requisite \$50,000 within a consecutive twelve-month period shall be liable for the sales taxes that would have been due had the conditional pre-approval not been granted.

The following is the total revenue estimated to be reduced under these programs for fiscal year 2018 (amounts in thousands):

Tax abatement program	Total estimated revenue reduced
Economic Development Incentive Program (EDIP).....	\$ 52,170 ⁽¹⁾
Life Sciences Tax Incentive Program.....	19,920 ⁽²⁾
Film Tax Incentive Program:	
Film Tax Credit.....	69,650 ⁽³⁾
Sales Tax Exemption	320 ⁽⁴⁾
Total.....	<u>\$ 142,060</u>

Sources:

(1) Massachusetts Office of Business Development, credits approved in FY2018.

(2) <https://www.mass.gov/news/baker-polito-administration-announces-job-creation-incentives-for-23-massachusetts-life-0>, incentives awarded in FY2018.

(3) Massachusetts Department of Revenue, film tax credits approved during FY2018.

(4) Massachusetts Department of Revenue, FY2019 Tax Expenditure Budget, sales tax exemption approved to motion picture production companies or to accredited film school students during FY2018 (<https://www.mass.gov/doc/2019-tax-expenditure-budget/download> or http://budget.digital.mass.gov/bb/h1/fy19h1/tax_19/items/htax3004.htm).

4. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS BETWEEN FUNDS

The purposes of interfund receivables, payables and transfers between funds vary by legislative authority. Transfers include the following: intergovernmental services, fringe benefit cost assessments, the year-end Stabilization Fund transfer, certain license fees collected by the Registry of Motor Vehicles that fund various highway project initiatives, fund closure transfers, and various other transfers for operations, largely for Institutions of Higher Education.

Activity between funds reflected as due to/from primary government in the various statements is summarized as follows (amounts in thousands):

	General	Lotteries	Other Governmental Funds	Total
Governmental funds:				
<u>Transfers in:</u>				
Debt service	\$ —	\$ —	\$ 2,480,756	\$ 2,480,756
Transfers in	1,651,451	—	1,582,361	3,233,812
Subtotal	1,651,451	—	4,063,117	5,714,568
<u>Transfers out:</u>				
Appropriations	(1,150,483)	—	(1,396)	(1,151,879)
Transfer of bond proceeds	—	—	(121,669)	(121,669)
Debt service	(1,184,124)	—	(1,296,632)	(2,480,756)
Transfers out	(809,611)	(1,097,398)	(1,176,986)	(3,083,995)
Subtotal	(3,144,218)	(1,097,398)	(2,596,683)	(6,838,299)
Total governmental funds	(1,492,767)	(1,097,398)	1,466,434	(1,123,731)
	University of Massachusetts	State Universities	Community Colleges	Total
<u>Transfers in:</u>				
Transfers in from the General Fund and other governmental funds.....	574,670	285,115	413,764	1,273,549
<u>Transfers out:</u>				
Transfers out to the General Fund	(93,857)	(30,963)	(24,998)	(149,818)
Total proprietary funds	\$ 480,813	\$ 254,152	\$ 388,766	1,123,731
Net transfers in/(out) between funds				\$ —

Due to/from component units on the Statement of Net Position reflects a timing difference for payments of approximately \$104 million at year end.

Remaining receivables and payables between funds as of June 30, 2018 largely occur due to the timing of accruals and the funding of escrows. The University of Massachusetts also reported unremitted benefits costs as of June 30, 2018. The amount due to the General Fund largely represents deficits funded by the General Fund. The following is a summary of receivables and payables between funds remaining as of June 30, 2018 (amounts in thousands):

Receivable Fund	Payable Fund	Amount
Governmental Funds:		
General	Nonmajor Governmental Funds	\$ 26,651
Non-major Governmental Funds	Nonmajor Governmental Funds	71,734
Total Governmental Funds		\$ 98,385

5. CAPITAL ASSETS

Capital asset activities for the fiscal year ended June 30, 2018 were as follows (amounts in thousands):

<i>Primary Government Governmental Activities</i>	July 1, 2017 Beginning Balance*	Increases	Decreases and Reclassifications	June 30, 2018 Ending Balance
Capital assets not being depreciated:				
Land.....	\$ 894,529	\$ 20,036	\$ —	\$ 914,565
Construction in process	866,377	124,256	(331,171)	659,462
Total capital assets not being depreciated	1,760,906	144,292	(331,171)	1,574,027
Capital assets being depreciated:				
Buildings	5,850,073	108,349	(1,053)	5,957,369
Machinery and equipment	1,460,816	318,054	(20,032)	1,758,838
Infrastructure non - central artery/tunnel project	408,582	497	—	409,079
Total capital assets being depreciated.....	7,719,471	426,900	(21,085)	8,125,286
Less, accumulated depreciation:				
Buildings	(3,256,329)	(117,927)	915	(3,373,341)
Machinery and equipment	(1,172,400)	(106,999)	4,995	(1,274,404)
Infrastructure non - central artery/tunnel project	(258,562)	(9,317)	—	(267,879)
Total accumulated depreciation.....	(4,687,291)	(234,243)	5,910	(4,915,624)
Total capital assets being depreciated, net.....	3,032,180	192,657	(15,175)	3,209,662
Governmental activities capital assets, net.....	4,793,086	336,949	(346,346)	4,783,689
<i>Business - Type Activities</i>				
Capital assets not being depreciated:				
Land.....	159,050	71,122	(1,063)	229,109
Construction in process	977,929	539,342	(665,152)	852,119
Historical treasures	1,366	98	—	1,464
Total capital assets not being depreciated	1,138,345	610,562	(666,215)	1,082,692
Capital assets being depreciated:				
Buildings	9,832,228	675,609	(1,028)	10,506,809
Machinery and equipment	1,117,204	81,001	(47,779)	1,150,426
Library collections, not including historical treasures	78,493	705	(7,032)	72,166
Total capital assets being depreciated.....	11,027,925	757,315	(55,839)	11,729,401
Less, accumulated depreciation:				
Buildings	(3,759,101)	(336,439)	1,633	(4,093,907)
Machinery and equipment	(857,665)	(64,318)	37,887	(884,096)
Library collections, not including historical treasures	(15,371)	(570)	462	(15,479)
Total accumulated depreciation.....	(4,632,137)	(401,327)	39,982	(4,993,482)
Total capital assets being depreciated, net.....	6,395,788	355,988	(15,857)	6,735,919
Business - type activities capital assets, net	7,534,133	966,550	(682,072)	7,818,611
Total Primary Government capital assets, net.....	\$ 12,327,219	\$ 1,303,499	\$ (1,028,418)	\$ 12,602,300

* - Restated, business-type activities only

Depreciation expense was charged to the various functions of governmental and business-type activities as follows (amounts in thousands):

<u>Function</u>	<u>Amount</u>
General government.....	\$ 99,028
Judiciary.....	35,428
Health and human services.....	23,511
Early elementary and secondary education.....	3,165
Public safety and homeland security.....	64,575
Housing and economic development.....	43
Labor and workforce development.....	8,493
	<hr/>
Total depreciation, governmental activities.....	\$ 234,243
	<hr/>
University of Massachusetts.....	\$ 261,417
State universities.....	102,460
Community colleges.....	37,450
	<hr/>
Total depreciation, business-type activities.....	\$ 401,327
	<hr/>

6. SHORT-TERM FINANCING AND CREDIT AGREEMENTS

Massachusetts General Laws authorize the Treasurer to issue temporary notes in anticipation of revenue or bond financing. Short-term borrowing may be issued as fixed rate notes, floating rate notes or through a commercial paper program supported by bank liquidity facilities maintained by the Commonwealth. Per the State Constitution, revenue anticipation notes (RANs) issued for cash flow purposes are required to be paid within the same fiscal year. Temporary financings for capital needs, such as bond anticipation notes, may be outstanding for up to three years, per statute.

A. GENERAL FUND

The balance of revenue anticipation notes (RANs) and commercial paper outstanding may fluctuate during a fiscal year, but all short-term borrowing for cash flow purposes must be reduced to zero by June 30. For short-term borrowing for cash flow purposes, the Commonwealth borrowed \$1.5 billion by selling RANs in August, 2017 in three separate \$500 million series which were retired in April, May and June 2018.

The following schedule details short-term financing for all funds for the fiscal year (amounts in thousands):

	July 1, 2017 Beginning Balance	Issued/ Drawn	Redeemed/ Repaid	June 30, 2018 Ending Balance
	<hr/>	<hr/>	<hr/>	<hr/>
General Fund:				
Revenue anticipation notes.....	\$ —	\$ 1,500,000	\$ (1,500,000)	\$ —
	<hr/>	<hr/>	<hr/>	<hr/>

B. CREDIT FACILITIES

During FY18, the Commonwealth maintained credit facilities to provide liquidity support for commercial paper notes totaling \$400 million. The Commonwealth started FY18 with two credit facilities to provide such liquidity support. One facility with TD Bank (\$200 million) was set to expire in FY18 and was extended to April 18, 2023, while the other facility with State Street Bank (\$200 million) is set to expire in FY19. In addition to credit facilities for commercial paper, the Commonwealth maintained standby bond purchase agreements for outstanding Variable Rate Demand Bonds (VRDBs) sold from (FY01 through FY06). These VRDBs require external liquidity support because bond-holders have the right to tender the bonds back to the Commonwealth at par at any time. As of June 30, 2018, these agreements totaled \$539 million and expire on various dates in FY21 through FY23.

MSBA

During FY18, the MSBA maintained credit facilities to provide liquidity support in the amount of \$450 million for its commercial paper notes. The \$450 million Commercial Paper Notes, Series 2015A, Series 2015B, and Series 2015C were secured by irrevocable letters of credit provided by Bank of America, N.A., Citibank, N.A., and Barclays Bank PLC, respectively, which expired without renewal in March 2018.

7. LONG-TERM OBLIGATIONS

Section 1 of Article 62 of the Massachusetts Constitution empowers the State Legislature to borrow money on the credit of the Commonwealth for various public purposes. Under the State Constitution, the Commonwealth may pledge its credit to borrow money only by a vote of two-thirds of each house of the Legislature. Borrowed funds may be used for defense of the State or of the United States, and in anticipation of receipts from taxes or other sources, “any such loan to be paid out of the revenue of the year in which the loan is made.” The Legislature may not in any manner allow the Commonwealth’s credit to be given or loaned to or in aid of any individual, or of any private association, or of any corporation, which is privately owned or managed. The Constitution further provides that borrowed money shall not be expended for any other purpose than that for which it was borrowed or for the reduction or discharge of the principal of the loan.

Statutorily, the authority to borrow is delegated to the Massachusetts State Treasurer & Receiver General pursuant to Chapter 29 of the Massachusetts General Laws. Section 49 of Chapter 29 of the Massachusetts General Laws is the primary statute governing the issuance of Commonwealth debt and contains a number of provisions spelling out the process for the issuance of bonds.

The issuance of bonds to fund the Commonwealth’s capital needs must be authorized by the Legislature. Pursuant to legislative authorizations to borrow, the Governor determines the amount and timing of any authorized borrowing to fund capital investments. At the request of the Governor, the State Treasurer & Receiver General borrows by issuing bonds to the public. The Governor approves the use of the bond proceeds by agencies to pay for authorized and budgeted capital projects.

Massachusetts General Law provides for the allocation of bond proceeds to bond authorizations and capital spending in arrears (as needed), as expenditures are made, or at the time of issuance of the bonds. In general, bond proceeds are primarily allocated to capital spending that has already occurred. When allocating in arrears, the allocation of segregated bond proceeds is a reimbursement to the General Fund.

Bond proceeds that are awaiting allocation are typically invested by the State Treasurer in the Commonwealth’s primary investment vehicle, the Massachusetts Municipal Depository Trust (MMDT) (for more information please see the notes on the Commonwealth’s short-term investments). Bond proceeds are segregated from other funds until they are allocated to capital expenditures, a process that requires review by the Commonwealth’s bond counsel.

The Commonwealth has waived its sovereign immunity and consented to be sued on contractual obligations, including bonds and notes issued by it and all claims with respect hereto. 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 legislative

appropriation. Enforcement of a claim for the payment of principal or interest on bonds and notes of the Commonwealth may also be subject to the provisions of federal or Commonwealth statutes, if any, enacted to extend the time for payment or impose other constraints upon enforcement. The Commonwealth cannot file for bankruptcy under the United States Bankruptcy Code.

As of June 30, 2018, the Commonwealth had issued two types of long-term debt obligations: general obligation bonds and special obligation bonds. General obligation bonds, which account for the large majority of outstanding Commonwealth bonds, are backed by the full faith and credit of the Commonwealth. Special obligation bonds, however, are bonds secured by all or a portion of a specific revenue source that are pledged to bondholders and are not general obligations of the Commonwealth. For this type of securities, bondholders rely on pledged revenue only for repayment of principal and interest.

The following is a summary of the Commonwealth's outstanding debt, exclusive of capital leases, (amounts in thousands):

Type of Bond	Amount Outstanding
General obligation bonds, net proceeds.....	\$ 24,840,103
Special obligation bonds (including GANs), net proceeds	4,656,298
Outstanding Commonwealth bonds, net proceeds	29,496,401
MSBA bonds, net proceeds	6,603,285
Total governmental activities, net proceeds	36,099,686
Less:	
Unamortized premiums on general obligation bonds	(1,696,729)
Unamortized premiums on special obligation bonds	(438,853)
Unamortized premiums on MSBA bonds	(612,731)
Total governmental activities, principal	\$ 33,351,373

The general obligation (GO) bonds listed in the table above include outstanding tax-exempt bonds, taxable bonds including Build America Bonds, College Opportunity Bonds, and debt assumed from former counties. The special obligation (SO) bonds listed above include outstanding tax-exempt and taxable bonds (including Build America Bonds and Recovery Zone Economic Development Bonds) secured by indentures that legally define the specific revenues pledged to bondholders, as defined in the trust agreement. This includes outstanding bonds or notes secured by Federal Highway funds to be received by the Commonwealth, certain portions of the Commonwealth's motor fuel excise taxes and Registry of Motor Vehicle fees, and dedicated taxes and fees levied in certain geographic areas of the state to support the Commonwealth's convention center facilities. As of June 30, 2018, there were four different special obligation bond programs with bonds outstanding. It should be noted that one of the four bond programs has a closed lien, meaning that no additional new-money bonds will be issued under that specific special obligation bond indenture.

The following is a table of GO bonds principal outstanding as of June 30, 2018, (amounts in thousands):

General Obligation Bonds	Principal Outstanding	Percent of Total GO
Fixed rate bonds.....	\$ 20,086,329	86.8%
Variable rate bonds.....	3,057,045	13.2%
Total	\$ 23,143,374	100.0%

The following is a table of the different types of outstanding variable rate GO bonds, (amounts in thousands):

Variable Rate GO Bonds	Principal Outstanding	Percent of Total GO
Direct purchase bonds	\$ 850,320	3.8%
LIBOR index bonds.....	830,375	3.6%
Variable rate demand bonds.....	539,210	2.3%
Multi-Modal	400,000	1.7%
SIFMA index bonds.....	188,490	0.8%
College opportunity bonds	149,140	0.6%
CPI-index bonds	99,510	0.4%
Total	<u>\$ 3,057,045</u>	<u>13.2%</u>

The following is a table of hedged and unhedged variable rate GO bonds, (amounts in thousands):

	Principal Outstanding	Percent of Total GO
Hedged variable rate GO bonds	\$ 1,561,350	6.7%
Unhedged variable rate GO bonds ..	1,495,695	6.5%
Total variable rate GO bonds.....	<u>\$ 3,057,045</u>	<u>13.2%</u>

The following is a table of SO bond principal, by rate structure, outstanding as of June 30, 2018, (amounts in thousands):

Special Obligation Bonds	Principal Outstanding	Percent of Total SO
Fixed rate bonds	\$ 4,163,420	98.7%
Variable rate bonds	54,025	1.3%
Total	<u>\$ 4,217,445</u>	<u>100.0%</u>

All of the variable rate special obligation bonds are hedged as of June 30, 2018.

The following is a table of the different types of outstanding Special Obligation bonds (amounts in thousands):

Special Obligation Bonds	Amount Outstanding
Special obligation dedicated tax revenue bonds, net proceeds:	
Fixed rate convention center bonds	\$ 553,318
Special obligation revenue bonds, net proceeds:	
Fixed rate gas tax bonds	51,205
CPI variable rate gas tax bonds	54,025
Total gas tax bonds, net proceeds	105,230
Special obligation revenue bonds, net proceeds:	
Accelerated bridge program	1,821,466
Rail enhancement program	1,285,359
Total revenue bonds, net proceeds	3,106,825
Special obligation GANS, net proceeds:	
Federal highway grant anticipation notes and accelerated bridge program	890,925
Total special obligation bonds, net proceeds	4,656,298
Less: unamortized premiums	(438,853)
Outstanding special obligation principal	<u>\$ 4,217,445</u>

A. GENERAL OBLIGATION BONDS

General obligation bonds are authorized and issued primarily to provide funds for the Commonwealth's five-year capital improvement program (CIP), including capital infrastructure projects throughout the state as well as Commonwealth-supported local government capital improvements. The five-year plan is developed by the Executive Office for Administration and Finance (A&F) and updated annually. The CIP is primarily funded through the issuance of bonds that are sold by the State Treasurer and Receiver General. The Commonwealth borrows from the capital markets by selling GO bonds and notes pursuant to Chapter 29 of the Massachusetts General Laws. GO bonds are backed by the full faith and credit of the Commonwealth and are paid from the Governmental Funds, to which debt service principal and interest payments are appropriated in the state's operating budget.

In addition to GO bonds issued to fund the state's capital needs, certain bonds are approved by the Legislature to be issued for a specific program. These bonds, known as College Opportunity Bonds, are issued pursuant to statute directly to the Massachusetts Educational Financing Authority for its pre-paid tuition program called the "U.Plan". As of June 30, 2018, the Commonwealth had approximately \$149 million in "U. Plan" bonds (at accreted value) outstanding. Pursuant to statute, all of the outstanding bonds are variable rate bonds. Interest on the bonds is based on the percentage change in the consumer price index plus 2.0% together with current interest at the rate of 0.5%.

In terms of bond structure, the large majority of GO bonds have been sold as fixed rate obligations. As of June 30, 2018, approximately 86.8% of the Commonwealth's outstanding GO debt is in the form of fixed-rate bonds. The remaining 13.2% of outstanding GO debt is in the form of variable rate bonds – bonds whose rate of interest fluctuate based on market or market index changes. The outstanding GO variable rate debt consists of several different variable rate structures. These structures include floating rate notes in various interest rate modes, direct purchase agreements in various interest rated modes, multi-modal bonds currently in the Term Mode, and variable rate demand bonds. Variable rate demand bonds, or "VRDBs", are long-term bonds whose interest rates re-set daily or weekly through an active remarketing process. Because these bonds provide bondholders with a "put" or tender feature enabling the bonds to be sold back to the Commonwealth at par at any time by an investor, they are supported by standby liquidity facilities provided by third-party commercial banks which require the applicable bank to purchase any bonds that are tendered

by investors and not successfully remarketed. As of June 30, 2018, the Commonwealth had approximately \$539 million in outstanding VRDBs. This accounts for approximately 2.3% of total GO debt and approximately 17.6% of total GO variable-rate debt. All of these bonds are uninsured. As of June 30, 2018, none of the Commonwealth's outstanding VRDBs have been subject to failed remarketing and "put" back to the Commonwealth; consequently, there have not been any draws on any of the outstanding bank liquidity facilities.

The Commonwealth has also issued GO variable-rate debt in the form of auction-rate securities. All of these securities were refunded in May 2018 and there are no longer any auction-rate securities outstanding.

A portion of the Commonwealth's outstanding bonds have been directly purchased by banks (or "direct purchase bonds"). These variable rate, direct purchase bonds bear interest at an index rate and are payable on the first business day of each month until maturity. As of June 30, 2018, the Commonwealth had \$850 million direct purchase bonds outstanding.

The following table details the general obligation direct purchase bonds (amounts in thousands):

Series	Par Outstanding	Final Maturity	Reset Mode/ Payment Frequency	Direct Purchase Bank	Direct Purchase Agreement Date	Direct Purchase Expiration Date
2016 Series C.....	\$ 200,000	4/1/2046*	1 Month LIBOR/ Monthly Pay	State Street	5/12/2016	4/1/2021
2006 Series B, Subseries B-1 & B-2.....	164,700	3/1/2026*	1 Month LIBOR/ Monthly Pay	Bank of America Merrill	5/5/2016	5/31/2019
2001 Series B Refunding Bonds	140,255	1/1/2021	1 Month LIBOR/ Monthly Pay	TD Bank	8/1/2017	1/1/2021
2015 Series C Refunding Bonds	125,000	2/1/2019	1 Month SIFMA/ Monthly Pay	JP Morgan Chase Bank	12/23/2015	2/1/2019
2016 Series B.....	100,000	4/1/2036*	1 Month LIBOR/ Monthly Pay	TD Bank	5/10/2016	4/1/2021
2018 Series A Refunding Bonds.....	120,365	2/1/2021	1 Month SIFMA/ Monthly Pay	RBC Capital	1/30/2018	2/1/2021
Total.....	<u>\$ 850,320</u>					

* - These issuances have a mandatory tender prior to their final maturity Put dates.

The remaining outstanding GO variable-rate debt pays interest to bondholders based on certain indices. For example, as of June 30, 2018, the Commonwealth had approximately \$100 million of bonds that pay interest based on the consumer price index (CPI); \$830 million of bonds that pay interest based on the three-month London Interbank Offered Rate (LIBOR); \$188 million of bonds that pay interest based on the Securities Industry and Financial Markets Association (SIFMA) Index, and \$400 million in Multi-Modal bonds. These bonds make up approximately 0.4%, 3.6%, 0.8% and 1.7% of total outstanding general obligation indebtedness, respectively.

To fund the FY18 capital budget and prior capital spending, the Commonwealth borrowed by issuing \$2.384 billion in long-term bonds, \$1.734 billion of which was general obligation debt, and \$650 million of which was special obligation debt secured by federal highway reimbursements and/or motor fuels taxes and motor vehicle license and registration fees. In addition, \$993 million in refunding bonds were issued in five separate transactions. Two of these transactions were executed as current refundings a part of a stated plan of finance for the following purposes of 1) converting the outstanding auction rate securities to fixed rate debt and 2) for extending maturities to match that of certain existing hedges, while the remaining transactions were advance refundings executed for savings. The present value savings of the advance refunding transactions are immaterial to these financial statements.

MSBA Debt

As of June 30, 2018, the MSBA had outstanding approximately \$6.603 billion of Dedicated Sales Tax bonds, including approximately \$613 million of unamortized premiums for the purpose of funding school construction and renovation projects. Coupons on the bonds range from approximately 3.0% to 5.715% and each series is payable semiannually

with the latest maturity occurring in FY48. A portion of the interest on the Dedicated Sales Tax Bonds is reimbursed by the federal government. Of the \$5.991 billion of debt outstanding as of June 30, 2018, \$450 million is taxable Build America Bonds for which the MSBA is eligible to receive a 35% interest subsidy directly from the United States Treasury. In addition, \$293 million of the Subordinated Dedicated Sales Tax Bonds was issued as “Qualified School Construction Bonds” for which the MSBA is eligible to receive a 100% interest subsidy payment directly from the United States Treasury. During FY18, the federal government continued automatic budget cuts imposed through sequestration required pursuant to the Budget Control Act of 2011. On September 30, 2013, the IRS published a notice indicating that subsidy payments processed on or after October 1, 2013 and on or before September 30, 2014 will be reduced by the FY14 sequestration rate of 7.2%. The notice was updated in September 2014 to announce that subsidy payments processed on or after October 1, 2014 and on or before September 30, 2015 will be reduced by the FY15 sequestration rate of 7.3%. The subsidy payments made between October 1, 2015 and September 30, 2016 were reduced by the FY16 sequestration rate of 6.8%. The subsidy payments made between October 1, 2016 and September 30, 2017 were reduced by the FY16 sequestration rate of 6.9%. The subsidy payments made between October 1, 2017 and September 30, 2018 were reduced by the FY17 sequestration rate of 6.6%. The notice states that the sequestration reduction rate will be applied unless and until a law is enacted that cancels or otherwise modifies the sequester. The reductions were approximately \$1.6 million on the 2009 Series B Bonds, 2010 Series A Bonds and 2011 Series A Bonds in FY 18. The IRS announced that the sequestration rate for the federal fiscal year ending September, 2019 would be 6.2%.

B. SPECIAL OBLIGATION BONDS

Commonwealth Transportation Fund (CTF)

The largest amount of special obligation bonds outstanding (by par) are bonds secured by certain revenues of the Commonwealth Transportation Fund. In FY18, the Commonwealth issued approximately \$65 million in special obligation bonds under the Accelerated Bridge Program (ABP), \$510 million under the Rail Enhancement Program (REP) and \$243 million in refunding bonds. These bonds mature from FY19 to FY48 and are secured by a senior lien on 17 cents of the total 24 cents per gallon gasoline tax, the full 24 cents per gallon of special fuels taxes (comprised primarily of taxes on diesel fuel), and the full 19.1% of the average price per gallon tax on liquefied natural gas and all Registry of Motor Vehicle fees deposited into the CTF. These bonds also have a subordinate lien on 6.86 cents of the 24 cent per gallon gasoline tax not included in the senior lien. As of June 30, 2018, approximately \$1.681 billion and \$1.131 billion in principal was outstanding on the ABP and REP bonds, respectively, and approximately \$1.192 billion and \$1.019 billion of interest (net of the federal subsidy) was expected to be paid through maturity related to the ABP and REP bonds, respectively.

Motor Fuels Tax Bonds

Other special obligation bonds for highway construction purposes are secured by a senior lien on 6.86 cents of the 24 cent per gallon gasoline tax. As of June 30, 2018 bonds secured by these pledged funds totaled approximately \$105 million of principal. These bonds mature from FY19 to FY22 and were issued in multiple series. Principal and interest paid during FY18 amounted to approximately \$23 million and \$7 million, respectively.

Convention Center Fund

Chapter 152 of the Acts of 1997, as amended, authorized \$694 million of special obligation bonds to be issued for the purpose of building a new convention center in Boston (\$609 million), the Springfield Civic Center (\$66 million) and the Worcester Convention Center (\$19 million). The bonds are payable from monies credited to the Convention Center Fund created by that legislation, which include certain hotel tax receipts from hotels in Boston, Cambridge, Springfield and Worcester, a surcharge on car rentals in Boston, a parking surcharge at all three facilities, a surcharge on sightseeing tours and cruises in Boston, and sales tax receipts from certain hotels and other retail establishments in Boston, Cambridge, and Springfield. The legislation requires a capital reserve fund to be maintained at a level equal to maximum annual debt service and provides that if the fund falls below its required balance, the 2.75% convention center financing fee in Boston is to be increased (though the overall hotel tax in Boston, including the fee, cannot exceed 14%). As of June 30, 2018, taxes within the Convention Center districts support approximately \$552 million of outstanding principal and approximately \$291 million of interest on debts related to these Convention Centers. Taxes collected in FY18

were approximately \$149 million, while debt service on the bonds was approximately \$54 million.

On July 29, 2014, the then Governor approved legislation authorizing the Commonwealth to issue an additional \$1.1 billion in special obligation bonds to finance an expansion of the convention center in Boston, to finance costs of issuance and fund a debt service reserve fund. Such bonds would be secured by and payable from the Convention Center Fund, with the State Treasurer and Secretary of Administration and Finance having the authority to pledge additional state hotel/motel room occupancy excises to the new bonds. The expansion project is currently on hold.

C. FEDERAL GRANT ANTICIPATION NOTES

All federal highway reimbursements are dedicated to funding the principal portion only of federal grant anticipation notes (GANs) issued in fiscal 2011, 2014, 2015, 2017 and 2018. During FY18, the Commonwealth issued approximately \$75 million in GANs for new money needs and \$68 million in refunding bonds under the Commonwealth's Accelerated Bridge Program. As of June 30, 2018, total principal remaining to be paid is approximately \$748 million. Maturities are from FY19 through FY27. Debt service paid during FY18 was approximately \$96 million.

The legislation authorizing such notes contains a statutory covenant that as long as any such GANs remain outstanding, the Commonwealth will deposit all federal highway reimbursements into the Grant Anticipation Note Trust Fund, to be released to the Commonwealth once all the debt service and reserve funding obligations of the trust agreement securing the GANs have been met. Principal amortization of the notes will continue through FY27. Such notes and the interest thereon are secured by the pledge of federal highway construction reimbursement payments and by a contingent pledge of certain motor fuels excises. In practice, the interest on such notes has been paid from Commonwealth appropriations.

D. THE BUILD AMERICA BOND PROGRAM

As part of the federal America Recovery and Reinvestment Act (ARRA) in 2009, municipal issuers were authorized to issue taxable bonds to fund new capital expenditures and receive an interest rate subsidy from the U.S. Treasury. As part of the temporary Build America Bond (BABs) program issuers, including the Commonwealth, issued taxable bonds in calendar years 2009 and 2010 in return for a subsidy from the federal government equal to 35% to 45% of the interest costs on the bonds, depending on whether the proceeds were used for projects in economically distressed areas. Between the GO bond program and the special obligation bond programs, the Commonwealth issued a total of \$2.791 billion in Build America Bonds and Recovery Zone Economic Development Bonds in six separate financings over the two year period of the program. All of the bonds were issued as "direct pay to issuer", meaning that the interest rate subsidies would be paid to the Commonwealth from the U.S. Treasury and not pledged to bondholders. As of June 30, 2018, the expected interest rate subsidy to be received through final maturity of all of the bonds issued as part of this program totaled \$661 million. The Commonwealth's repayment obligation to bondholders is based on the gross interest rate. From a budgetary perspective, the bonds' debt service is net of the interest-rate subsidy.

Given the interest rate subsidy from the U.S. Treasury and given market conditions at the time of the Commonwealth's BABs sales, this program resulted in borrowings whose net interest costs will be significantly lower than the interest on traditional tax-exempt bonds. The BABs program expired on December 31, 2010.

E. INTEREST RATE SWAP AGREEMENTS – OBJECTIVES AND RISKS

Over the last twenty years, the Commonwealth has periodically entered into interest rate swap agreements for the sole purpose of hedging changes in the interest rates on a portion of its outstanding variable rate bonds, taking advantage of the fact that these bonds, combined with interest rate swaps, generally result in lower interest costs than fixed-rate bonds. Of the Commonwealth's variable-rate debt (including special obligation bonds) outstanding of approximately \$3.111 billion, approximately \$1.615 billion was hedged via floating-to-fixed interest rate swap agreements. Of this amount, \$1.561 billion are for G.O. bonds and the remainder on outstanding special obligation bonds.

Under the terms of these floating-to-fixed rate hedge agreements, counterparties to the hedge agreements are obligated

to pay the Commonwealth an amount equal to or approximately equal to the variable-rate interest payment to bondholders of the related bonds or an interest payment based on a market index. In return, the Commonwealth is obligated to pay counterparties a stipulated fixed rate. The floating rate payments received by the Commonwealth from its swap counterparties are used to offset the variable rate payments paid to bondholders. Only the net difference in interest payments is actually exchanged with the swap counterparty. The net payments made or received on these hedge agreements are reported as part of interest expense recorded in the Commonwealth's basic financial statements. In all cases, the Commonwealth remains responsible for making interest payments to the variable rate bondholders.

Objective of the Interest Rate Swap Agreements

In connection with the issuance of variable rate GO refunding bonds in 1998, 2001, 2003, 2005, 2006, and 2007, the Commonwealth entered into interest rate swap hedge agreements with certain counterparties to hedge against the volatility of the interest rates on certain bonds whose interest costs were floating and not fixed. Additional swap agreements were entered into to hedge this same volatility on certain special obligation bonds, including the Commonwealth's Series 2005 Special Obligation Tax Revenue (Gas Tax) Bonds and the Series 2004 Special Obligation Dedicated Tax Revenue (Convention Center) Bonds. In addition, a floating-to-fixed rate swap agreement was novated or transferred to the Commonwealth from the Route 3 North Transportation Improvements Association (secured by Commonwealth Contract Assistance) in November 2008 after the lease revenue bonds associated with that swap experienced remarketing failure. The swap was assigned to a portion of the Commonwealth's previously unhedged variable rate bonds that were outstanding.

The intended effect of these agreements is essentially to fix the Commonwealth's interest rate obligations with respect to its variable-rate bonds in order to hedge or mitigate the Commonwealth's exposure to changes in interest rates on these bonds. For example, during a period when interest rates rise, the Commonwealth would receive higher payments from swap counterparties that would be used to offset higher payments to bondholders of the outstanding variable rate bonds. During a period when interest rates decline, the reduction in interest payments to bondholders would offset the higher payments made to swap counterparties. But in both scenarios, the net obligation of the Commonwealth is essentially fixed through the life of the swap and bonds. This allows the Commonwealth to finance its capital budget using floating rate bonds, which, combined with interest rate hedges, are less costly than fixed-rate bonds, while hedging the risk of rising interest rates on those bonds to provide long-term budgetary and cash flow certainty. As of June 30, 2018, all of the Commonwealth's interest rate swaps were floating-to-fixed rate agreements and were deemed effective hedges pursuant to GASB Statement No. 53.

Terms of the Interest Rate Swap Agreements

The variable rate bonds and their related swap agreements have final maturities ranging from 2019 to 2033. The swaps' total notional value of approximately \$1.615 billion effectively matches the par amount of the related variable-rate bonds.

Under the swap agreements, the Commonwealth pays the relevant counterparties fixed rates ranging from 3.769% to 5.059% and receives variable-rate payments equal to or approximately equal to the amount of variable rate payments the Commonwealth pays on the related variable-rate refunding bonds or a payment based on a market index. In some of the outstanding swap agreements, the Commonwealth receives an interest rate based on changes to LIBOR, the SIFMA index, or the CPI index. In other agreements, the floating payment received by the Commonwealth is precisely equal to the variable rate payment paid to bondholders based on an active remarketing of those bonds.

Credit Risk of the Interest Rate Swap Agreements

As of June 30, 2018, the Commonwealth is not exposed to credit risk because the swaps had a negative fair value. Should interest rates change and the fair value of the swaps become positive, the Commonwealth would be exposed to credit risk in the amount of the swaps fair value. All of the Commonwealth's counterparties are required to post collateral in certain circumstances, including credit rating downgrades. The Commonwealth is not required to post collateral in any of its existing swap agreements.

The chart below details the Commonwealth's outstanding swaps and related bond issuances (amounts in thousands except for percentages).

Associated Bond Issue	Notional Amounts Outstanding	Effective Date	Replacement Agreement Effective Date	Terms		Fair value at June 30			Final Termination Date	Counterparty	Counterparty Credit Rating Moody's/S&P/Fitch
				Fixed Rate Paid (Range)	Variable Rate Received	2018	2017	Change in Fair Value			
<i>General Obligation Bonds:</i>											
Series 2000A.....	\$ 13,492	8/16/2007	8/16/2007	3.942%	SIFMA - 3 basis points	\$ (69)	\$ (529)	\$ 460	8/1/2018*	Merrill Lynch Capital Services	NR/A3/A+
Series 2000A.....	6,583	8/16/2007	8/16/2007	3.942%	SIFMA - 3 basis points	(34)	(257)	223	8/1/2018*	JP Morgan formerly Bear Stearns	A+/Aa3/AA
Series 2001B & C refunding.....	280,510	2/20/2001	2/20/2001	4.150%	Cost of Funds	(10,760)	(22,337)	11,577	1/1/2021	Morgan Stanley Capital Services	NR/WR/-
Series 2006B, Series 2016C.....	281,605	4/2/2009	4/2/2009	4.515%	67% 3-Month LIBOR	(54,556)	(73,386)	18,830	6/15/2033	Barclays Bank PLC	A/A2/A
Series 2006C refunding.....	99,510	1/1/2007	1/1/2007	3.780% - 3.850%	CPI-based formula	(894)	(2,820)	1,926	11/1/2020	Wells Fargo Bank	A+/Aa2/AA-
Series 2007A refunding.....	31,665	10/8/2008	10/8/2008	3.936%	67% 3-Month LIBOR + 0.46%	(1,182)	(2,403)	1,221	11/1/2020	Wells Fargo Bank	A+/Aa2/AA-
Series 2007A refunding.....	414,130	10/8/2008	10/8/2008	3.936% - 4.083%	67% 3-Month LIBOR + (0.46-0.55%)	(30,545)	(50,010)	19,465	11/1/2025	Bank of NY Mellon	AA-/Aa2/AA
Series 2015C, 2017A and 2018A refunding.....	433,855	3/15/2005	3/15/2005	3.769% - 4.004%	SIFMA	(40,094)	(59,902)	19,808	2/1/2028	Wells Fargo Bank	A+/Aa2/AA-
Subtotal.....	1,561,350					(138,134)	(211,644)	73,510			
<i>Special Obligation Dedicated Tax Revenue Bonds:</i>											
Series 2004 (Convention Ctr).....	—	6/29/2004	6/29/2004	4.450%	CPI-based formula	—	(161)	161	1/1/2018**	Goldman Sachs Capital Markets	A+/A1/A+
Series 2004 (Convention Ctr).....	—	6/29/2004	6/29/2004	4.450%	CPI-based formula	—	(158)	158	1/1/2018**	JP Morgan formerly Bear Stearns	A+/Aa3/AA-
Series 2004 (Convention Ctr).....	—	6/29/2004	6/29/2004	4.450%	CPI-based formula	—	(158)	158	1/1/2018**	JPMorgan Chase Bank	A+/Aa3/AA-
Series 2005A (Gas Tax).....	54,025	1/12/2005	1/12/2005	4.937% - 5.059%	CPI-based formula	(1,550)	(2,850)	1,300	6/1/2022	Merrill Lynch Capital Services	NR/A3/A+
Subtotal.....	54,025					(1,550)	(3,327)	1,777			
Total.....	\$ 1,615,375					\$ (139,684)	\$ (214,971)	\$ 75,287			

* -Swaps associated with the Series 2000A GO bonds matured and expired on August 1, 2018 and only the fixed rated bonds remain outstanding as of June 30, 2018.

** -Swaps associated with the Convention Center SO bonds matured and expired on January 1, 2018 and were not required to be extended or renewed.

Fair value of the Interest Rate Swap Agreements

The aggregate fair value balance of interest rate swaps at June 30, 2018 was negative \$140 million and is reflected on the statement of net position as a liability for derivative instruments which is offset by deferred outflows from derivative instruments. The fair values of the interest rate swaps are estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swaps. Because all of the interest rate swaps were deemed effective hedges, changes in fair value of the interest rate swaps during the fiscal year ended June 30, 2018 were recognized as deferred outflows resulting in no impact on the Statement of Activities.

If all the Commonwealth's swap agreements had been terminated as of the end of FY18, the Commonwealth would have been required to make a payment of this magnitude. Although the Commonwealth has the option of terminating its swap agreements at any time (and either make or receive any termination payment due), the Commonwealth's counterparties do not have such an option. Therefore, the Commonwealth would only have to make a payment of the amount estimated above if certain termination events occurred, as described below. Based on the terms and provisions of the swap agreements and the Commonwealth's current bond ratings, an involuntary termination of the swap

agreements due to an event of the Commonwealth is remote. In the case of a voluntary termination due to an event of a counterparty, the Commonwealth would likely seek to maintain the existing hedge by replacing that counterparty with another.

Basis and Market-Access Risk of the Interest Rate Swap Agreements

Because the terms on most of the interest rate swap hedge agreements require the Commonwealth's counterparties to make variable rate payments equal or approximately equal to those the Commonwealth makes on the related variable rate bonds, the Commonwealth is not subject to significant basis risk as a result of the terms of these agreements. Under certain circumstances, such as a downgrade of the credit rating of the bonds being hedged or the enactment of tax-related legislation which causes the related bonds to trade differently, certain of the swap agreements provide that the Commonwealth's counterparties, may, at their option, pay a variable rate that is based on one or more market indices such as LIBOR or the SIFMA swap index. Under these circumstances, the Commonwealth would be subject to basis risk if these indices varied from the basis for the variable rates that were paid to bondholders that were determined for the Commonwealth's variable-rate demand bonds through the associated remarketing process. For certain other interest rate swap agreements, the variable rate on the swap is based on a market index that differs from the variable rate on the hedged bonds, which is generally remarketed or auction rate. The Commonwealth is subject to basis risk on these agreements.

A majority of the swap contracts have the same maturity dates and amortizations as the related bonds. For one of the swap agreements, the underlying bonds have maturity dates that come due before the termination date of the associated swaps. This applies to the 2015B, 2015C, 2017A, 2017B and 2018A refunding bonds being hedged by the \$434 million notional swap with Wells Fargo Bank. The Commonwealth's stated debt plan is to extend the underlying variable rate bonds to match the terms and amounts of the associated swaps. If the Commonwealth is unable to extend the underlying variable rate bonds or identify other variable rate bonds the swaps may hedge, the Commonwealth would be required to make net settlement payments on the swaps without the offsetting effects of changes in variable rate bond settlement payments.

Termination Risk of the Interest Rate Swap Agreements

The swap agreements are based on the International Swap Dealers Association (ISDA) Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. The swap agreements include termination events additional to those in the standard ISDA master agreement based on credit ratings. The swap agreements are not otherwise subject to termination except at the Commonwealth's option. The swap agreements require that the Commonwealth's counterparties maintain certain ratings levels. If they fail to maintain such ratings, the Commonwealth would have the option to terminate the related swap agreement and receive or pay a termination payment depending on the interest rates at the time. Similarly, the Commonwealth is required to maintain certain credit ratings under the agreements, generally 'BBB-' or above, well above the current credit rating of 'AA-' (based on long-term ratings assigned by Standard & Poor's). If the Commonwealth's rating fell below the defined threshold levels, the Commonwealth's counterparties would have the option to terminate the related swap agreements or for certain agreements choose to make variable rate payments based on a market index (instead of the actual bond rate) which would subject the Commonwealth to basis risk, as previously described. If one or more of the swap agreements were terminated, then the related variable rate bonds would no longer be hedged and the Commonwealth would no longer be paying a synthetic fixed rate with respect to the bonds. In addition, if at the time of termination, the swap had a negative fair value, the Commonwealth would incur a loss and would be required to settle with the related counterparty or counterparties at the swaps' fair market values. However, to avoid a termination payment and to maintain the interest rate hedge, when the terminating event is an event of the counterparty, the Commonwealth would likely seek to replace counterparties to the swap agreement. Based on the terms and provisions of the swap agreements and the Commonwealth's current bond ratings, an involuntary termination of the swaps due to an event of the Commonwealth is remote.

F. OUTSTANDING SWAPPED DEBT*Security for Interest Rate Swap Agreements*

Under legislation approved by the then Governor on August 11, 2008, scheduled, periodic payments to be made by the Commonwealth pursuant to swap agreements in existence on August 1, 2008 or entered into after such date shall constitute general obligations of the Commonwealth for which its full faith and credit is pledged.

Future bond interest payments are calculated using rates applicable to the scheduled payment nearest to June 30, 2018 for variable rate bonds. The net swap payments are calculated by subtracting the projected future variable rate interest payment per the swap agreement from the projected future fixed rate payment per the swap agreement. Projected future variable rate payments on the swap agreements are based on variable rates applicable to the scheduled payment nearest to June 30, 2018. The actual amount of variable rate interest paid to bondholders and net swap payments made to counterparties are affected by changes in variable interest rates, changes in inflation (CPI), as well as changes in the London Interbank Offered Rate (LIBOR) and the Securities Industry and Financial Markets Association (SIFMA) floating rate indices. Changes in the amounts paid to bondholders versus amounts paid to counterparties are largely offsetting.

Debt service requirements to maturity for variable-rate bonds hedged by interest rate swap agreements and projected future net settlement payments on interest rate swap agreements at June 30, 2018 are provided below (amounts in thousands):

Fiscal Year Ending June 30	Variable-Rate Bonds		Interest Rate Swaps, Net	Total
	Principal	Interest		
2019	\$ 191,985	\$ 26,277	\$ 37,477	\$ 255,739
2020	248,610	22,782	32,705	304,097
2021	224,780	17,641	27,273	269,694
2022	126,575	14,772	23,188	164,535
2023	142,290	11,814	19,949	174,053
2024 - 2028	564,665	23,922	45,635	634,222
2029 - 2033	116,470	4,046	9,591	130,107
Total	<u>\$ 1,615,375</u>	<u>\$ 121,254</u>	<u>\$ 195,818</u>	<u>\$ 1,932,447</u>

Business - Type Activities – Swapped Debt

The business-type activities have various swaps. At June 30, 2018, the fair value liability of the outstanding interest rate swaps was \$43 million.

Component Unit – Swapped Debt

At June 30, 2018, the majority of interest rate swaps outstanding are held by MassDOT, which in aggregate have a negative fair value of approximately \$250 million. For complete details, see separate MassDOT financial statements.

G. OUTSTANDING LONG-TERM DEBT AND CHANGES IN LONG TERM DEBT

The amount of long-term debt authorized but unissued is measured in accordance with the statutory basis of accounting. Long-term debt principal outstanding and debt authorized and unissued at June 30, 2018 is as follows (amounts in thousands):

Purpose	Principal Outstanding	Fiscal Year Maturities	Authorized and Unissued
GANs	\$ 748,445	2019 - 2027	\$ —
Capital projects:			
General	12,913,520	2019 - 2048	9,740,076
Highway	12,250,840	2019 - 2048	11,108,801
Local aid.....	895,904	2019 - 2039	11,605
Other.....	552,110	2019 - 2034	—
Subtotal	26,612,374		20,860,482
Subtotal - governmental activities debt (exclusive of MSBA)	27,360,819		\$ 20,860,482
MSBA debt.....	5,990,554		
Governmental activities debt	\$ 33,351,373		

Interest rates on the Commonwealth's outstanding debt at the end of FY18 ranged from 0.5% to 6.6%.

Changes in long-term debt outstanding (excluding discount and premium) and bonds authorized - unissued for the year ended June 30, 2018 are as follows (amounts in thousands):

	Governmental Funds (excluding MSBA)	MSBA	Total Governmental Funds Bonded Debt	Authorized and Unissued
Balance July 1, 2017	\$ 26,445,665	\$ 5,828,790	\$ 32,274,455	\$ 22,716,302
Plus: Increases in bonds authorized.....	—	—	—	444,000
General and special obligation bonds:				
Proceeds, defined as principal, plus premium,				
less discount	3,895,061	446,136	4,341,197	(2,299,820)
Less: Premium/discount	(510,383)	(51,136)	(561,519)	—
Less: Principal on refunded bonds	(1,080,105)	(102,001)	(1,182,106)	—
Less: Bonds retired.....	(1,389,419)	(131,235)	(1,520,654)	—
Outstanding principal June 30, 2018.....	\$ 27,360,819	\$ 5,990,554	\$ 33,351,373	\$ 20,860,482

Business - Type Activities – Colleges and University Debt

Building authorities related to the University of Massachusetts and the state universities have issued bonds for construction of higher education facilities and equipment. Such bonds are guaranteed by the Commonwealth in an aggregate amount not to exceed \$200 million. The bond agreements generally provide that revenues from student fees are pledged as collateral on the bonds and establish bond reserve funds, bond funds, and maintenance reserve funds. The University of Massachusetts and state universities have also entered into various loan agreements as participants in the MassDevelopment's ongoing capital asset program to finance construction projects and equipment.

At June 30, 2018, debt service requirements to maturity for principal and interest are as follows (amounts in thousands):

Fiscal Year Ended June 30	Governmental Activities					Business - Type Activities	
	Excluding MSBA Debt		MSBA Debt			Revenue Obligation	
	Principal	Interest	Principal	Interest	Interest subsidies (1)	Principal	Interest
2019.....	\$ 1,505,922	\$ 1,220,966	\$ 135,560	\$ 289,016	\$ (22,725)	\$ 158,824	\$ 189,880
2020.....	1,475,864	1,164,549	135,452	282,274	(24,213)	165,706	184,159
2021.....	1,479,688	1,092,816	133,373	276,315	(24,213)	171,773	177,811
2022.....	1,413,972	1,024,011	135,532	270,098	(24,213)	165,745	171,299
2023.....	1,237,346	959,649	158,126	264,061	(24,213)	174,316	164,821
2024 - 2028	5,446,117	3,949,086	1,017,516	1,197,970	(112,809)	889,824	722,934
2029 - 2033	4,686,811	2,771,913	1,435,225	875,104	(46,751)	837,419	502,509
2034 - 2038	3,638,119	1,841,774	1,545,005	531,203	(24,171)	820,007	326,913
2039 - 2043	3,920,790	1,008,384	1,019,015	205,170	(2,289)	752,924	140,534
2044 -2048	2,556,190	231,281	275,750	32,050	—	299,548	23,980
2048 - 2052	—	—	—	—	—	2,416	88
Total long - term debt.....	27,360,819	15,264,429	5,990,554	4,223,261	(305,597)	4,438,502	2,604,928
Less: current portion	(1,505,922)	(1,220,966)	(135,560)	(289,016)	22,725	(158,824)	(189,880)
Long - term debt.....	<u>\$ 25,854,897</u>	<u>\$ 14,043,463</u>	<u>\$ 5,854,994</u>	<u>\$ 3,934,245</u>	<u>\$ (282,872)</u>	<u>\$ 4,279,678</u>	<u>\$ 2,415,048</u>

(1) FY19 interest subsidies reflect announced sequestration reductions. There may be sequestration reductions in future years as well.

In addition to the MSBA debt noted above, the MSBA had \$450 million of outstanding Commercial Paper for the funding of school construction and renovation projects on July 1, 2017. The Commercial Paper matured at various dates ranging from 12 to 154 days and interest is payable at maturity. The interest rate on this issuance of commercial paper ranged from 0.77% to 1.40%. The final maturity of commercial paper occurred on March 9, 2018, at which time the commercial paper program was closed. Proceeds of the MSBA 2018 Series A Bonds were used to retire the Commercial Paper program.

H. PRIOR DEFEASANCE

The Commonwealth defeased certain general and special obligation bonds by purchasing securities from the proceeds of advance 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. The trust account assets and the liabilities for the defeased bonds are not included in the financial statements. As of June 30, 2018, approximately \$2.696 billion of bonds outstanding from advance refunding activities is considered defeased.

Business - Type Activities

The University of Massachusetts (UMass) and the Massachusetts State College Building Authority (MSCBA) defeased various bonds by issuing refunding bonds and placing the proceeds in irrevocable trusts to provide for all future debt service payments on the defeased bonds. The trust assets and the liabilities of the defeased bonds are not included in the business type activity financial statements. As of June 30, 2018, approximately \$210 million and \$245 million of bonds outstanding from advanced refunding transactions are considered defeased for UMass and MSCBA, respectively.

I. STATUTORY DEBT LIMIT

The Massachusetts General Laws, as recently amended, establishes limits on the amount of direct debt outstanding. By statutorily limiting the Commonwealth's ability to issue direct debt, a control is established on annual capital spending. The direct debt limit for FY18 was approximately \$22.875 billion. Outstanding debt subject to the limit at June 30, 2018 was approximately \$21.452 billion.

For purposes of determining compliance with the limit, outstanding direct debt is defined by statute, as amended on June 10, 2013 (effective January 1, 2013), as principal outstanding. It excludes BANs and associated discount or premium, 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, debt issued for the SMART program and effective August 10, 2016 bonds issued under the Rail Enhancement Program. The amounts excluded from the debt limit are as follows (amounts in thousands):

	Principal Outstanding
Statutory debt June 30, 2018.....	\$ 27,360,819
Less amounts excluded:	
Central artery project bonds.....	(1,092,519)
Accelerated bridge program.....	(2,429,000)
MBTA forward funding	(207)
SMART bonds	(598,985)
Convention center bonds.....	(552,110)
Special obligation gas tax bonds.....	(105,230)
Rail enhancement program bonds.....	(1,131,105)
Outstanding direct debt June 30, 2018.....	<u>\$ 21,451,663</u>

J. ADMINISTRATION DEBT LIMIT

During FY09, 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 growth in annual bond issuance (the "bond cap") to not more than \$125 million through fiscal 2019. This additional constraint is designed to ensure that projected growth in the bond cap will be held to stable and sustainable levels.

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

The following table shows the annual bond cap, the resulting total annual debt service payment obligations and debt service as a percentage of statutory basis budgeted revenues, (amounts in thousands):

	Fiscal 2018
Bond cap as approved by the Governor	\$ 2,260,000
Total annual debt service obligations.....	3,040,833
Statutory basis budgeted fund revenues.....	45,036,235
Debt service as % of budgeted revenues.....	6.8%

K. CHANGES IN LONG-TERM LIABILITIES

The following table summarizes changes in long-term liabilities for both governmental activities and business-type activities (amounts in thousands):

Changes in Long Term Liabilities - Governmental Activities:

Description	Beginning Balance*	Additions	Deletions	Ending Balance	Due Within One Year
Other long-term obligations:					
Compensated absences	\$ 604,312	\$ 605,328	\$ (604,312)	\$ 605,328	\$ 417,490
Claims and judgments	12,518	22,700	(12,720)	22,498	12,498
Prizes payable	1,062,350	59,008	(149,924)	971,434	—
School construction grants payable	679,490	352,498	(550,332)	481,656	219,505
Environmental remediation liability	533,060	2,424	(4,873)	530,611	6,152
Lottery instant grand prizes	22,249	—	(19,661)	2,588	—
Workers' compensation	260,180	61,678	(60,954)	260,904	38,092
Arbitrage rebate - MSBA	1,994	465	—	2,459	—
Group insurance claims	116,504	1,648,074	(1,633,842)	130,736	128,697
Cost of living adjustment	146,300	—	(14,300)	132,000	—
Net pension liability	36,941,865	4,092,400	(4,309,962)	36,724,303	—
Net OPEB liability	16,725,973	926,598	(2,362,967)	15,289,604	—
Total other long-term obligations	57,106,795	7,771,173	(9,723,847)	55,154,121	822,434
Liability for derivative instruments	214,971	139,684	(214,971)	139,684	—
Bonded Debt:					
Bonds and notes payable - non MSBA	26,445,665	3,384,678	(2,469,524)	27,360,819	1,505,922
Unamortized bond and note premiums - non MSBA	1,770,985	510,384	(145,787)	2,135,582	68,492
MSBA Bonds and notes payable excluding premium	5,828,790	395,000	(233,236)	5,990,554	135,560
Unamortized bond and note premiums - MSBA	622,492	51,136	(60,897)	612,731	48,494
MSBA other liabilities	450,541	1,487,968	(1,937,907)	602	351
Other financing arrangements:					
Capital leases	30,856	228	(8,592)	22,492	3,272
Total bonded debt and other financing arrangements	35,149,329	5,829,394	(4,855,943)	36,122,780	1,762,091
Long-term liabilities, governmental activities	\$ 92,471,095	\$ 13,740,251	\$ (14,794,761)	\$ 91,416,585	\$ 2,584,525

Changes in Major Long Term Liabilities - Business-Type Activities:

Description	Beginning Balance*	Additions	Deletions	Ending Balance	Due Within One Year
Other long-term obligations:					
Compensated absences	\$ 216,800	\$ 105,391	\$ (110,624)	\$ 211,567	\$ 144,501
Net pension liability	738,167	100,931	(122,448)	716,650	—
Net OPEB liability	1,312,082	283,768	(204,004)	1,391,846	—
Total other long-term obligations	2,267,049	490,090	(437,076)	2,320,063	144,501
Liability for derivative instruments	63,143	—	(20,586)	42,557	—
Bonded Debt:					
Bonds and notes payable, including MSCBA	4,529,353	148,666	(239,517)	4,438,502	158,824
Other financing arrangements:					
Capital leases	8,979	4,458	(3,612)	9,825	2,180
Total bonded debt and other financing arrangements	4,538,332	153,124	(243,129)	4,448,327	161,004
Long-term liabilities, business - type activities	\$ 6,868,524	\$ 643,214	\$ (700,791)	\$ 6,810,947	\$ 305,505

*as restated and more fully described in footnote 1

Governmental long-term liabilities, other than debt, are typically liquidated by using General Fund resources.

Discretely Presented Component Units – The change in bonds and notes outstanding at June 30, 2018, net of unamortized discounts and premiums, compensated absences, net pension and net OPEB liabilities are as follows (amounts in thousands):

	Interest Rates	Maturities	Beginning Balance*	Increases	Decreases	Ending Balance	Due Within One Year	Long Term
Major component units:								
MassDOT	0.000 - 7.000%	2019 - 2046	\$ 7,558,198	\$ 709,777	\$ (572,199)	\$ 7,695,776	\$ 445,313	\$ 7,250,463
MCWT	1.000 - 6.375%	2019 - 2043	3,316,209	—	(383,531)	2,932,678	230,280	2,702,398
Nonmajor component units ..	1.000 - 6.500%	2019 - 2038	707,402	134,008	(183,291)	658,119	46,712	611,407
Total bonds and notes payable			11,581,809	843,785	(1,139,021)	11,286,573	722,305	10,564,268
Compensated absences, net			41,519	2,451	(2,663)	41,307	25,384	15,923
Net pension liability			2,001,910	440,876	(469,577)	1,973,209	—	1,973,209
Net OPEB liability			3,231,180	205,507	(354,464)	3,082,223	—	3,082,223
Total long term liabilities			\$ 16,856,418	\$ 1,492,619	\$ (1,965,725)	\$ 16,383,312	\$ 747,689	\$ 15,635,623

*as restated and more fully described in footnote 1

The net pension liability of the discretely presented component units of \$1.973 billion includes \$1.364 billion related to the MBTA and RTAs and \$609 million related to entities that participate in SERS. See the MassDOT financial statements for further information regarding the MBTA and RTA pension plans and see pages [108-119](#) of this report for the SERS pension disclosures.

Further information on debt is found in the notes to the basic financial statements for the various component units.

8. INDIVIDUAL FUND DEFICITS

Certain funds within the Governmental Fund Type had fund deficits at June 30, 2018. None of these funds were in deficit due to finance-related contractual provisions and all were allowed to be in deficit by General Law. The amounts are as follows (amounts in thousands):

Other Governmental Funds	Amount
Other Special Revenue Funds:	
Community Preservation Trust Fund.....	\$ (1,964)
Health Information Technology Trust Fund	(2,406)
Government Land Bank Fund	(35,033)
Highway Capital Projects Fund	(54,537)
Other Capital Project Funds:	
Federal Highway Construction Program Capital Projects Fund ...	(10,067)

9. PENSIONS

The Commonwealth is statutorily responsible for the pension benefits for Commonwealth employees (members of the State Employees' Retirement System) and for teachers of the cities, towns, regional school districts throughout the Commonwealth and Quincy College (members of the Teachers' Retirement System). The members of the retirement systems do not participate in the Social Security System.

A. PLAN DESCRIPTIONS

Plan administration

The Massachusetts *State Employees' Retirement System* (SERS) is a public employee retirement system (PERS), that administers a cost-sharing multiple employer defined benefit pension plan covering substantially all employees of the Commonwealth and certain employees of the independent authorities and agencies, including the state police officers at the Massachusetts Port Authority. The former Massachusetts Turnpike Authority (MTA) employees and retirees became members of SERS upon the creation of MassDOT. Other employees who transferred to MassDOT have been, and remain, members of SERS. The assets and liabilities of the former MTA have been transferred to SERS. SERS is administered by the Massachusetts State Retirement Board (the SRB) and is part of the reporting entity and does not issue a stand-alone audited financial report.

Management of the SERS is vested in the SRB, which consists of five members—two elected by current and active SERS members, one by the remaining members of the SRB, one who is appointed by the State Treasurer, and the State Treasurer, who serves as ex-officio and is the Chairman of the SRB.

The Massachusetts *Teachers' Retirement System* (MTRS) is a PERS that administers a cost-sharing multiple employer defined benefit pension plan managed by the Commonwealth on behalf of municipal teachers and municipal teacher retirees. The Commonwealth is a non-employer contributor and is responsible for all contributions and future benefit requirements of the MTRS. The MTRS covers certified teachers in cities (except Boston), towns, regional school districts and Quincy College. The MTRS is administered by the Massachusetts Teachers' Retirement Board (the MTRB) and is part of the reporting entity and does not issue a stand-alone audited financial report.

Management of the MTRS is vested in the MTRB, which consists of seven members—two elected by the MTRS members, one who is chosen by the six other MTRB members, the State Treasurer (or their designee), the State Auditor (or their designee), a member appointed by the Governor, and the Commissioner of Education (or their designee), who serves as ex-officio and is the Chairman of the MTRB.

The *Boston Retirement System* (BRS) is a PERS that administers a cost-sharing multiple employer defined benefit pension plan managed by the City of Boston Retirement Board covering all City of Boston departments and agencies as well as the School Department, the Boston Planning and Development Agency, the Boston Housing Authority, the Public Health Commission and the Boston Water and Sewer Commission. The BRS is not administered by the Commonwealth and is not part of the reporting entity of the Commonwealth.

Chapter 112 of the Acts of 2010, signed on May 22, 2010, changed the methodology for the Commonwealth funding of Boston teachers in the BRS (hereafter referred to as BRS-Teachers) and created a special funding situation for the Commonwealth. The cost of pension benefits of the other participants of the BRS is the responsibility of the City of Boston. Chapter 112 clarified that the Commonwealth is responsible for all contributions and future benefit requirements for BRS-Teachers. The net pension liability related to the BRS-Teachers is included in the Commonwealth's net pension liability in this report.

Management of the BRS is vested with in a Board of Trustees, which consists of five members—two elected by the active and retired members of the system, the City Auditor as ex-officio, one member appointed by the Mayor of Boston, and one member who is elected by the other four members. The BRS issues a stand-alone audited financial report. For a complete copy of BRS's separately issued financial statements, please contact the City of Boston Retirement Board at (617) 635-4305, or you may download this report at <http://www.cityofboston.gov/retirement/investment.asp>.

Plan membership. As of January 1, 2018, for SERS and MTRS, the dates of the most recent valuations, plan membership consisted of the following:

	SERS	MTRS
Retirees and beneficiaries currently receiving benefits	63,194	66,078
Terminated employees entitled to benefits but not yet receiving them.....	4,424	—
Subtotal	67,618	66,078
Current members.....	87,822	93,119
Total.....	<u>155,440</u>	<u>159,197</u>

Benefits provided. SERS, MTRS and BRS provide retirement, disability, survivor, and death benefits to members and their beneficiaries. Massachusetts General Laws (MGL) establishes uniform benefit and contribution requirements for all contributory PERS. These requirements provide for superannuation retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation. For employees hired after April 1, 2012, retirement allowances are calculated on the basis of the last five years or any five consecutive years, whichever is greater in terms of compensation. Benefit payments are based upon a member's age, length of creditable service, and group creditable service, and group classification. The authority for amending these provisions rests with the Legislature.

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65; for certain hazardous duty and public safety positions, normal retirement is at age 55. Most employees who joined the system after April 1, 2012 cannot retire and receive benefits prior to age 60.

The policy for post-retirement benefit increases for all retirees of the SERS, MTRS and for those participants who serve in the City of Boston's School Department in a teaching capacity is subject to legislative approval.

Contributions. The retirement systems' funding policies have been established by Chapter 32 of the MGL. The Legislature has the authority to amend these policies. The annuity portion of the SERS and MTRS retirement allowance is funded by employees, who contribute a percentage of their regular compensation. Costs of administering the plan are funded out of plan assets.

Chapter 32 of the General Laws directs the Secretary of Administration and Finance to prepare a funding schedule to meet actuarially determined requirements, and to update this funding schedule every three years on the basis of new actuarial valuation reports prepared under the Secretary's direction. Any such schedule is subject to legislative approval. If a schedule is not so approved, payments are to be made in accordance with the most recently approved schedule. Under the current schedule adopted in January 2017, the amortization payments are designed to eliminate the unfunded liability by FY36 according to the following schedule: annual appropriation increases of 9% per year until FY19 decreasing to 7% thereafter until FY36 (four years before the statutory deadline of FY40). The funding schedule as published follows an acceptable actuarial funding methodology to compute normal cost and the unfunded accrued actuarial liability.

Member contributions for SERS, MTRS and BRS vary depending on the most recent date of membership:

Hire Date	% of Compensation
Prior to 1975.....	5% of regular compensation
1975 - 1983	7% of regular compensation
1984 to 6/30/1996	8% of regular compensation
7/1/1996 to present.....	9% of regular compensation except for State Police, which is 12% of regular compensation
7/1/2001 to present.....	11% of regular compensation (for teachers hired after 7/1/01 and those accepting provisions of Chapter 114 of the Acts of 2000)
1979 to present	An additional 2% of regular compensation in excess of \$30,000

In addition, members of Group 1 who join the system on or after April 2, 2012 will have their withholding rate reduced to 6% after achieving 30 years of creditable service.

B. INVESTMENTS

Investment Policy. SERS and MTRS are required to invest in the Pension Reserves Investment Trust (PRIT) Fund, which is managed by the Pension Reserves Investment Management (PRIM) Board. The PRIM Board seeks to maximize the total return on investments, within acceptable levels of risk and cost for an approximately 60% funded public pension fund. The PRIM Board recognizes that over the long term, asset allocation is the single greatest contributor of return and risk to the PRIT Fund. The investment policy statement adopted by the PRIM Board requires a comprehensive review of the PRIM Board's asset allocation plan and its underlying assumptions at reasonable intervals of not more than three to five years. In addition, the investment policy statement requires that the PRIM Board conduct an annual evaluation of the PRIT Fund's asset allocation. The PRIM Board's last comprehensive review of the PRIT Fund asset allocation was conducted during fiscal 2017.

The following was the PRIT Fund asset allocation as of June 30, 2018:

Asset Class	Target Allocation
Global Equity.....	39.0%
Portfolio Completion Strategies	13.0%
Core Fixed Income	12.0%
Private Equity	12.0%
Real Estate	10.0%
Value Added Fixed Income.....	10.0%
Timber/Natural Resources	4.0%
Total	<u>100.0%</u>

The annual money-weighted return on pension plan investments calculated as the internal rate of return on pension plan investments net of pension plan expenses for fiscal 2018 was 9.58% for both SERS and MTRS. A money-weighted rate of return expresses investment performance, net of pension plan investment expense, adjusted for the changing amounts actually invested.

C. NET PENSION LIABILITY OF THE SYSTEMS REQUIRED BY GASB 67

The components of the net pension liability for SERS and MTRS at June 30, 2018 are as follows (amounts in thousands):

	SERS	MTRS
Total pension liability.....	\$ 41,225,000	\$ 52,503,000
Plan fiduciary net position.....	(27,995,021)	(28,791,711)
Net pension liability	<u>\$ 13,229,979</u>	<u>\$ 23,711,289</u>
Fiduciary net position as a percentage of the total pension liability	67.9%	54.8%

Additional information regarding changes in the net pension liability can be found in the Required Supplementary Information section of these financial statements.

Actuarial assumptions. The total pension liability, for both SERS and MTRS, was determined by an actuarial valuation as of January 1, 2018 rolled forward to June 30, 2018, using the following actuarial assumptions:

1. The actuarial assumptions included: (a) 7.35% investment rate of return, a decrease in the rate used in the January 1, 2017 actuarial valuation of 7.50%; (b) 3.5% interest rate credited to the annuity savings fund; and (c) 3.0% cost of living increase on the first \$13,000 of allowance per year.
2. Salary increases are based on analyses of past experience but range from 3.5% to 9.0% depending on group and length of service.
3. Experience studies were performed as follows:
 - a. SERS:
 - Dated February 27, 2014 and encompasses the period January 1, 2006 to December 31, 2011.
 - b. MTRS:
 - Dated July 21, 2014 and encompasses the period January 1, 2006 to December 31, 2011.
4. Mortality rates were as follows:
 - a. SERS:
 - Pre-retirement mortality reflects RP-2014 Blue Collar Employees table projected generationally with Scale MP-2016, set forward 1 year for females.
 - Post-retirement mortality reflects RP-2014 Blue Collar Healthy Annuitant table projected generationally with Scale MP-2016, set forward 1 year for females.
 - For disabled members, the mortality rate reflects RP-2014 Blue Collar Healthy Annuitant table projected generationally with Scale MP-2016, set forward 1 year.
 - b. MTRS:
 - Pre-retirement mortality reflects RP-2014 White Collar Employees table projected generationally with Scale MP-2016 (gender distinct).
 - Post-retirement mortality reflects RP-2014 White Collar Healthy Annuitant table projected generationally with Scale MP-2016 (gender distinct).
 - For disabled members, the mortality rate is assumed to be in accordance with RP-2014 Healthy Annuitant Table projected generationally with Scale BB and a base year of 2014 set forward 4 years.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate arithmetic expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These assumptions are converted into nominal assumptions by adding inflation, then combined by weighting them by the target asset allocation percentages. Finally, the arithmetic portfolio expected return is converted into a geometric expected return using assumed asset class standard deviations and correlations. Best estimates of geometric rates of return for each major asset class included in the PRIT Fund's target asset allocation as of June 30, 2018 (see the discussion of the pension plan's investment policy in [Note 9\(B\)](#)) are summarized in the following table:

Asset Class	Long-term Expected Real Rate of Return
Private Equity.....	6.6%
Global Equity.....	5.0%
Real Estate.....	3.8%
Value Added Fixed Income.....	3.8%
Portfolio Completion Strategies.....	3.7%
Timberland/Natural Resources.....	3.4%
Core Fixed Income.....	0.9%

Discount rate. The discount rate used to measure the pension liability for SERS and MTRS was 7.35%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the Commonwealth's contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rates. Based on those assumptions, the SERS and MTRS net positions were projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability for SERS and MTRS.

Sensitivity of the net pension liability to changes in the discount rate. The following presents the net pension liability of SERS and MTRS, calculated using the discount rate of 7.35%, as well as what the SERS and MTRS net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.35%) or 1-percentage-point higher (8.35%) than the current rate (amounts in thousands):

	1% Decrease (6.35%)	Current Discount Rate (7.35%)	1% Increase (8.35%)
SERS net pension liability.....	\$ 17,831,800	\$ 13,229,979	\$ 9,297,900
MTRS net pension liability.....	29,482,300	23,711,289	18,771,300

D. NET PENSION LIABILITY OF THE COMMONWEALTH REQUIRED BY GASB 68

Proportionate Share of Net Pension Liability

As of the respective measurement dates below, the net pension liability for SERS, MTRS and BRS were \$12.825 billion, \$22.885 billion, and \$4.020 billion, respectively. The net pension liabilities for SERS and MTRS were determined by an actuarial valuation as of January 1, 2017 and rolled forward to June 30, 2017. The BRS net pension liability was determined by an actuarial valuation as of January 1, 2016 and rolled forward to December 31, 2017. The SERS, MTRS and BRS actuarial valuations were rolled forward to their respective measurement dates using generally accepted actuarial procedures.

The Commonwealth (the primary government) reported the following net pension liabilities for its proportionate share of the SERS, MTRS and BRS-Teachers net pension liabilities (amounts in thousands):

System	Measurement Date	Proportionate Share	Net Pension Liability
State Employees' Retirement System	June 30, 2017	94.5%	\$ 12,122,363
Massachusetts Teachers' Retirement System.....	June 30, 2017	100.0%	22,885,391
Boston Retirement System - Teachers	December 31, 2017	60.5%	2,433,199
Total net pension liability			<u>\$ 37,440,953</u>

Certain of the Commonwealth's discretely presented component units (the Massachusetts Convention Center Authority [MCCA] and the Massachusetts Department of Transportation [MassDOT]) participate in SERS. As of the measurement date the proportionate share of the SERS net pension liability for the discretely presented component units was as follows (amounts in thousands):

System	Measurement Date	Proportionate Share	Net Pension Liability
State Employees' Retirement System	June 30, 2017	4.7%	<u>\$ 608,980</u>

Pension Expense and Deferred Outflows and Inflows of Resources Related to Pension

As of the measurement dates, the Commonwealth (primary government) recognized pension expense of approximately \$4.160 billion and the discretely presented component units recognized approximately \$267 million of pension expense. The following details the components of deferred outflows of resources and deferred inflows of resources related to pensions (amounts in thousands):

	Primary Government						Discretely Presented Component Units	
	SERS		MTRS		BRS-Teachers		Deferred Outflows of Resources	Deferred Inflows of Resources
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources		
Change of assumptions	\$ 1,261,517	\$ —	\$ 2,613,180	\$ —	\$ 259,883	\$ —	\$ 170,928	\$ 5,046
Changes in proportion.....	192,629	149,390	—	—	—	—	5,614	46,475
Net difference between projected and actual earnings on pension plan investments ...	—	144,438		145,918	—	62,895	—	13,811
Differences between expected and actual experience.....	468,702	329,819	118,426	50,146	—	94,199	150,304	25,051
Payments made after the measurement date.....	856,975	—	1,314,783	—	—	—	70,082	—
Totals.....	<u>\$ 2,779,823</u>	<u>\$ 623,647</u>	<u>\$ 4,046,389</u>	<u>\$ 196,064</u>	<u>\$ 259,883</u>	<u>\$ 157,094</u>	<u>\$ 396,928</u>	<u>\$ 90,383</u>

The \$2.172 billion and \$70 million reported as deferred outflows of resources in the primary government and the discretely presented component units, respectively, are the contributions made subsequent to the measurement date and

will be recognized as a reduction of the net pension liability in the next fiscal year. Other amounts reported above as deferred outflows of resources and deferred inflows of resource related to pension will be recognized in pension expense as follows (amounts in thousands):

Fiscal Year Ending June 30	Primary Government			Discretely Presented Component Units
	SERS	MTRS	BRS- Teachers	
2019.....	\$ 408,990	\$ 567,232	\$ 43,974	\$ 83,030
2020.....	760,309	965,896	42,474	101,193
2021.....	334,928	734,756	7,962	46,150
2022.....	(204,976)	33,327	(21,576)	7,151
2023.....	(50)	194,878	29,955	(807)
Thereafter	—	39,453	—	(254)
Totals.....	<u>\$ 1,299,201</u>	<u>\$ 2,535,542</u>	<u>\$ 102,789</u>	<u>\$ 236,463</u>

The SERS and MTRS total pension liabilities were based on an actuarial valuation as of January 1, 2017 rolled forward to June 30, 2017, using the following actuarial assumptions:

1. The actuarial assumptions included (a) 7.5% investment rate of return, (b) 3.5% interest rate credited to the annuity savings fund and (c) 3.0% cost of living increase on the first \$13,000 per year.
2. Salary increases are based on analyses of past experience but range from 4.0% to 9.0% (SERS) and 4.0% to 7.5% (MTRS) depending on group and length of service.
3. Experience studies were performed as follows:

SERS:

- Dated February 27, 2014 and encompasses the period January 1, 2006 to December 31, 2011

MTRS:

- Dated July 21, 2014 and encompasses the period January 1, 2006 to December 31, 2011

4. Mortality rates were as follows:

SERS:

- Pre-retirement - reflects RP-2014 Blue Collar Employees Table projected generationally with Scale MP-2016 and set forward 1 year for females
- Post-retirement - reflects RP-2014 Blue Collar Healthy Annuitant Table projected generationally with Scale MP-2016 set forward 1 year for females
- Disability - the mortality rate is assumed to be in accordance with the RP-2000 Healthy Annuitant Table projected generationally with Scale BB and a base year of 2015 (gender distinct)

MTRS:

- Pre-retirement - reflects RP-2014 White Collar Employees Table projected generationally with Scale MP-2016 (gender distinct).
- Post-retirement - reflects RP-2014 White Collar Healthy Annuitant Table projected generationally with Scale MP-2016 (gender distinct).

- Disability - assumed to be in accordance with the RP-2014 Healthy Annuitant Table projected generationally with Scale BB and a base year 2014 set forward 4 years.

The BRS-Teachers total pension liability was based on an actuarial valuation as of January 1, 2016 rolled forward to December 31, 2017, using the following actuarial assumptions:

1. The actuarial assumptions included (a) 7.35% investment rate of return, (b) 3.25% interest rate credited to the annuity savings fund and (c) 3.0% cost of living increase on the first \$14,000 per year.
2. Salary increases range from 4.0% to 7.5% depending on length of service.
3. Mortality rates were as follows:
 - Healthy - reflects RP-2014 White Collar Employee and Healthy Annuitant Mortality Tables projected generationally with Scale MP-2016.
 - Disabled - reflects RP-2014 Healthy Annuitant Mortality Table set forward four years projected generationally using Scale BB2D from 2014.

Investments

The Massachusetts legislature enacted Section 17 of Chapter 112 of the Acts of 2010, which requires the SBRS to invest all assets, current and future, related to BRS-Teachers in the PRIT pooled fund.

The following was the PRIT Fund target asset allocation and best estimates of geometric rates of return for each major asset class as of June 30, 2017:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return*
Global Equity	40.0%	5.0%
Portfolio Completion Strategies.....	13.0%	3.6%
Core Fixed Income.....	12.0%	1.1%
Private Equity.....	11.0%	6.6%
Value Added Fixed Income.....	10.0%	3.8%
Real Estate	10.0%	3.6%
Timber/Natural Resources	4.0%	3.2%
Hedge Funds	—%	3.6%
Total	100.0%	

* - BRS does not separately provide the long-term expected real rate of return for BRS-Teachers assets invested in the PRIT Fund as of the BRS measurement date.

Because SERS, MTRS and BRS-Teachers are all required to invest in the PRIT Fund, the long-term expected real rate of return was determined on that same basis as described in [Note 9C](#).

The discount rate used to measure the pension liabilities of SERS and MTRS was 7.5% as of the June 30, 2017 measurement date for those plans. The discount rate used to measure the pension liability of BRS-Teachers was 7.35% as of its December 31, 2017 measurement date.

Sensitivity of the proportionate share of the net pension liability to changes in the discount rate. The following presents the net pension liability of the Commonwealth calculated using the discount rate of 7.5% (SERS and MTRS) and 7.35% (BRS-Teachers), as well as what the Commonwealth's net pension liability would be if it were calculated

using a discount rate that is 1-percentage-point lower (6.5% SERS and MTRS; 6.35% BRS-Teachers) or 1-percentage-point higher (8.5% SERS and MTRS; 8.35% BRS-Teachers) than the current rate (amounts in thousands):

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
SERS net pension liability.....	\$ 16,506,126	\$ 12,122,363	\$ 8,585,798
MTRS net pension liability	28,424,300	22,885,391	18,193,400

	1% Decrease (6.35%)	Current Discount Rate (7.35%)	1% Increase (8.35%)
BRS-Teachers net pension liability	\$ 2,913,172	\$ 2,433,199	\$ 2,035,136

E. STATEMENTS OF NET POSITION AND CHANGES IN NET POSITION

The following table displays the Statement of Net Position and the Statement of Changes in Net Position for the SERS, and the MTRS as of June 30, 2018, (amounts in thousands):

	Pension Trust Funds		
	State Employees' PERS	Teachers' PERS	Total
ASSETS			
Cash and cash equivalents.....	\$ 103,761	\$ 109,801	\$ 213,562
Net investment in PRIT at fair value.....	27,758,610	28,588,059	56,346,669
Other receivables.....	27,645	95,316	122,961
Other assets.....	105,459	4,515	109,974
Total assets	27,995,475	28,797,691	56,793,166
LIABILITIES			
Accounts payable.....	454	5,980	6,434
Net position available for post-employment benefits	\$ 27,995,021	\$ 28,791,711	\$ 56,786,732
	State Employees' PERS	Teachers' PERS	Total
ADDITIONS			
Contributions:			
Employer contributions - Commonwealth and MassDOT.....	\$ 840,990	\$ —	\$ 840,990
Non-employer contributions - Commonwealth.....	35,184	1,314,783	1,349,967
Employer and non-employer contributions - other.....	9,564	—	9,564
Employee contributions.....	600,705	755,688	1,356,393
ERIP funding contribution - Commonwealth.....	28,724	—	28,724
Boston teachers' contributions from Commonwealth.....	—	131,298	131,298
Other additions.....	118,124	100,436	218,560
Total contributions	1,633,291	2,302,205	3,935,496
Net investment gain/(loss):			
Investment gain/(loss).....	2,602,831	2,689,173	5,292,004
Less: investment expense.....	(142,083)	(146,597)	(288,680)
Net investment gain/(loss)	2,460,748	2,542,576	5,003,324
Total additions	4,094,039	4,844,781	8,938,820
DEDUCTIONS			
Administration.....	16,369	19,528	35,897
Retirement benefits and refunds.....	2,314,447	2,992,578	5,307,025
Payments to State Boston Retirement System.....	—	131,298	131,298
Other deductions.....	50,434	48,275	98,709
Total deductions	2,381,250	3,191,679	5,572,929
Change in net position	1,712,789	1,653,102	3,365,891
Net position available for post-employment benefits			
at beginning of year.....	26,282,232	27,138,609	53,420,841
Net position available for post-employment benefits at end of year	\$ 27,995,021	\$ 28,791,711	\$ 56,786,732

F. RESERVES

Chapter 32 of the MGL establishes certain legally required reserve accounts for both SERS and MTRS. These reserves are used to account for the accumulation of resources according to purpose for which they are received, acquired or held. The reserve accounts can only be modified or changed by legislation.

The balances of legally required reserves at June 30, 2018 were as follows (amounts in thousands):

	SERS	MTRS	Purpose
Annuity Savings Fund.....	\$ 6,395,615	\$ 7,956,804	Active members' contribution balance
Annuity Reserve Fund.....	1,940,275	2,102,435	Retired members' contribution account
Special Military Service Fund ...	34	246	Members' contribution account while on military leave
Pension Reserve Fund	19,659,097	18,732,226	Amounts appropriated to fund future retirement benefits
Total	<u>\$ 27,995,021</u>	<u>\$ 28,791,711</u>	

10. OTHER POST EMPLOYMENT BENEFITS**A. PLAN DESCRIPTIONS****Plan administration**

The Commonwealth administers an OPEB plan as a single employer defined benefit program. Benefits are managed by the Group Insurance Commission (GIC) and investments are managed by PRIM. The GIC has representation on the Board of Trustees of the State Retirees' Benefits Trust (SRBT).

The SRBT is set up solely to pay for OPEB benefits and the cost to administer those benefits. It can only be revoked when all such health care and other non-pension benefits, current and future, have been paid or defeased. GIC administers benefit payments, while the Trustees are responsible for investment decisions. The SRBT is administered by the board of trustees and is reported as an OPEB Trust Fund and does not issue a stand-alone audited financial report.

Management of the SRBT is vested with a board of trustees, which consists of 7 members including the Secretary of Administration and Finance (or their designee), the Executive Director of the GIC (or their designee), the Executive Director of PERAC (or their designee), the State Treasurer (or their designee), the Comptroller (or a designee), 1 person appointed by the Governor and 1 person appointed by the State Treasurer. The members elect 1 person to serve as chair of the board.

Plan membership. As of January 1, 2018 the date of the most recent actuarial valuation, plan membership consisted of the following:

	SRBT
Inactive plan members or beneficiaries currently receiving benefit payments	82,982
Inactive plan members entitled to but not yet receiving benefit payments	3,142
Active plan members.....	70,711
Total.....	<u>156,835</u>

Benefits provided. Under Chapter 32A of the Massachusetts General Laws the Commonwealth is required to provide certain health care and life insurance benefits for retired employees of the Commonwealth, housing authorities, redevelopment authorities and certain other governmental agencies. Substantially all of the Commonwealth's employees may become eligible for these benefits if they reach retirement age while working for the Commonwealth.

Eligible retirees are required to contribute a specified percentage of the health care/benefit costs, which are comparable to contributions required from employees.

Employer and employee contribution rates are set in General Law. The Commonwealth recognizes its share of the costs on an actuarial basis. As of June 30, 2018 and as of the valuation date (January 1, 2018), Commonwealth participants contributed 0% to 20% of premium costs, depending on the date of hire and whether the participant is active, retiree, or survivor status. As part of the FY10 General Appropriation Act, all active employees pay an additional 5% of premium costs. Normal costs paid for OPEB to retirees during FY18 totaled approximately \$444 million.

Effective beginning FY14, the Commonwealth by statute is required to allocate, to the SRBT, a portion of revenue received under the Master Settlement Agreement with tobacco companies, increasing from 10% in FY14 to 100% by FY23. In FY18, 30% of tobacco settlement proceeds or approximately \$73 million was allocated to the SRBT. The percentage of proceeds to be transferred to the SRBT in FY18 was set at 30%, overriding existing statute.

B. INVESTMENTS

Investment Policy. The SRBT is required to invest in the PRIT Fund. Consequently, information about SRBT's target asset allocation and long-term expected real rate of return as of June 30, 2018, are the same as discussed in [Notes 9 \(B\)](#) and [\(C\)](#).

The annual money-weighted return on OPEB plan investments calculated as the internal rate of return on OPEB plan investments net of OPEB plan expenses for fiscal 2018 was 9.46%. A money-weighted rate of return expresses investment performance, net of OPEB plan investment expense, adjusted for the changing amounts actually invested.

C. NET OPEB LIABILITY OF THE OPEB PLAN REQUIRED BY GASB 74

The components of the net OPEB liability at June 30, 2018 are as follows (amounts in thousands):

	SRBT
Total OPEB liability.....	\$ 16,096,773
Plan fiduciary net position	(1,187,569)
Net OPEB liability	<u>\$ 14,909,204</u>
Fiduciary net position as a percentage of the total OPEB liability	7.4%

Additional information regarding changes in the net OPEB liability can be found in the Required Supplementary Information Section of these financial statements.

Actuarial assumptions. The total OPEB liability was determined by an actuarial valuation as of January 1, 2018 rolled forward to June 30, 2018, using the following actuarial assumptions:

1. The following annual healthcare cost trend rates: (1) 8.0%, decreasing by 0.5% each year to 5.50% in 2023 and then decreasing by 0.25% each year to an ultimate rate of 5.0% in 2025 for Medical, (2) 5.0% for EGWP and (3) 5.0% for administration costs.
2. Mortality rate was in accordance with RP 2014 Blue Collar Mortality Table projected with scale MP-2016 from the central year, with females set forward one year.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the Commonwealth and those non-Commonwealth governments that participate in the GIC) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs on a premium basis

between the Commonwealth and those non-Commonwealth governments that participate in the GIC to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Discount rate. The discount rate used to measure the OPEB liability was 3.95%. This rate was based on a blend of the Bond Buyer Index rate (3.87%) as of the measurement date and the expected rate of return. The plan's fiduciary net position was not projected to be available to make all projected future benefit payments for current plan members. The projected "depletion date" when projected benefits are not covered by projected assets is 2025. Therefore, the long-term expected rate of return on plan investments of 7.35% per annum was not applied to all periods of projected benefit payments to determine the total OPEB liability as of June 30, 2018.

Sensitivity of the net OPEB liability to changes in the discount rate. The following presents the OPEB plan's net OPEB liability calculated using the discount rate of 3.95%, as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.95%) or 1-percentage-point higher (4.95%) than the current rate (amounts in thousands):

	1% Decrease (2.95%)	Current Discount Rate (3.95%)	1% Increase (4.95%)
Net OPEB liability	\$ 17,605,200	\$ 14,909,204	\$ 12,753,800

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates. The following presents the OPEB plan's net OPEB liability, as well as what the net OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rate (amounts in thousands):

	1% Decrease (b)	Current Healthcare Cost Trend Rate (a)	1% Increase (c)
Net OPEB liability	\$ 12,386,900	\$ 14,909,204	\$ 18,201,800

a - The current healthcare cost trend rates are as follows: 8.0% for Medicare, 5.0% for EGWP and 5.0% for administration costs.

b - The healthcare cost trend rates after a 1% decrease are as follows: 7.0% for Medicare, 4.0% for EGWP and 4.0% for administration costs.

c - The healthcare cost trend rates after a 1% increase are as follows: 9.0% for Medicare, 6.0% for EGWP and 6.0% for administration costs.

D. NET OPEB LIABILITY OF THE COMMONWEALTH REQUIRED BY GASB 75

During fiscal 2018, the Commonwealth implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which determines how employers and nonemployer contributing entities report their OPEB liabilities on their financial statements.

Net OPEB Liability

The Commonwealth's net OPEB liability was measured as of June 30, 2017 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of January 1, 2017 rolled forward to June 30, 2017.

The Commonwealth's reporting entity reported the following net OPEB liability (amounts in thousands):

	Net OPEB Liability
Primary government	\$ 16,681,450
Discretely presented component unit	3,082,223 (A)
Total net OPEB liability	<u>\$ 19,763,673</u>

(A) - Of this amount \$2,279,171 relates to discretely presented component units not participating in the Commonwealth's OPEB plan.

OPEB Expense and Deferred Outflows and Inflows of Resources Related to OPEB

As of June 30, 2017, the measurement date, the Commonwealth (primary government) and the discretely presented component units recognized OPEB expense of approximately \$1.009 billion and \$160 million, respectively. The following details the components of deferred outflows of resources and deferred inflows of resources related to OPEB (amounts in thousands):

	Primary Government		Discretely Presented Component Unit	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Change in proportion	\$ 201,564	\$ 162,744	\$ —	\$ 38,821
Differences between expected and actual experience.....	—	38,634	968	2,654
Change of assumptions	—	1,889,734	—	237,273
Net difference between projected and actual earnings on OPEB plan investments.....	—	30,474	38	1,465
Payments made after the measurement date	520,703	—	91,580	—
Totals	<u>\$ 722,267</u>	<u>\$ 2,121,586</u>	<u>\$ 92,586</u>	<u>\$ 280,213</u>

The \$521 million and \$92 million reported as deferred outflows of resources in the primary government and the discretely presented component units, respectively, are the contributions made subsequent to the measurement date and will be recognized as a reduction of the net OPEB liability in the next fiscal year. Other amounts reported above as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows (amounts in thousands):

	Primary Government	Discretely Presented Component Unit
2019	\$ (402,373)	\$ (56,374)
2020	(402,373)	(56,373)
2021	(402,373)	(56,374)
2022	(402,373)	(56,373)
2023	(310,234)	(50,245)
Thereafter.....	(296)	(3,468)
Total	<u>\$ (1,920,022)</u>	<u>\$ (279,207)</u>

Actuarial Assumptions

The total OPEB liability based on the actuarial valuation as of January 1, 2017 rolled forward to June 30, 2017 used the following actuarial assumptions:

1. The following annual healthcare cost trend rates: (1) 8.5%, decreasing by 0.5% each year to an ultimate rate of 5.0% in 2024 for medical, (2) 5.0% for Employee Group Waiver Program (EGWP) and (3) 5.0% for administration costs.
2. The mortality rate was in accordance with RP2014 Blue Collar Mortality Table projected with scale MP-2016 from the central year, with females set forward one year.
3. Participation rates:
 - a. 100% of all retirees who currently have health care coverage will continue with the same coverage, except that retirees under age 65 with POS/PPO coverage switch to Indemnity at age 65 and those over age 65 with POS/PPO coverage switch to HMO.
 - b. All current retirees, other than those indicated on the census data as not being eligible by Medicare, have Medicare coverage upon attainment of age 65, as do their spouses. All future retirees are assumed to have Medicare coverage upon attainment of age 65.
 - c. 80% of current and future contingent eligible participants will elect health care benefits at age 65, or current age if later.
 - d. Actives, upon retirement, take coverage, and are assumed to have the following coverage:

	Retirement Age	
	Under 65	Age 65+
Indemnity	40.0%	85.0%
POS/PPO.....	50.0%	—%
HMO	10.0%	15.0%

Discount Rate

The discount rate used to measure the OPEB liability was 3.63%. This rate was based on a blend of the Bond Buyer Index rate (3.58%) as of the measurement date and the expected rate of return. The plan's fiduciary net position was not projected to be available to make all projected future benefit payments for current plan members. The projected "depletion date" when projected benefits are not covered by projected assets is 2023. Therefore, the long-term expected rate of return on plan investments of 7.50% per annum was not applied to all periods of projected benefit payments to determine the total OPEB liability as of June 30, 2017.

Investments

Investment assets of the Plan are held by the Pension Reserves Investment Trust (PRIT) Fund. The long-term expected rate of return on OPEB Plan investments was determined using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future rates of return by the target asset allocation percentage. Best estimates of geometric rates of return for each major asset class included in the PRIT Fund's target asset allocation as of June 30, 2017 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	40.0%	5.0%
Portfolio Completion Strategies	13.0%	3.6%
Core Fixed Income	12.0%	1.1%
Private Equity	11.0%	6.6%
Value Added Fixed Income.....	10.0%	3.8%
Real Estate	10.0%	3.6%
Timber/Natural Resources	4.0%	3.2%
Hedge Funds	—%	3.6%
	100.0%	

Changes in Net OPEB liability

The following presents the changes in the net OPEB liability of the Commonwealth as of June 30, 2017 (amounts in thousands):

	Increase/(Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balances at June 30, 2016	\$ 19,821,600	\$ 866,043	\$ 18,955,557
Changes for the year:			
Service cost.....	950,800	—	950,800
Interest	591,900	—	591,900
Differences between expected and actual experience	(48,600)	—	(48,600)
Changes of assumptions	(2,393,700)	—	(2,393,700)
Contributions-employer.....	—	466,233	(466,233)
Net investment income	—	105,822	(105,822)
Benefit payments	(441,064)	(441,064)	—
Administrative expense	—	(627)	627
Net changes.....	(1,340,664)	130,364	(1,471,028)
Balances at June 30, 2017	\$ 18,480,936	\$ 996,407	\$ 17,484,529

Sensitivity Analysis of the net OPEB liability to changes in the discount rate

The following presents the net OPEB liability of the Commonwealth calculated using the discount rate, as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate (amounts in thousands):

	1% Decrease 2.63%	Current Rate 3.63%	1% Increase 4.63%
Net OPEB liability	\$ 19,802,213	\$ 16,681,450	\$ 14,200,196

Sensitivity Analysis of the net OPEB liability to changes in the healthcare cost trend rate

The following presents the net OPEB liability of the Commonwealth, as well as what the net OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rate (amounts in thousands):

	1% Decrease (b)	Current Rate (a)	1% Increase (c)
Net OPEB liability	\$ 13,801,776	\$ 16,681,450	\$ 20,470,921

a - The current healthcare cost trend rates are as follows: 9.0% for medical and 5.0% for EGWP and administration costs

b - The healthcare cost trend rates after a 1% decrease are as follows: 8.0% for medical and 4.0% for EGWP and administration costs

c - The healthcare cost trend rates after a 1% increase are as follows: 10.0% for medical and 6.0% for EGWP and administration costs

MSBA

The MSBA, a blended component unit, sponsors its own single-employer defined benefit OPEB plan. The disclosures related to the net OPEB liability of the MSBA are not included in these notes to the financial statements due to immateriality (approximately \$3 million).

E. STATEMENT OF NET POSITION AND CHANGES IN NET POSITION

The following table displays the Statement of Net Position and Statement of Changes in Net Position for the State Retirees' Benefit Trust as of June 30, 2018 (amounts in thousands):

	OPEB Trust Fund
	State Retiree Benefits
ASSETS	
Cash and cash equivalents	\$ 99,528
Net investment in PRIT at fair value	1,088,179
Total assets	1,187,707
LIABILITIES	
Accounts payable	138
Net position available for other post-employment benefits	\$ 1,187,569
 ADDITIONS	
Contributions:	
Employer contributions - Commonwealth	\$ 542,896
Other additions	133
Total contributions	543,029
Net investment gain/(loss):	
Investment gain/(loss)	99,036
Less: investment expense	(5,728)
Net investment gain/(loss)	93,308
Total additions	636,337
DEDUCTIONS	
Administration	150
Retirement benefits and refunds	443,763
Other deductions	1,262
Total deductions	445,175
Change in net position	191,162
Net position available for other post-employment benefits at beginning of year	996,407
Net position available for other post-employment benefits at end of year	\$ 1,187,569

11. LEASES

Primary Government

In order to finance the acquisition of equipment, the Commonwealth has entered into various lease/purchase agreements, including tax-exempt lease purchase (TELP) agreements, which are accounted for as capital leases. Included in the capital assets of the Commonwealth are additions financed by capital leases. For FY18, these additions are approximately \$228 thousand. Lease agreements are for various terms and contain clauses indicating that their continuation is subject to appropriation by the Legislature.

The Commonwealth has numerous operating lease agreements for real property and equipment with varying terms. These agreements contain provisions indicating that continuation is subject to appropriation by the Legislature.

The Institutions of Higher Education lease real property and equipment under numerous operating lease agreements for varying terms. The following schedule summarizes future minimum payments under non-cancelable leases for governmental activities and for the Institutions of Higher Education – reported as a business-type activity, for the fiscal year ended June 30, 2018 (amounts in thousands):

Fiscal Year Ended June 30	Governmental Activities					Business - Type Activities			
	Capital Leases		Operating Leases	MSBA Operating Leases	Governmental Activities Total	Capital Leases			Business - Type Activities Total
	Principal	Interest				Principal	Interest	Operating Leases	
2019.....	\$ 3,272	\$ 671	\$ 34,428	\$ 1,068	\$ 39,439	\$ 2,180	\$ 294	\$ 97,617	\$ 100,091
2020.....	3,069	630	10,796	1,092	15,587	2,037	252	48,145	50,434
2021.....	3,032	622	6,277	1,117	11,048	1,578	211	36,923	38,712
2022.....	3,009	617	4,702	1,141	9,469	1,314	168	31,888	33,370
2023.....	2,952	605	3,798	4,812	12,167	585	132	24,159	24,876
2024 - 2028.....	7,114	1,460	15,548	—	24,122	2,131	225	152,034	154,390
2029 - 2033.....	44	9	—	—	53	—	—	5,006	5,006
2034 - 2038.....	—	—	—	—	—	—	—	5,324	5,324
2039 - 2043.....	—	—	—	—	—	—	—	3,873	3,873
Total lease obligations.....	22,492	4,614	75,549	9,230	111,885	9,825	1,282	404,969	416,076
Less: current portion.....	(3,272)	(671)	(34,428)	(1,068)	(39,439)	(2,180)	(294)	(97,617)	(100,091)
Long-term lease obligations.....	<u>\$ 19,220</u>	<u>\$ 3,943</u>	<u>\$ 41,121</u>	<u>\$ 8,162</u>	<u>\$ 72,446</u>	<u>\$ 7,645</u>	<u>\$ 988</u>	<u>\$ 307,352</u>	<u>\$ 315,985</u>

Capital assets acquired under capital lease (amounts in thousands):

Asset type:	Primary Government	
	Governmental Activities	Business - Type Activities
Buildings	\$ —	\$ 11,376
Machinery and equipment.....	22,506	13,353
Total assets	22,506	24,729
Less: accumulated depreciation	(13,902)	(13,976)
Total.....	<u>\$ 8,604</u>	<u>\$ 10,753</u>

12. OTHER LONG-TERM LIABILITIES

A. WORKERS' COMPENSATION AND GROUP INSURANCE LIABILITIES

Workers' Compensation is managed as part of the course of the Commonwealth's general operations. No separate fund for workers' compensation is provided for in Massachusetts General Laws. Claims for compensation are not separately insured and are funded by the Commonwealth only when incurred. Such losses, including estimates of amounts incurred, but not reported, are included as accrued liabilities in the accompanying financial statements when the loss is incurred. The Commonwealth assumes the full risk of claims filed under a program managed by the Human Resources Division. For personal injury, Massachusetts General Laws limit the risk assumed by the Commonwealth to \$100,000 per occurrence, in most circumstances.

Workers' compensation costs are recognized when claims are presented and paid. The Commonwealth's outstanding liability for such claims at June 30, 2018 is estimated to be \$261 million of which approximately \$38 million is expected

to be paid during FY19.

Changes in the Commonwealth's liability relating to workers' compensation claims in FY18 and FY17 were (amounts in thousands):

	FY18	FY17
Claims liability, beginning of year.....	\$ 260,180	\$ 270,720
Increase in liability estimate	61,678	47,556
Payments and decreases in liability estimate.....	(60,954)	(58,096)
Claims liability, end of year.....	<u>\$ 260,904</u>	<u>\$ 260,180</u>

The Group Insurance Commission (GIC), a department of the Commonwealth, manages health insurance claims of the Commonwealth's active and retired employees. The Commonwealth is self-insured and various health insurance providers provide health care services to the employees. The accrued liability is estimated based on data provided to the GIC by the insurance companies who participate in the self-insured plans.

Changes in the Commonwealth's liability relating to group insurance claims in FY18 and FY17 were (amounts in thousands):

	FY18	FY17
Claims liability, beginning of year.....	\$ 116,504	\$ 110,925
Increase in liability estimate	1,648,074	1,667,920
Payments and decreases in liability estimate.....	(1,633,842)	(1,662,341)
Claims liability, end of year.....	<u>\$ 130,736</u>	<u>\$ 116,504</u>

B. OTHER CLAIMS & JUDGMENTS

A number of lawsuits are pending or threatened against the Commonwealth, which arise from the ordinary course of operations. These include claims for property damage and personal injury, breaches of contract, condemnation proceedings and other alleged violations of law. The Commonwealth records a liability for those cases in which it is probable that a loss will be incurred and the amount of the potential judgment can be reasonably estimated or a settlement or judgment has been reached but not paid.

The following amounts were recognized for claims and judgments in FY18 and FY17 (amounts in thousands):

	FY18	FY17
Unpaid claims, beginning of year.....	\$ 12,518	\$ 11,411
Incurred claims	22,700	12,929
Claim payments and reductions.....	(12,720)	(11,822)
Unpaid claims end of year	<u>\$ 22,498</u>	<u>\$ 12,518</u>

C. ENVIRONMENTAL REMEDIATION

Governmental Accounting Standards Board Statement No 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* (GASB 49) became effective in FY09. GASB 49 provides guidance in estimating and reporting the potential costs of pollution remediation. While GASB 49 does not require the Commonwealth to search for pollution, it does require the Commonwealth to reasonably estimate and report a remediation liability when any of the following obligating events has occurred:

- Pollution poses an imminent danger to the public and the Commonwealth is compelled to take action;
- The Commonwealth is found in violation of a pollution-related permit or license;
- The Commonwealth is named, or has evidence that it will be named, as a responsible party by a regulator;
- The Commonwealth is named, or has evidence that it will be named, in a lawsuit to enforce a cleanup;
- The Commonwealth commences or legally obligates itself to conduct remediation activities.

Site investigation, planning and design, cleanup and site monitoring are typical remediation activities underway across the Commonwealth. Several Commonwealth agencies have dedicated programs, rules and regulations that routinely deal with remediation related issues; others become aware of pollution conditions in the fulfillment of their missions. The Commonwealth has the knowledge and expertise to estimate the remediation obligations presented herein based upon prior experience in identifying and funding similar remediation activities.

The standard requires the Commonwealth to calculate pollution remediation liabilities using the expected cash flow technique, which measures the liability as the sum of probability-weighted amounts in a range of possible estimated amounts. Where the Commonwealth cannot reasonably estimate a pollution remediation obligation it does not report a liability. Several state departments perform continual monitoring of polluted sites. Since the monitoring for such sites is perpetual, undiscounted multi-year costs for such sites have not been estimated. Because of a lack of information about the type and extent of the remediation effort that could be required, no range of outlays for the overall remediation effort for such sites could be developed at this time.

The remediation obligation estimates that appear in this report are subject to change over time. Cost may vary due to price fluctuations, changes in technology, changes in potential responsible parties, results of environmental studies, changes to statutes or regulations and other factors that could result in revisions to these estimates. Prospective recoveries from responsible parties may reduce the Commonwealth's obligation. Capital assets may be created when pollution remediation outlays are made under specific circumstances.

During the fiscal year, the Commonwealth had the following activity related to environmental remediation (amounts in thousands):

	Governmental Activities
Environmental remediation liability, beginning of year.....	\$ 533,060
Expected additional future outlays, changes in liability estimates.....	2,424
FY18 outlays for environmental remediation	(4,873)
Environmental remediation liability, end of year.....	<u>\$ 530,611</u>

Massachusetts Military Reservation. The Commonwealth, through the Executive Office of Energy and Environmental Affairs, the Department of Environmental Protection and the Attorney General's office, were engaged in discussions with federal Natural Resource Trustees, including the United States Army and Air Force, the Department of the Interior and the National Oceanic and Atmospheric Administration and private contractors regarding natural resource damages at the Massachusetts Military Reservation on Cape Cod. Federal Trustees and private contractors claim that the Commonwealth and others are liable for natural resource damages due to widespread contamination primarily from past military activities at the Reservation and are responsible for response actions and related clean-up activities. The assessment process for natural resource damages is set out in federal regulations and has not been completed. While no recent comprehensive estimate of natural resource damages and response actions is available, it is expected that the

damages and response actions may cost at least tens of millions of dollars. In 2013, the state and federal trustees reopened preliminary discussions per a Trustee Council resolution on a potential settlement framework.

Closed State Facilities. The Commonwealth has 17 facilities that contain a total of 235 buildings, mainly in closed state hospitals that may have varying degrees of asbestos, polychlorinated biphenyl (PCB's) and other compounds that are currently in a dormant state. The Commonwealth typically sells these facilities at minimal cost to private developers who assume full responsibility for all cleanup activity. Cost estimates are only performed during the sale process. At this time, the Commonwealth has no estimate of any potential asset that would be developed from these activities that would ready these sites for sale.

D. COST OF LIVING ADJUSTMENTS

The Commonwealth is financially responsible for the cost of living adjustment (COLA) granted to participants in various retirement systems of cities, towns and counties in fiscal years 1981 to 1997. Chapter 17 of the Acts of 1997 effective for fiscal year 1998 transferred the responsibility for funding COLAs for separate (non-teacher) retirement systems of cities and towns to their respective systems. Any future COLA granted by the Legislature to employees of these plans will be the responsibility of the individual system, assuming approval by the local board. The individual employer governments are also responsible for the basic pension benefits.

Payments of approximately \$14 million for COLAs granted to participants in retirement systems of cities, towns and counties were made during fiscal year 2018.

As of June 30, 2018, the Commonwealth's liability for COLA was approximately \$132 million.

13. CONTINGENCIES/COMMITMENTS

The Commonwealth receives significant financial assistance from the federal government. Entitlement to these resources is generally contingent upon compliance with terms and conditions of the grant or reimbursement agreements and with applicable federal regulations, including the expenditure of the resources for eligible purposes. Substantially all federal financial assistance is subject to financial and compliance audits.

Chapter 200A of the Massachusetts General Laws, the Commonwealth's Abandoned Property Law, requires deposit of certain unclaimed assets into a managed Fiduciary Fund. These unclaimed assets are to be remitted to the General Fund each June 30, where it is included as miscellaneous revenue. Amounts remitted during FY18 totaled approximately \$107 million. A portion of accumulated claims since the law's enactment represent a contingency, because claims for refunds can be made by the owners of the property.

Drug Testing Laboratory disputes. On August 28, 2012, a chemist formerly employed at the Department of Public Health's drug testing laboratory in Boston admitted to several types of misconduct involving her handling of laboratory samples, which were used in criminal cases. The Governor was informed and ordered the immediate closure of the laboratory. The Governor established a central office to identify individuals who may have been affected by the chemist's alleged malfeasance, which the office has estimated as possibly tens of thousands of criminal drug cases. The Governor also announced that the Inspector General is conducting an independent assessment of the laboratory's operations. In addition, the Attorney General's Office is conducting a criminal investigation. On December 17, 2012, the former chemist was indicted by a Statewide Grand Jury on 27 charges in connection with altering drug evidence during the testing process and obstructing justice. She was arraigned on December 20, 2012 in Suffolk Superior Court and plead guilty in 2013. There likely will be significant, but as yet undetermined, state costs required to investigate and respond to the chemist's alleged malfeasance. Supplemental appropriations totaling \$30 million were approved during fiscal 2013 to create a fund to reimburse agencies and cities for costs associated with investigating and responding to misconduct at the state drug testing laboratory. In addition, there may be substantial costs to defend civil complaints alleging state liability in both state and federal court and for potential judgments. As the number of specific cases affected by the chemist's misconduct has not been definitively determined, there is not sufficient information to fully estimate these additional state costs.

A. PRIMARY GOVERNMENT

The Commonwealth continues to guarantee certain Massachusetts Bay Transportation Authority (MBTA) debt outstanding at June 30, 2018, totaling approximately \$180 million.

The MBTA's Forward Funding legislation of 1999 provides for the MBTA to issue general obligation, revenue or other debt secured by a pledge or conveyance of all or a portion of revenues, receipts or other assets or funds of the MBTA. Accordingly, all MBTA debt issued after this legislation is not backed by the full faith and credit of the Commonwealth.

Additional commitments of the Commonwealth remain for the University of Massachusetts Building Authority. As of June 30, 2018, the University of Massachusetts Building Authority has approximately \$2.967 billion, of outstanding debt, of which approximately \$114 million is guaranteed by the Commonwealth.

B. TOBACCO SETTLEMENT

A Master Settlement Agreement (MSA) was executed in November of 1998 between five tobacco companies and 46 states, including the Commonwealth. Several additional tobacco companies have joined the MSA and are bound by its terms.

The MSA called for, among other things, annual payments to the states in perpetuity. These payments have been estimated to total more than \$200 billion over the first 25 years, subject to various offsets, reductions and adjustments.

In FY18, the Commonwealth received approximately \$243 million, or 68.8% of the estimated amounts shown in the MSA. Amounts received in FY18 continued to be less than had previously been projected as payments under the MSA, primarily because the payment amounts are related to national tobacco sales volumes, which have continued to decline since the settlement. The Commonwealth's allocable share of the base amounts payable under the MSA is approximately 4.04%. The Commonwealth's allocable share of the base amounts under the agreement through 2025 is \$8.96 billion, which is subject to adjustments, reductions and offsets. However, in pending litigation, tobacco manufacturers are claiming that because of certain developments, they are entitled to reduce future payments under the MSA and, from FY06 to the present, certain manufacturers have withheld portions of the payments due to the states. The Commonwealth continues to pursue legal action to compel the payment of these additional funds and to obtain a legal determination that the Commonwealth is immune from any downward adjustment to its settlement payments.

In FY04, a Suffolk Superior Court jury rejected the claims of the Commonwealth's private tobacco attorneys that they should be paid a fee amounting to 25% of the Commonwealth's tobacco settlement money. The jury awarded the plaintiffs 10.5% of the amount the Commonwealth receives under the MSA through 2025, minus an offset for amounts received by the attorneys from the tobacco companies pursuant to an arbitration award. To date, however, the attorneys have received more than 10.5% of what the Commonwealth has received under the MSA. As of June 30, 2018, the Commonwealth owes nothing under the jury award. Whether the Commonwealth will in the future be required to pay any sum on private counsel's claim will depend on the actual payments received by the Commonwealth under the MSA through 2025, as well as on the amounts the attorneys receive through the arbitration payments.

C. OTHER CONSTRUCTION COMMITMENTS

At June 30, 2018, the Commonwealth had commitments of approximately \$537 million related to ongoing construction projects.

D. CONTRACTUAL ASSISTANCE TO AUTHORITIES

The Commonwealth is also authorized to pledge its credit in aid of and provide contractual support for certain independent authorities and political subdivisions within the Commonwealth. These Commonwealth liabilities are classified as: (a) general obligation contract assistance; (b) budgetary contractual assistance liabilities; or (c) contingent liabilities. In addition, the Commonwealth is authorized to pledge its credit in support of scheduled, periodic payments to be made by the Commonwealth under interest rate swaps and other hedging agreements related to bonds or notes of the Commonwealth.

General obligation contract assistance obligations arise from statutory requirements for payments by the Commonwealth to the Massachusetts Clean Water Trust, the Massachusetts Department of Transportation and the Massachusetts Development Finance Agency that are used by such entities to pay a portion of the debt service on certain of their outstanding bonds. Such assistance constitutes a pledge of the Commonwealth's credit for which a two-thirds vote of the Legislature is required.

Budgetary contract assistance liabilities do not constitute a pledge of the Commonwealth's credit. Contingent liabilities relate to debt obligations of independent authorities and agencies of the Commonwealth, or payment obligations of such entities on hedging transactions related to such debt, that are expected to be paid without Commonwealth assistance, but for which the Commonwealth has some kind of liability if expected payment sources do not materialize. These contingent liabilities consist of guarantees and similar obligations with respect to which the Commonwealth's credit has been or may be pledged. Under legislation approved by the Governor during FY09, the Commonwealth may pledge its credit to guarantee payment obligations of the Massachusetts Turnpike Authority (succeeded by MassDOT in FY10) with respect to certain hedging transactions or provide financial support subject to annual appropriation and without a pledge of the Commonwealth's credit. The same legislation authorizes the Commonwealth to provide credit support to the Turnpike Authority (succeeded by MassDOT) in connection with the issuance of certain refunding bonds, subject to annual appropriation and without a pledge of the Commonwealth's credit. In addition, the Commonwealth has certain statutorily contemplated payment obligations with respect to which the Commonwealth's credit has not been pledged, as in the case of the Commonwealth's obligation to replenish the capital reserve funds securing certain debt obligations of the Massachusetts Housing Finance Agency and the Commonwealth's obligation to fund debt service, solely from monies otherwise appropriated for the affected institution, owed by certain community colleges and state universities on bonds issued by the Massachusetts Health and Educational Facilities Authority and the Massachusetts State College Building Authority.

E. MSBA

The MSBA has estimated the amount of outstanding Waiting commitments and New Program commitments at June 30, 2018 to be \$1 million and \$1.5 billion, respectively.

F. SOCIAL IMPACT BONDS

In January 2014, the Commonwealth entered into a "pay for success contract" ("Social Impact Bonds") with a nonprofit intermediary organization and a nonprofit social service agency to reduce the recidivism rate of young men in the juvenile justice system or on probation. The Commonwealth is obligated to make success payments totaling \$28 million through calendar year 2019 and the Commonwealth's obligation to make such payments is a general obligation for which the Commonwealth's full faith and credit are pledged. Payments are only made based upon successful achievement of specified outcomes based on defined performance targets contained in the contract. The Commonwealth entered into a second such contract in December 2014 to address chronic individual homelessness. The contract obligates the Commonwealth to make up to \$6 million in success payments, in the aggregate, through fiscal 2021. In June, 2016 the Commonwealth entered into a third contract to assist individuals in Adult Basic Education (ABE) or English for Speakers of Other Languages (ESOL) programs to transition to employment, higher wage jobs, and higher education. The contract obligates the Commonwealth to make up to \$15 million in success payments, in the aggregate, through fiscal 2023. The total amount of payments backed by the full faith and credit of the Commonwealth under such contracts may not exceed, in the aggregate, \$50 million. As the amount required to be paid as of June 30, 2018

cannot be determined until performance targets have been achieved as determined by independent evaluators, no liability has been accrued in these financial statements for these contracts.

G. PENSIONS

The Massachusetts State Employees' Retirement System (MSERS) and the Massachusetts Teachers' Retirement System (MTRS) (collectively referred to as the Retirement Systems), in conjunction with the Commonwealth, are evaluating whether certain of the statutes or practices governing the systems may have been in conflict with the exclusive benefit rule of Section 401(a)(2) of the Internal Revenue Code or other federal tax law requirements relating to operation of tax-exempt pension plans.

The activities being reviewed include (i) the statutorily directed funding of the budget for the Public Employees' Retirement Administration Commission (PERAC) solely from the investment income accounts of MSERS and MTRS, (ii) the statutorily directed contributions made from the MSERS account in the PRIT Fund to a separate optional retirement plan available to certain employees of the Commonwealth's higher education system, (iii) the statutorily mandated reimbursements paid by the MSERS to local retirement systems for local cost-of-living allowances for certain participants of those systems, (iv) the deposit of reimbursement revenues received from local retirement systems to the Commonwealth's General Fund rather than to the MTRS and MSERS accounts in the PRIT Fund, and (v) the deposit of federal grant fringe payments to the General Fund rather than to the MTRS and MSERS accounts in the PRIT Fund.

The Commonwealth, PERAC, MSERS and the MTRS have each engaged outside tax counsel to review these activities.

On March 28, 2017, the Governor approved legislation to address prospectively certain aspects of the issues described above. Additional corrective legislation was approved as part of the Commonwealth's General Appropriations Act for fiscal 2018, approved on July 17, 2017. The Executive Office for Administration and Finance and the MSERS and MTRS have submitted to the Internal Revenue Service for its consideration a request for a closing agreement which describes the activities listed above, explains the corrective actions already taken by legislation, and requests an affirmation that these activities do not adversely affect the tax qualification of the MSERS and MTRS in light of the corrections already made.

14. COMPONENT UNITS AND DETAILS OF DEPARTMENTS AND ENTITIES THAT ARE SEPARATELY AUDITED

The Commonwealth has also considered all potential component units for which it is financially accountable as well as other organizations for which the nature and significance of their relationship with the Commonwealth is such that exclusion would cause the Commonwealth's financial statements to be misleading or incomplete. As required by GAAP, these financial statements present the Commonwealth of Massachusetts (the primary government) and its component units. The Commonwealth has included 40 entities as component units in the reporting entity because of the significance of their operational and/or financial relationships with the Commonwealth. Details of those entities' operations can be found in those entities' basic financial statements and notes to those entities' basic financial statements.

The following entities are presented in the basic financial statements (all having a June 30, 2018 fiscal year end) (entities marked with an * are not legally separate from the Commonwealth but have separately audited financial statements). Entities that are marked with a § also were not audited in accordance with *Governmental Auditing Standards* as promulgated by the Comptroller General of the United States.

Entities Audited by KPMG LLP:

The Pension Reserves Investment Trust Fund (PRIT)

*The Massachusetts State Lottery Commission

The Massachusetts Department of Transportation (MassDOT)

The Massachusetts Clean Water Trust

Commonwealth Health Insurance Connector Authority

*§The Massachusetts Municipal Depository Trust (MMDT)

Entities Audited by Other Auditors:

The Massachusetts School Building Authority (MSBA)

*The University of Massachusetts System

*State Universities:

Bridgewater State University
 Fitchburg State University
 Framingham State University
 Massachusetts College of Art
 Massachusetts Maritime Academy
 Massachusetts College of Liberal Arts
 Salem State University
 Westfield State University
 Worcester State University
 The Massachusetts State College Building Authority

*Community Colleges:

Berkshire Community College
 Bristol Community College
 Bunker Hill Community College
 Cape Cod Community College
 Greenfield Community College
 Holyoke Community College
 Massasoit Community College
 Massachusetts Bay Community College
 Middlesex Community College
 Mount Wachusett Community College
 Northern Essex Community College
 North Shore Community College
 Quinsigamond Community College
 Roxbury Community College
 Springfield Technical Community College

Nonmajor Discretely Presented Component Units:

Massachusetts Convention Center Authority (MCCA)
 Massachusetts Development Finance Agency (MassDevelopment)
 §Massachusetts Technology Park Corporation (MTPC)
 Massachusetts Clean Energy Center (CEC)
 Massachusetts Housing Partnership (MHP)

Economic Development Entities (5 separate entities):

Massachusetts Growth Capital Corporation (MGCC)
 Commonwealth Corporation
 Community Economic Development Assistance Corporation (CEDAC)
 §Massachusetts Life Sciences Center
 Commonwealth Zoological Corporation (Zoo)

Higher Education Foundations (25 separate entities):

The University of Massachusetts System Foundation

Bridgewater State University Foundation:

The Bridgewater State University Foundation
 The Bridgewater Alumni Association of Bridgewater State University
 Fitchburg State University Foundation, Inc.
 Framingham State University Foundation, Inc.
 Massachusetts College of Art Foundation, Inc.

Massachusetts College of Liberal Arts Foundation, Inc.
 The Massachusetts Maritime Academy Foundation, Inc.
 Salem State University Foundation:
 The Salem State University Foundation, Inc.
 Salem State University Assistance Corporation
 Westfield State University Foundation, Inc.
 Worcester State Foundation

Berkshire Community College Foundation
 Bristol Community College Foundation
 Bunker Hill Community College Foundation
 Cape Cod Community College Educational Foundation, Inc.
 Greenfield Community College Foundation, Inc.
 Holyoke Community College Foundation
 Massachusetts Bay Community College Foundation, Inc.
 Massasoit Community College Foundation
 Middlesex Community College Foundation, Inc.
 North Shore Community College Foundation
 Springfield Technical Community College Foundation
 The Mount Wachusett Community College Foundation, Inc.
 The Northern Essex Community College Foundation, Inc.
 The Quinsigamond Community College Foundation, Inc.
 The Roxbury Community College Foundation, Inc.

In 2018, the Commonwealth made certain adjustments to the amounts reported in the separately issued financial statements of the State Universities and Community Colleges that are audited by other auditors to correct the net OPEB liability and related deferred outflows of resources, deferred inflows of resources, and OPEB expense (OPEB amounts). The following table is a reconciliation of the OPEB amounts included in the separately issued financial statements of the State Universities and Community Colleges to the amounts reported herein for the State Universities and Community Colleges major funds (amounts in thousands):

	As previously reported in separately issued financial statements	Correction	As reported herein
State Universities:			
Deferred outflows of resources related to OPEB	\$ 64,470	\$ (7,151)	\$ 57,319
Net OPEB liability	409,860	(47,472)	362,388
Deferred inflows of resources related to OPEB	54,555	(12,015)	42,540
Total operating expenses	1,090,040	(1,231)	1,088,809
Beginning net position, as restated	546,953	51,105	598,058
Ending net position	526,045	52,336	578,381
Community Colleges:			
Deferred outflows of resources related to OPEB	27,361	(2,871)	24,490
Net OPEB liability	239,885	(27,784)	212,101
Deferred inflows of resources related to OPEB	35,813	(7,545)	28,268
Total operating expenses	879,404	(338)	879,066
Beginning net position, as restated	393,136	32,120	425,256
Ending net position	474,182	32,458	506,640

15. SUBSEQUENT EVENTS

SUBSEQUENT BOND ISSUANCES

On August 1, 2018, the Commonwealth issued approximately \$8 million in GO Bonds, Consolidated Loan of 2018 Series A (College Opportunity Bonds). These bonds carry an interest rate of 0.50%. The first principal payment is due on August 1, 2023 with final maturity on August 1, 2038.

On August 1, 2018, the MSBA issued \$200 million of Subordinated Dedicated Sales Tax Bonds (2018 Series B Bonds). The Bonds mature at various dates through February 2048 and interest is due semi-annually each February 15th and August 15th. The interest rate on the bonds ranges from 4% to 5.25%.

On August 28, 2018, the Commonwealth issued \$1.5 billion in GO Revenue Anticipation Notes (RANS) in three \$500 million notes: 2018 Series A, 2018 Series B and 2018 Series C. These notes carry an interest rate of 4.0% and mature on April 25, 2019, May 23, 2019 and June 20, 2019, respectively.

On September 5, 2018, the Commonwealth issued \$500 million in GO Bonds 2018 Series E. These notes carry interest rates from 2.0% to 5.25% with the first principal payment due on September 1, 2022 and final maturity on September 1, 2048.

On September 5, 2018, the Commonwealth issued approximately \$227 million in GO Refunding Bonds 2018, Series C. These bonds were issued to refund approximately \$265 million of various GO Bonds and carries interest rates of 4.0% to 5.0% with final maturity on September 1, 2032. The refunding resulted in reduced debt service of approximately \$54 million and a present value savings of approximately \$45 million over the life of the bonds.

On January 17, 2019, the Commonwealth issued \$550 million in GO Bonds, Consolidated Loan of 2019 Series A. These bonds carry interests ranging from 3.375% to 5.25% with the first principal payment due on January 1, 2030 and final maturity on January 1, 2049.

On January 17, 2019, the Commonwealth issued \$50 million in federally taxable GO Bonds, Consolidated Loan of 2019 Series B. These bonds carry interests ranging from 3.125% to 3.48% with the first principal payment due on January 1, 2025 and final maturity on January 1, 2029.

On January 17, 2019, the Commonwealth issued approximately \$318 million in GO Refunding Bonds 2019, Series A. These bonds were executed as current refundings to convert the 2015 Series C, 2017 Series A and 2006 Series B variable rate bonds to fixed rate bonds that carry a fixed rate of 5.0%, with final maturity on January 1, 2027. The Commonwealth expects to terminate the Wells Fargo swap hedged by these bonds in the near term.

All debt issues were sold as tax exempt, except as noted.

Required Supplementary Information Other Than Management Discussion and Analysis

(Unaudited)

*Schedule of Revenue, Expenditures and Changes in Fund Balances – Statutory Basis – Budget and Actual –
General Fund*
*Explanation of Differences Between Revenues, Expenditures and Other Financing Sources/(Uses) for the
General Fund on a Budgetary Basis and GAAP Basis*
Notes to Required Supplementary Information – Budgetary Reporting
Required OPEB and Pension Schedules

Schedule of Revenues, Expenditures and Changes In Fund Balances - Statutory Basis - Budget and Actual

General Fund

Fiscal Year Ended June 30, 2018

(Amounts in thousands)

	Original Budget	Final Budget	Actual	Variance
REVENUES AND OTHER FINANCING SOURCES				
Revenues:				
Taxes	\$ 23,561,400	\$ 23,561,400	\$ 24,573,885	\$ 1,012,485
Assessments	440,561	440,561	417,483	(23,078)
Federal grants and reimbursements	11,279,923	11,279,923	11,369,508	89,585
Tobacco settlement revenue	257,500	257,500	243,313	(14,187)
Departmental	2,968,873	2,968,795	3,377,036	408,241
Miscellaneous	294,821	294,821	423,468	128,647
Total revenues	38,803,078	38,803,000	40,404,693	1,601,693
Other financing sources:				
Fringe benefit cost recovery	435,041	435,041	434,924	(117)
Lottery reimbursements	90,888	90,888	103,136	12,248
Lottery distributions	994,754	994,754	983,108	(11,646)
Operating transfers in	246,222	246,222	203,427	(42,795)
Stabilization transfer	—	85,341	736,645	651,304
Total other financing sources	1,766,905	1,852,246	2,461,240	608,994
Total revenues and other financing sources	40,569,983	40,655,246	42,865,933	2,210,687
EXPENDITURES AND OTHER FINANCING USES				
Expenditures:				
Legislature	103,532	103,532	67,850	35,682
Judiciary	929,008	929,008	919,016	9,992
Inspector General	4,371	4,371	4,370	1
Governor and Lieutenant Governor	7,601	7,602	6,574	1,028
Secretary of the Commonwealth	43,086	43,086	39,339	3,747
Treasurer and Receiver-General	219,374	219,374	209,460	9,914
Auditor of the Commonwealth	18,723	18,723	18,610	113
Attorney General	49,247	49,247	47,989	1,258
Ethics Commission	2,094	2,094	2,042	52
District Attorney	119,703	119,703	119,206	497
Office of Campaign & Political Finance	1,618	1,618	1,594	24
Sheriff's Departments	621,920	621,920	620,299	1,621
Disabled Persons Protection Commission	3,131	3,131	3,131	—
Board of Library Commissioners	25,453	25,453	25,443	10
Comptroller	14,405	14,405	13,876	529
Administration and finance	2,641,279	2,641,280	2,305,797	335,483
Energy and environmental affairs	225,314	225,314	215,194	10,120
Health and human services	6,357,425	6,222,399	6,024,756	197,643
Executive Office of Technology Services and Security	151,555	151,555	73,456	78,099
Office of the Child Advocate	800	800	706	94
Cannabis Control Commission	6,999	6,999	2,241	4,758
Executive Office of education	2,351,178	2,351,178	2,289,929	61,249
Center for Health Information and Analysis	32,043	32,043	21,452	10,591
Public safety and homeland security	1,224,441	1,224,441	1,164,731	59,710
Housing and economic development	553,579	553,578	533,168	20,410
Labor and workforce development	60,670	60,670	46,785	13,885
Direct local aid	5,826,090	5,826,090	5,821,177	4,913
Medicaid	15,609,522	15,744,548	15,744,534	14
Post employment benefits	2,826,904	2,826,904	2,846,432	(19,528)
Debt service:				
Principal retirement	671,948	671,948	658,689	13,259
Interest and fiscal charges	535,401	535,401	525,435	9,966
Total expenditures	41,238,414	41,238,415	40,373,281	865,134
Other financing uses:				
Operating transfers out	270,326	270,326	319,423	(49,097)
State Retiree Benefits transfer	—	—	25,695	(25,695)
State Pension transfer	—	—	25,695	(25,695)
Medical assistance transfer	747,100	747,100	579,944	167,156
Stabilization transfer	—	51,500	589,663	(538,163)
Total other financing uses	1,017,426	1,068,926	1,540,420	(471,494)
Total expenditures and other financing uses	42,255,840	42,307,341	41,913,701	393,640
Excess/(deficiency) of revenues and other financing sources over expenditures and other financing uses	\$ (1,685,857)	\$ (1,652,095)	952,232	\$ 2,604,327
Fund balances/(deficits) at beginning of year			1,398,994	
Fund balances/(deficits) at end of year			<u>\$ 2,351,226</u>	

See Independent Auditors' Report and notes to required supplementary information.

**Explanation of Differences between Revenues, Expenditures and Other Financing Sources/(Uses)
for the General Fund on a Budgetary Basis and GAAP Basis (in thousands):**

REVENUES

Actual amounts (budgetary basis) "revenues" from the budgetary comparison schedules.....	\$ 40,404,693
Adjustments for amounts budgeted for on a cash basis, rather than on the modified accrual basis:	
Tax receivable, net.....	323,910
Tax refunds and abatements payable, net.....	(270,278)
Federal reimbursements and other receivables	104,180
Reclassifications:	
Higher education revenue is reclassified for GAAP reporting.....	(162,663)
Inflows from component units and other miscellaneous financing sources.....	79,194
Certain revenue is reclassified to fiduciary funds for GAAP reporting	(10,427)
Total revenues as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	<u>\$ 40,468,609</u>

OTHER FINANCING SOURCES

Actual amounts (budgetary basis) "other financing sources" from the budgetary comparison schedule	\$ 2,461,240
Adjustments:	
Proceeds of capital lease on GAAP basis.....	228
Consolidation of transfers between funds	(730,611)
Inflows from component units and other miscellaneous financing sources.....	(79,178)
Total other financing sources as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds.....	<u>\$ 1,651,679</u>

EXPENDITURES

Actual amounts (budgetary basis) "expenditures" from the budgetary comparison schedule	\$ 40,373,281
Adjustments for amounts budgeted for on a cash basis, rather than on the modified accrual basis:	
Medicaid payments.....	(31,500)
Compensated absences and other accrued liabilities.....	3,258
Reclassifications:	
Capital lease additions are additions to expenditures for GAAP purposes on a fund perspective.....	228
Budgetary debt service are reclassified to transfers out to a debt service fund for GAAP purposes as the Commonwealth does not have a statutory debt service fund.....	(1,184,124)
Higher education expenditures are reclassified for GAAP reporting.....	(1,312,948)
Expenditures to component units reported on a GAAP basis	(39,478)
Certain expenditures are reclassified to fiduciary funds for GAAP reporting	(10,427)
Total expenditures as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds.....	<u>\$ 37,798,290</u>

OTHER FINANCING USES

Actual amounts (budgetary basis) "other financing uses" from the budgetary comparison schedule	\$ 1,540,420
Adjustments and Reclassifications:	
Consolidation of transfers between funds	(730,611)
Budgetary higher education amounts are reclassified to transfers under the modified accrual basis.....	1,150,285
Budgetary debt service are reclassified to transfers out to a debt service fund for GAAP purposes as the Commonwealth does not have a statutory debt service fund.....	1,184,124
Total other financing uses as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds.....	<u>\$ 3,144,218</u>

See Independent Auditors' Report and notes to required supplementary information.

Note to Required Supplementary Information – Budgetary Reporting

The Commonwealth passes a combined budget for all budgeted operations. State finance law requires that a balanced budget be approved by the Governor and the Legislature. The Governor presents an annual budget to the Legislature, which includes estimates of revenues and other financing sources and recommended expenditures and other financing uses. The Legislature, which has full authority to amend the budget, adopts an expenditure budget by appropriating monies at the individual appropriation account level in an annual appropriations act. Generally, expenditures may not exceed the level of spending authorized for an appropriation account.

Before signing the appropriations act, the Governor may veto or reduce any specific item, subject to legislative override. Further changes to the budget established in the annual appropriations act may be made via supplemental appropriation acts or other legislative acts. These must also be signed by the Governor and are subject to the line item veto.

In addition, Massachusetts General Laws authorize the Secretary of Administration and Finance, with the approval of the Governor, upon determination that available revenues will be insufficient to meet authorized expenditures, to withhold allotments of appropriated funds which effectively reduce the account's expenditure budget. The majority of the Commonwealth's appropriations are non-continuing accounts which lapse at the end of each fiscal year. Others are continuing accounts for which the Legislature has authorized that an unspent balance from the prior year be carried forward and made available for spending in the current fiscal year. In addition, the Legislature may direct that certain revenues be retained and made available for spending within an appropriation. Fringe benefits, pension costs, and certain other costs which are mandated by state finance law are not itemized in the appropriation process and are not separately budgeted.

Because revenue budgets are not updated subsequent to the original appropriation act, the comparison of the initial revenue budget to the subsequent, and often modified, expenditure budget can be misleading. Also, these financial statements portray fund accounting with gross inflows and outflows, thus creating a difference to separately published budget documents, which eliminate some interfund activity. In conducting the budget process, the Commonwealth excludes those interfund transactions that by their nature have no impact on the combined fund balance of the budgeted funds.

The FY04 General Appropriation Act (Chapter 26, Section 167 of the Acts of 2003), amended section 9C, directing the Governor to notify the Legislature in writing as to the reasons for and the effect of any reductions in spending. Alternatively, the Governor may propose specific additional revenues to fund the deficiency. The Governor may also propose to transfer funds from the Stabilization Fund to cure the deficiency. This proposal must be delivered to the Legislature 15 days before any reductions take effect.

The following table summarizes budgetary activity for FY18 (amounts in thousands):

	Revenues	Expenditures
General Appropriation Act, Chapter 47 of the Acts of 2017:		
Direct appropriations.....	\$ 40,293,200	\$ 39,585,757
Estimated revenues, transfers, retained revenue appropriations, and appropriations carried forward from FY2017.....	—	1,291,699
Total original budget	40,293,200	40,877,456
Supplemental Acts of 2017:		
Chapter 110	—	297,776
Chapter 142	—	2,700
Supplemental Acts of 2018:		
Chapter 24	—	17,214
Chapter 90	—	146,025
Chapter 273	—	483,433
Total budgeted revenues and expenditures per Legislative action	—	947,148
Plus: Pension contributions and revenue authorized outside of General Appropriation Act, and other transfers of revenue and spending	2,486,034	2,518,023
Budgeted revenues and expenditures as reported.....	<u>\$ 42,779,234</u>	<u>\$ 44,342,627</u>

As the budget is not passed taking into account the structure of funds, but of appropriations, reports contained within the Commonwealth's MMARS accounting system demonstrate budgetary compliance by appropriation. Those reports are available upon request at the Office of the State Comptroller, Statewide Financial Reporting and Analysis Team, at (617) 973-2660.

Schedule of Changes in the State Employees' Retirement System (SERS) Net Pension Liability and Related Ratios

(Amounts in thousands, except for percentages)

	2018	2017	2016	2015	2014
Total pension liability, July 1.....	\$ 39,107,000	\$ 37,760,000	\$ 35,425,414	\$ 31,355,000	\$ 29,988,000
Service cost.....	856,200	855,440	813,975	700,012	631,634
Interest.....	2,852,239	2,813,374	2,638,929	2,411,551	2,405,204
Change in benefit terms.....	—	10,000	400,000	230,302	—
Differences between expected and actual experience.....	102,008	(428,232)	589,009	275,000	—
Changes of assumptions.....	622,000	304,000	—	2,330,000	102,000
Benefit payments, including refunds of member contributions.....	(2,314,447)	(2,207,582)	(2,107,327)	(1,876,451)	(1,771,838)
Net change in total pension liability.....	2,118,000	1,347,000	2,334,586	4,070,414	1,367,000
Total pension liability, June 30 (a).....	<u>\$ 41,225,000</u>	<u>\$ 39,107,000</u>	<u>\$ 37,760,000</u>	<u>\$ 35,425,414</u>	<u>\$ 31,355,000</u>
Plan fiduciary net position, July 1.....	\$ 26,282,232	\$ 23,971,156	\$ 24,042,585	\$ 23,930,895	\$ 21,084,958
Contributions:					
Employers - Commonwealth and MassDOT.....	840,990	716,266	660,818	601,931	550,483
Non-employer contributions - Commonwealth.....	35,184	28,455	21,830	18,040	21,293
Employer and non-employer contributions - other.....	9,564	7,999	16,642	15,808	6,048
ERIP funding contribution - Commonwealth.....	28,724	29,093	29,093	—	—
Plan members.....	600,705	604,772	591,948	549,493	501,106
Other additions.....	118,124	232,548	397,077	92,503	68,967
Total contributions.....	1,633,291	1,619,133	1,717,408	1,277,775	1,147,897
Net investment income.....	2,460,748	2,987,632	422,938	800,886	3,551,012
Benefit payments, including refunds of plan member contributions.....	(2,314,447)	(2,207,582)	(2,107,327)	(1,876,451)	(1,771,838)
Administrative expense.....	(16,369)	(30,030)	(20,624)	(15,966)	(12,705)
Other changes.....	(50,434)	(58,077)	(83,824)	(74,554)	(68,429)
Net change in plan fiduciary net position.....	1,712,789	2,311,076	(71,429)	111,690	2,845,937
Plan fiduciary net position, June 30 (b).....	<u>\$ 27,995,021</u>	<u>\$ 26,282,232</u>	<u>\$ 23,971,156</u>	<u>\$ 24,042,585</u>	<u>\$ 23,930,895</u>
Plan net pension liability - June 30 (a) - (b).....	<u>\$ 13,229,979</u>	<u>\$ 12,824,768</u>	<u>\$ 13,788,844</u>	<u>\$ 11,382,829</u>	<u>\$ 7,424,105</u>
Plan fiduciary net position as a percentage of the total pension liability.....	67.9%	67.2%	63.5%	67.9%	76.3%
Covered payroll (as of the actuarial valuation date).....	\$ 6,155,194	\$ 5,927,012	\$ 5,792,288	\$ 5,591,911	\$ 5,344,510
Net pension liability as a percentage of covered employee payroll.....	214.9%	216.4%	238.1%	203.6%	138.9%

Note: This schedule is intended to present 10 years of data. Additional years will be presented when available.

See Independent Auditors' Report and notes to the schedule

FY2018 Changes in Actuarial Assumptions

Changes of Assumptions:

Change in the investment rate of return

SERS changed its discount rate to 7.35% from 7.50%. This change resulted in an increase to the total pension liability of approximately \$613 million.

Change in mortality

The following mortality assumption changes were made in the January 1, 2018 Actuarial Valuation:

- Disabled members - would reflect the same assumptions as for superannuation retirees, but with an age set forward of one year.

This change resulted in an increase to the total pension liability of approximately \$9 million.

FY2017 Changes in Actuarial Assumptions

Changes of Benefit Terms:

Chapter 79 of the Acts 2014 established an early retirement incentive (ERI) program for certain employees of the highway division of the Massachusetts Department of Transportation whose positions have been eliminated due to automation of toll collections. Most members retiring under the ERI program had a date retirement of October 28, 2016. 112 members took the ERI and retired during FY2017. As a result, the total pension liability of SERS increased by approximately \$10 million.

Changes of Assumptions:

Change in mortality

The following mortality assumption changes were made in the January 1, 2017 Actuarial Valuation:

- Pre-retirement - was changed to RP-2014 Blue Collar Employees table projected generationally with Scale MP-2016 set forward 1 year for females from RP-2000 Employees table projected generationally with Scale BB and a base year of 2009 (gender distinct).
- Post-retirement - was changed to RP-2014 Blue Collar Healthy Annuitant table projected generationally with Scale MP-2016 set forward 1 year for females from RP-2000 Healthy Annuitant table projected generationally with Scale BB and a base year of 2009 (gender distinct).
- Disabled members - is assumed to be in accordance with the RP-2000 Healthy Annuitant Table projected generationally with Scale BB and a base year of 2015 (gender distinct), and is unchanged from the prior valuation.

These changes resulted in an increase to the total pension of approximately \$304 million.

FY2016 Changes in Actuarial Assumptions

Changes in Benefit Terms:

Chapter 176 of the Acts of 2011 created a one time election for eligible members of the Optional Retirement Plan (ORP) to transfer to the State Employee's Retirement System (SERS) and purchase service for the period while members of the ORP. As a result, the total pension liability of SERS has increased by approximately \$400 million.

(Continued)

FY2015 Changes in Actuarial Assumptions

Changes in Benefit Terms:

In May 2015, Chapter 19 of the Acts of 2015 created an Early Retirement Incentive (ERI) for certain members of SERS who upon election of the ERI retired effective June 30, 2015. As a result, the total pension liability has increased by approximately \$230 million.

Changes of Assumptions:

Change in the investment rate of return

The Commonwealth revised its discount rate to 7.50% from 7.75%. This change resulted in an increase to the total pension liability of approximately \$933 million.

Change in mortality

The following mortality assumption changes were made in the January 1, 2015 Actuarial Valuation:

- Pre-retirement - was changed to RP-2000 Employees table projected generationally with Scale BB and a base year of 2009 (gender distinct) from RP-2000 Employees table projected 22 years with Scale AA.
- Post-retirement - was changed to RP-2000 Healthy Annuitant table projected generationally with Scale BB and a base year of 2009 (gender distinct) from RP-2000 Healthy Annuitant table projected 17 years with Scale AA.
- Disabled members - was changed to be assumed to be in accordance with RP-2000 Healthy Annuitant table projected generationally with Scale BB and a base year of 2015 (gender distinct) from RP-2000 Healthy Annuitant table projected 7 years with Scale AA set forward 3 years for males.

These changes resulted in an increase to the total pension liability of approximately \$1.397 billion.

FY2014 Changes in Actuarial Assumptions

Changes of Assumptions:

Change in Experience

An updated experience study was issued on February 27, 2014 and encompassed the period January 1, 2006 to December 31, 2011. The study reviewed salary increases and rates of retirement, disability, turnover, and mortality. This study adjusted the mortality assumption which resulted in an increase to the total pension liability of approximately \$102 million.

See Independent Auditors' Report

Schedule of Changes in the Massachusetts Teachers' Retirement System (MTRS) Net Pension Liability and Related Ratios

(Amounts in thousands, except for percentages)

	2018	2017	2016	2015	2014
Total pension liability, July 1.....	\$ 50,024,000	\$ 47,300,000	\$ 45,918,711	\$ 41,435,000	\$ 39,931,000
Service cost.....	901,234	891,760	843,800	768,032	720,712
Interest.....	3,633,027	3,505,761	3,402,525	3,166,728	3,227,025
Differences between expected and actual experience.....	92,317	47,046	(74,025)	153,000	—
Changes of assumptions.....	845,000	1,176,000	—	3,080,000	108,000
Benefit payments, including refunds of member contributions.....	(2,992,578)	(2,896,567)	(2,791,011)	(2,684,049)	(2,551,737)
Net change in total pension liability.....	2,479,000	2,724,000	1,381,289	4,483,711	1,504,000
Total pension liability, June 30 (a).....	<u>\$ 52,503,000</u>	<u>\$ 50,024,000</u>	<u>\$ 47,300,000</u>	<u>\$ 45,918,711</u>	<u>\$ 41,435,000</u>
Plan fiduciary net position, July 1.....	\$ 27,138,609	\$ 24,942,072	\$ 25,429,068	\$ 25,538,646	\$ 22,697,302
Contributions:					
Non-employer.....	1,314,783	1,235,515	1,124,583	1,021,930	937,379
Plan members.....	755,688	730,212	699,422	669,941	653,328
Other additions.....	231,734	223,746	202,796	190,925	150,522
Total contributions.....	2,302,205	2,189,473	2,026,801	1,882,796	1,741,229
Net investment income.....	2,542,576	3,100,352	441,363	845,503	3,771,883
Benefit payments, including refunds of plan member contributions....	(2,992,578)	(2,896,567)	(2,791,011)	(2,684,049)	(2,551,737)
Administrative expense.....	(19,528)	(24,053)	(24,220)	(23,444)	(20,499)
Other changes.....	(179,573)	(172,668)	(139,929)	(130,384)	(99,532)
Net change in plan fiduciary net position.....	1,653,102	2,196,537	(486,996)	(109,578)	2,841,344
Plan fiduciary net position, June 30 (b).....	<u>\$ 28,791,711</u>	<u>\$ 27,138,609</u>	<u>\$ 24,942,072</u>	<u>\$ 25,429,068</u>	<u>\$ 25,538,646</u>
Plan net pension liability - June 30 (a) - (b).....	<u>\$ 23,711,289</u>	<u>\$ 22,885,391</u>	<u>\$ 22,357,928</u>	<u>\$ 20,489,643</u>	<u>\$ 15,896,354</u>
Plan fiduciary net position as a percentage of the total pension liability.....	54.8%	54.3%	52.7%	55.4%	61.6%
Covered payroll (as of actuarial valuation date).....	\$ 6,829,012	\$ 6,583,871	\$ 6,388,732	\$ 6,204,274	\$ 5,962,650
Net pension liability as a percentage of covered employee payroll.....	347.2%	347.6%	350.0%	330.3%	266.6%

Note: This schedule is intended to present 10 years of data. Additional years will be presented when available.

See Independent Auditors' Report and notes to the schedule

FY2018 Changes in Actuarial Assumptions

Changes of Assumptions:

Change in the investment rate of return

The Commonwealth revised its discount rate to 7.35% from 7.50%. This change resulted in an increase to the total pension liability of approximately \$845 million.

FY2017 Changes in Actuarial Assumptions

Changes of Assumptions:

Change in mortality

The following mortality assumption changes were made in the January 1, 2017 Actuarial Valuation:

- Pre-retirement - was changed to RP-2014 White Collar Employees table projected generationally with Scale MP-2016 (gender distinct) from RP-2014 Employees table projected generationally with Scale BB).
- Post-retirement - was changed to RP-2014 White Collar Healthy Annuitant table projected generationally with Scale MP-2016 (gender distinct) from RP-2014 Healthy Annuitant table projected generationally with Scale BB).
- Disabled members - is assumed to be in accordance with RP-2014 Healthy Annuitant table projected generationally with Scale BB and a base year of 2014 set forward 4 years and is unchanged from the prior valuation.

These changes resulted in an increase to the total pension liability of approximately \$1.176 billion.

FY2015 Changes in Actuarial Assumptions

Changes of assumptions:

Change in the investment rate of return

The Commonwealth revised its discount rate to 7.50% from 7.75%. This change resulted in an increase to the total pension liability of approximately \$1.190 billion.

Change in mortality

The following mortality assumption changes were made in the January 1, 2015 Actuarial Valuation:

- Pre-retirement - was changed to RP-2014 Employees table projected generationally with Scale BB and a base year of 2014 (gender distinct) from RP-2000 Employees table adjusted for "white-collar" employment projected 22 years with Scale AA.
- Post-retirement - was changed to RP-2014 Healthy Annuitant table projected generationally with Scale BB and a base year of 2014 (gender distinct) from RP-2000 Healthy Annuitant table adjusted for large annuity amounts and projected 17 years with Scale AA.
- Disabled members - was changed to be assumed to be in accordance with RP-2014 Healthy Annuitant table projected generationally with Scale BB and a base year of 2014 set forward 4 years from RP-2000 Healthy Annuitant table adjusted for large annuity amounts and projected 7 years with Scale AA set forward 3 years for males.

These changes resulted in an increase to the total pension liability of approximately \$1.890 billion.

(Continued)

FY2014 Changes in Actuarial Assumptions

Changes of Assumptions:

Change in Experience

An updated experience study was issued on February 27, 2014 and encompassed the period January 1, 2006 to December 31, 2011. The study reviewed salary increases and rates of retirement, disability, turnover, and mortality. This study adjusted the mortality assumption which resulted in an increase to the total pension liability of approximately \$108 million.

See Independent Auditors' Report

**Schedule of Changes in the State Retirees' Benefit Trust (SRBT)
Net OPEB Liability and Related Ratios**

(Amounts in thousands, except for percentages)

	2018	2017
Total OPEB liability, July 1	\$ 18,480,936	\$ 19,821,600
Service cost	792,100	950,800
Interest	691,600	591,900
Differences between expected and actual experience	218,900	(48,600)
Changes of assumptions	(3,643,000)	(2,393,700)
Benefit payments, including refunds of member contributions	(443,763)	(441,064)
Net change in total pension liability	(2,384,163)	(1,340,664)
Total OPEB liability, June 30 (a)	<u>\$ 16,096,773</u>	<u>\$ 18,480,936</u>
Plan fiduciary net position, July 1	\$ 996,407	\$ 866,043
Contributions:		
Employer	542,896	465,449
Other additions	133	784
Total contributions	543,029	466,233
Net investment income	93,308	105,822
Benefit payments, including refunds of plan member contributions	(443,763)	(441,064)
Administrative expense	(150)	(127)
Other changes	(1,262)	(500)
Net change in plan fiduciary net position	191,162	130,364
Plan fiduciary net position, June 30 (b)	<u>\$ 1,187,569</u>	<u>\$ 996,407</u>
Plan net OPEB liability - June 30 (a) - (b)	<u>\$ 14,909,204</u>	<u>\$ 17,484,529</u>
Plan fiduciary net position as a percentage of the total OPEB liability	7.4%	5.4%
Covered payroll (as of actuarial valuation date)	\$ 6,155,194	\$ 5,927,012
Net OPEB liability as a percentage of covered employee payroll	242.2%	295.0%

Note: This schedule is intended to present 10 years of data. Additional years will be presented when available.

See Independent Auditors' Report and notes to the schedule

FY2018 Changes in Actuarial Assumptions

Changes of Assumptions:

Change in base OPEB rates for medical and prescriptions

Annually, a recalibration of the underlying healthcare costs is performed using healthcare cost experience from the GIC and developing new per person annual costs under the different health plan options. The expectation is that the new rates will be equal to the prior year rates plus one year of healthcare trend (medical inflation).

This resulted in a decrease to the total OPEB liability of approximately \$2.679 billion.

Change in trend on future costs

The healthcare trend rate decreased from 8.5% in FY2017 to 8.0% in FY2018, which impacts the high cost excise tax. This resulted in a decrease to the total OPEB liability of approximately \$82 million.

Change in mortality

The following mortality assumption changes were made in the January 1, 2018 Actuarial Valuation:

- Disabled members - would reflect the same assumptions as for superannuation retirees, but with an age set forward of one year.

This change resulted in a decrease to the total OPEB liability of approximately \$1 million.

Change in discount rate

The discount rate was increased to 3.95% (based on a blend of the Bond Buyer Index rate (3.87%) as of the measurement date and the expected rate of return on assets) as required by GASB Statement No. 74. This increase in the discount rate resulted in a decrease to the total OPEB liability of approximately \$880 million.

FY2017 Changes in Actuarial Assumptions

Changes of Assumptions:

Change in discount rate

The discount rate was increased to 3.63% (based on a blend of the Bond Buyer Index rate (3.58%) as of the measurement date and the expected rate of return on assets) as required by GASB Statement No. 74. The June 30, 2016 discount rate was calculated to be 2.80%. This increase in the discount rate resulted in a decrease to the total OPEB liability of approximately \$2.394 billion.

See Independent Auditors' Report

Schedule of Investment Returns

	Fiscal Year Ending June 30				
	2018	2017	2016	2015	2014
Annual money-weighted rate of return, net of investment expense - SERS	9.58%	12.74%	1.79%	3.40%	17.13%
Annual money-weighted rate of return, net of investment expense - MTRS.....	9.58%	12.75%	1.78%	3.40%	17.12%
Annual money-weighted rate of return, net of investment expense - SRBT	9.46%	12.90%	(1)	(1)	(1)

(1) - GASB 74 implemented in FY2017.

Note: This schedule is intended to present 10 years of data. Additional years will be presented when available.

See Independent Auditors' Report

Schedule of Proportionate Share of the Net Pension Liability and Contributions

State Employees' Retirement System

Last 10 Years
(amounts in thousands)

Proportionate Share of the Net Pension Liability	2018 (measurement date June 30, 2017)	2017 (measurement date June 30, 2016)	2016 (measurement date June 30, 2015)	2015 (measurement date June 30, 2014)
Proportion of the net pension liability	94.5%	94.3%	93.8%	93.9%
Proportionate share of the net pension liability	\$ 12,122,363	\$ 12,996,818	\$ 10,682,765	\$ 6,972,443
Plan net position as a percentage of the total pension liability	67.2%	63.5%	67.9%	76.3%
Covered payroll.....	\$ 5,397,203	\$ 5,249,985	\$ 5,136,405	\$ 4,975,346
Net pension liability as a percentage of covered payroll	224.6%	247.6%	208.0%	140.1%

Contributions	Fiscal Year Ending June 30				
	2018	2017	2016	2015	2014
Statutorily required contribution	\$ 876,174	\$ 744,721	\$ 682,648	\$ 619,971	\$ 571,776
Contributions in relation to the statutorily required contribution	876,174	744,721	682,648	619,971	571,776
Annual contribution deficiency/(excess).....	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
Covered payroll	\$ 5,440,103	\$ 5,397,203	\$ 5,249,985	\$ 5,136,405	\$ 4,975,346
Contributions as a percentage of covered payroll	16.1%	13.8%	13.0%	12.1%	11.5%

The State Employees' Retirement System (SERS) is included in the CAFR as a pension trust fund in the fiduciary fund type. SERS is a defined-benefit multiple employer, cost-sharing public employee retirement system.

Note: This schedule is intended to present 10 years of data. Additional years will be presented when available.

See Independent Auditors' Report and notes to the schedule

Schedule of Proportionate Share of the Net Pension Liability and Contributions

Massachusetts Teachers' Retirement System

Last 10 Years
(amounts in thousands)

Proportionate Share of the Net Pension Liability	2018 (measurement date June 30, 2017)	2017 (measurement date June 30, 2016)	2016 (measurement date June 30, 2015)	2015 (measurement date June 30, 2014)
Proportion of the net pension liability	100.0%	100.0%	100.0%	100.0%
Proportionate share of the net pension liability	\$ 22,885,391	\$ 22,357,928	\$ 20,489,643	\$ 15,896,354
Plan net position as a percentage of the total pension liability	54.3%	52.7%	55.4%	61.6%

Contributions	Fiscal Year Ending June 30				
	2018	2017	2016	2015	2014
Statutorily required contribution	\$ 1,314,783	\$ 1,235,515	\$ 1,124,583	\$ 1,021,930	\$ 937,379
Contributions in relation to the statutorily required contribution	1,314,783	1,235,515	1,124,583	1,021,930	937,379
Annual contribution deficiency/(excess).....	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

The Massachusetts Teachers' Retirement System (MTRS) is included in the CAFR as a pension trust fund in the fiduciary fund type. MTRS is a defined-benefit multiple employer, cost-sharing public employee retirement system.

Note: This schedule is intended to present 10 years of data. Additional years will be presented when available.

See Independent Auditors' Report and notes to the schedule

Schedule of Proportionate Share of the Net Pension Liability and Contributions

Boston Retirement System - Teachers

Last 10 Years
(amounts in thousands)

Proportionate Share of the Net Pension Liability	2018 (measurement date December 31, 2017)	2017 (measurement date December 31, 2016)	2016 (measurement date December 31, 2015)	2015 (measurement date December 31, 2014)
Proportion of the net pension liability	60.5%	55.9%	54.5%	53.7%
Proportionate share of the net pension liability	\$ 2,433,199	\$ 2,325,286	\$ 2,402,267	\$ 2,066,546
Plan net position as a percentage of the total pension liability	62.7%	58.4%	55.8%	59.6%

Contributions	Fiscal Year Ending December 31				
	2017	2016	2015	2014	2013
Statutorily required contribution	\$ 131,298	\$ 132,477	\$ 120,434	\$ 109,485	\$ 99,532
Contributions in relation to the statutorily required contribution	131,298	132,477	120,434	109,485	99,532
Annual contribution deficiency/(excess)	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

The Boston Retirement System (BRS) is included in the City of Boston's CAFR. The Boston Teachers' portion of the BRS total pension liability is reported in the Commonwealth's CAFR as a part of the total net pension liability.

Note: This schedule is intended to present 10 years of data. Additional years will be presented when available.

See Independent Auditors' Report and notes to the schedule

**NOTES TO THE SCHEDULES OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
AND CONTRIBUTIONS**

SERS and MTRS:

In accordance with Chapter 32 of the Massachusetts General Laws (MGL), the Commonwealth's statutorily determined contributions to SERS and MTRS are based on a three-year funding schedule adopted by the legislature based upon the previous year's actuarial valuation. The most recent funding schedule was adopted in January 2017 (for fiscal years 2018 through 2020) based upon the January 1, 2016 actuarial valuation as prepared by the Public Employee Retirement Administration Commission (PERAC) using the following assumptions:

1. The annual required contribution for FY2018 was determined as part of the January 1, 2016 actuarial valuation using the entry age normal cost method.
2. The actuarial assumptions included (a) 7.50% investment rate of return, (b) 3.50% interest rate credited to the annuity savings fund and (c) 3.00% cost of living increase per year (on the first \$13,000 of an allowance).
3. Salary increases are based on analyses of past experience but range from 4.0% to 9.0% depending on group and length of service.
4. The assumptions do not include post-retirement benefit increases, which are taken into account when granted under amendments to General Laws.
5. The actuarial value of assets was determined using various techniques that smooth the effects of short-term volatility in the market value of investments, with a phased-in approach. Under this approach, 20% of the gains or losses occurring in the prior year are recognized, 40% of those occurring two years prior, etc., so that 100% of gains and losses occurring five years prior are recognized. The actuarial value of assets is adjusted if necessary in order to remain between 90% and 110% of market value.
6. Normal costs are amortized using level percentage of payroll, closed.
7. The remaining amortization period for the unfunded pension liability at January 1, 2016 was 20 years to FY36.

BRS-Teachers:

The actuarially determined contributions were calculated as of December 31, 2015. The funding requirements are established for the employers' fiscal year ended June 30, 2017 and later years and are analyzed based on the preceding two years' experience. The following actuarial methods and assumptions were used to determine the required contribution rates:

Actuarial cost method	Entry age normal cost method
Amortization method	Prior year's contribution increased by 8.94% for Boston Teachers
Remaining amortization period	20 years remaining as of January 1, 2016 for Boston Teachers
Asset valuation method	Sum of actuarial value at beginning of year, contributions and investment earnings based on the actuarial interest assumption less benefit payments and operating expenses plus 20% of market value at end of year in excess of that sum, plus additional adjustment toward market value as necessary so that final actuarial value is within 20% of market value.
	Similar formula used for negative adjustment toward market value if actuarial value exceeds market value.
Inflation	3.25%
Salary increases	Varies by length of service with ultimate rate of 4.00% for Boston Teachers
Investment rate of return	7.50% for Boston Teachers

See Independent Auditors' Report

Schedule of Employer Contributions - OPEB

Commonwealth of Massachusetts

Last 10 Years
(amounts in thousands)

Contributions	Fiscal Year Ending June 30	
	2018	2017
Statorily required contribution.....	\$ 520,703	\$ 419,932
Contributions in relation to the statorily required contribution.....	520,703	419,932
Annual contribution deficiency/(excess).....	\$ —	\$ —
 Covered payroll.....	 \$ 6,155,194	 \$ 5,927,012
Contributions as a percentage of covered payroll.....	8.5%	7.1%

See Independent Auditors' Report



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Other Supplementary Information

Combining Balance Sheet – Other Governmental Funds
Combining Statement of Revenues, Expenditures and Changes in Fund Balance – Other Governmental Funds
*Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Budgetary Basis – Budget
and Actual – Other Budgeted Nonmajor Governmental Funds*
Combining Budget to GAAP Reconciliation – Other Budgeted Nonmajor Governmental Funds
Combining Statement of Net Position Available for Pension Benefits
Combining Statement of Changes in Net Position Available for Pension Benefits
Combining Statement of Net Position Held in Trust for Pool Participants
Combining Statement of Changes in Net Position Held in Trust for Pool Participants
Combining Statement of Changes in Assets and Liabilities – Agency Funds
Combining Statement of Net Position – Nonmajor Component Units
Combining Statement of Revenues, Expenses and Changes in Net Position – Nonmajor Component Units

Combining Balance Sheet

Other Governmental Funds

June 30, 2018

(Amounts in thousands)

	Special Revenue						
	Commonwealth Transportation	Federal Grants	Universal Health Care	Environmental	Community First Trust	Gaming Control	Gaming Revenue
ASSETS							
Cash and cash equivalents	\$ 693	\$ 462	\$ 311,921	\$ 15,694	\$ 1,790	\$ 7,127	\$ —
Restricted cash with fiscal agent.....	19,373	—	—	—	—	—	—
Receivables, net of allowance for uncollectibles:							
Taxes	74,245	—	9,092	87	—	—	—
Due from federal government.....	—	289,208	—	942	—	—	—
Loans receivable	—	—	—	—	—	—	—
Other receivables	344	—	101,197	148	—	8,880	—
Due from other funds	—	—	—	—	—	—	—
Total assets	\$ 94,655	\$ 289,670	\$ 422,210	\$ 16,871	\$ 1,790	\$ 16,007	\$ —
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts payable.....	\$ 693	\$ 236,809	\$ 89,203	\$ 724	\$ 445	\$ 3,316	\$ —
Accrued payroll.....	—	5,165	152	205	17	172	—
Tax refunds and abatements payable	26	—	—	—	—	—	—
Due to other funds.....	—	25,569	—	—	—	—	—
Due to component units	22,786	—	16,693	—	—	—	—
Other accrued liabilities	—	—	40,073	—	—	—	—
Total liabilities	23,505	267,543	146,121	929	462	3,488	—
Deferred inflows of resources.....	—	—	56,992	—	—	—	—
Total liabilities and deferred inflows of resources	23,505	267,543	203,113	929	462	3,488	—
Fund balances:							
Restricted	19,373	22,127	—	—	1,328	—	—
Committed.....	51,777	—	219,097	14,942	—	12,519	—
Assigned.....	—	—	—	1,000	—	—	—
Unassigned (deficits)	—	—	—	—	—	—	—
Fund balances (deficits)	71,150	22,127	219,097	15,942	1,328	12,519	—
Total liabilities and fund balances	\$ 94,655	\$ 289,670	\$ 422,210	\$ 16,871	\$ 1,790	\$ 16,007	\$ —

See Independent Auditors' Report

Special Revenue

MBTA State & Local Contribution	Community Preservation Trust	Health Insurance Portability and Accountability Act	Division of Professional Licensure	Enhanced 911	Health Information Technology Trust	Regional Greenhouse Gas Initiative (RGGI) Auction Trust	Workforce Training Trust	Child Support Enforcement	Department of Industrial Accidents
\$ 86,172	\$ 21,281	\$ 9,106	\$ 5,316	\$ 121,885	\$ 1,571	\$ 19,396	\$ 45,760	\$ 8,823	\$ 15,251
—	—	—	—	—	—	—	—	—	—
68,586	782	—	—	—	—	—	5,934	—	—
—	—	501	—	—	—	—	—	864	—
—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	3,685	6,620
—	—	—	—	—	—	—	—	—	—
\$ 154,758	\$ 22,063	\$ 9,607	\$ 5,316	\$ 121,885	\$ 1,571	\$ 19,396	\$ 51,694	\$ 13,372	\$ 21,871
\$ 68,464	\$ 24,027	\$ 380	\$ 306	\$ 11,085	\$ 3,875	\$ 4,931	\$ 4,611	\$ 1,136	\$ 7
—	—	16	156	130	102	56	5	190	—
320	—	—	—	—	—	—	85	—	—
—	—	—	—	—	—	—	—	—	—
85,974	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
154,758	24,027	396	462	11,215	3,977	4,987	4,701	1,326	7
—	—	—	—	—	—	—	—	—	—
154,758	24,027	396	462	11,215	3,977	4,987	4,701	1,326	7
—	—	—	—	—	—	—	—	12,046	—
—	—	9,211	4,854	110,670	—	14,409	46,993	—	21,864
—	—	—	—	—	—	—	—	—	—
—	(1,964)	—	—	—	(2,406)	—	—	—	—
—	(1,964)	9,211	4,854	110,670	(2,406)	14,409	46,993	12,046	21,864
\$ 154,758	\$ 22,063	\$ 9,607	\$ 5,316	\$ 121,885	\$ 1,571	\$ 19,396	\$ 51,694	\$ 13,372	\$ 21,871

continued

Combining Balance Sheet

Other Governmental Funds

June 30, 2018

(Amounts in thousands)

	Special Revenue					
	Convention and Exhibition Center	Grant Anticipation Note Trust	Massachusetts Tourism Trust	Expendable Trust	Other	Debt Service
ASSETS						
Cash and cash equivalents	\$ 92,894	\$ 5,759	\$ 1,111	\$ 762,063	\$ 119,780	\$ 8,778
Restricted cash with fiscal agent.....	113,653	86,777	—	—	—	238
Receivables, net of allowance for uncollectibles:						
Taxes	20,005	—	6,584	347	73	—
Due from federal government.....	—	71,734	—	4,591	—	—
Loans receivable	—	—	—	914	14,086	—
Other receivables	—	—	—	21,266	107	—
Due from other funds	—	—	—	—	—	—
Total assets	\$ 226,552	\$ 164,270	\$ 7,695	\$ 789,181	\$ 134,046	\$ 9,016
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable.....	\$ 10,277	\$ —	\$ 256	\$ 42,529	\$ 6,335	\$ —
Accrued payroll.....	—	—	32	2,426	531	—
Tax refunds and abatements payable	—	—	—	—	—	—
Due to other funds.....	—	71,734	—	—	—	—
Due to component units	—	—	—	—	—	—
Other accrued liabilities	—	—	—	—	—	—
Total liabilities	10,277	71,734	288	44,955	6,866	—
Deferred inflows of resources.....	—	—	—	8	—	—
Total liabilities and deferred inflows of resources	10,277	71,734	288	44,963	6,866	—
Fund balances:						
Restricted	—	—	—	245,579	14,086	9,016
Committed.....	216,275	92,536	7,407	328,813	148,126	—
Assigned.....	—	—	—	169,826	—	—
Unassigned (deficits)	—	—	—	—	(35,033)	—
Fund balances (deficits).....	216,275	92,536	7,407	744,218	127,179	9,016
Total liabilities and fund balances	\$ 226,552	\$ 164,270	\$ 7,695	\$ 789,181	\$ 134,045	\$ 9,016

See Independent Auditors' Report

Capital Projects

General Capital Projects	Convention and Exhibition Center	Highway Capital Projects	Federal Highway Construction Program	Other	Total
\$ 578,924	\$ 8,393	251,509	\$ —	\$ —	\$ 2,501,458
—	—	—	—	—	220,041
—	—	—	—	—	185,735
—	—	—	—	—	367,840
—	—	—	—	—	15,000
—	—	—	—	—	142,247
—	—	—	71,734	—	71,734
\$ 578,924	\$ 8,393	\$ 251,509	\$ 71,734	\$ —	\$ 3,504,055
\$ 353,846	\$ —	\$ —	\$ —	\$ —	\$ 863,255
1,152	—	—	—	—	10,507
—	—	—	—	—	431
—	—	—	1,082	—	98,385
4,365	—	306,046	80,719	—	516,583
—	—	—	—	—	40,073
359,363	—	306,046	81,801	—	1,529,234
—	—	—	—	—	57,000
359,363	—	306,046	81,801	—	1,586,234
219,561	8,393	—	—	—	551,509
—	—	—	—	—	1,299,493
—	—	—	—	—	170,826
—	—	(54,537)	(10,067)	—	(104,007)
219,561	8,393	(54,537)	(10,067)	—	1,917,821
\$ 578,924	\$ 8,393	\$ 251,509	\$ 71,734	\$ —	\$ 3,504,055

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Other Governmental Funds
Fiscal Year Ended June 30, 2018
(Amounts in thousands)

	Special Revenue						
	Commonwealth Transportation	Federal Grants	Universal Health Care	Environmental	Community First Trust	Gaming Control	Gaming Revenue
REVENUES							
Taxes	\$ 1,337,036	\$ —	\$ 138,005	\$ 1,000	\$ —	\$ —	\$ 68,010
Assessments	22,462	—	614,276	—	—	—	—
Federal grants and reimbursements.....	—	3,684,188	321,687	7,277	—	—	—
Departmental.....	684,375	—	476,391	9,034	—	30,622	—
Miscellaneous.....	702	444	2,430	616	—	—	—
Total revenues	2,044,575	3,684,632	1,552,789	17,927	—	30,622	68,010
OTHER FINANCING SOURCES							
Bonds premium	—	—	—	—	—	—	—
Issuance of general and special obligation bonds.....	—	—	—	—	—	—	—
Issuance of current refunding bonds.....	—	—	—	—	—	—	—
Issuance of advance refunding bonds	—	—	—	—	—	—	—
Transfers in for debt service.....	—	—	—	—	—	—	—
Transfers in.....	43,762	—	781,321	199	—	—	—
Total other financing sources	43,762	—	781,321	199	—	—	—
Total revenues and other financing sources	2,088,337	3,684,632	2,334,110	18,126	—	30,622	68,010
EXPENDITURES							
Current:							
Judiciary.....	—	1,764	—	—	—	—	—
Inspector General.....	—	—	387	—	—	—	—
Governor and Lieutenant Governor.....	—	—	—	—	—	—	—
Secretary of the Commonwealth	—	968	—	—	—	—	—
Treasurer and Receiver-General.....	5,723	1,288	—	—	—	195	—
Auditor of the Commonwealth.....	—	—	—	—	—	—	—
Attorney General	—	46,558	—	—	—	1,562	—
District Attorney	—	2,715	—	—	—	—	—
Sheriff's Departments	—	3,817	—	—	—	12	—
Disabled Person Protection Commission	—	571	—	—	—	—	—
Board of Library Commissioners.....	—	2,791	—	—	—	—	—
Massachusetts Gaming Commission.....	—	—	—	—	—	22,087	—
Comptroller.....	—	—	—	—	—	—	—
Administration and Finance.....	142,391	6,091	19,867	74	—	—	—
Energy and Environmental Affairs	—	39,055	—	15,762	—	—	—
Health and Human Services	—	1,659,870	68,732	—	11,170	1,008	—
Executive Office of Technology Services.....	—	—	—	—	—	—	—
Massachusetts Department of Transportation.....	605,266	379	—	—	—	—	—
Executive Office of Education.....	—	1,028,726	—	—	—	—	—
Center for Health and Information Analysis.....	—	5	—	—	—	—	—
Public Safety and Homeland Security.....	—	116,827	—	—	—	17	—
Housing and Economic Development.....	—	519,408	—	—	—	—	—
Labor and Workforce development	—	124,467	1,797	—	—	—	—
Medicaid	—	—	2,223,300	—	1,668	—	—
Post employment benefits.....	45,059	—	—	—	—	—	—
Direct local aid.....	—	—	—	—	—	—	—
Capital outlay:							
Capital acquisition and construction.....	—	—	—	—	—	—	—
Debt service.....	—	—	—	—	—	—	—
Principal on current refundings.....	—	—	—	—	—	—	—
Total expenditures.....	798,439	3,555,300	2,314,083	15,836	12,838	24,881	—
OTHER FINANCING USES							
Payments to refunding bond escrow agent	—	—	—	—	—	—	—
Transfers out.....	152,867	109,287	11,104	3,498	1,132	4,717	68,010
Transfers of appropriations	—	—	—	—	—	—	—
Transfers of bond proceeds	—	—	—	—	—	—	—
Transfers out for debt service.....	1,139,237	—	—	—	—	—	—
Total other financing uses	1,292,104	109,287	11,104	3,498	1,132	4,717	68,010
Total expenditures and other financing uses	2,090,543	3,664,587	2,325,187	19,334	13,970	29,598	68,010
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	(2,206)	20,045	8,923	(1,208)	(13,970)	1,024	—
Fund balances (deficits) at beginning of year.....	73,356	2,082	210,174	17,150	15,298	11,495	—
Fund balances (deficits) at end of year	\$ 71,150	\$ 22,127	\$ 219,097	\$ 15,942	\$ 1,328	\$ 12,519	\$ —

See Independent Auditors' Report

Special Revenue									
MBTA State & Local Contribution	Community Preservation Trust	Health Insurance Portability and Accountability Act	Division of Professional Licensure	Enhanced 911	Health Information Technology Trust	Regional Greenhouse Gas Initiative (RGGI) Auction Trust	Workforce Training Trust	Child Support Enforcement	Department of Industrial Accidents
\$ 1,010,926	\$ 24,576	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 24,148	\$ —	\$ —
166,408	—	—	—	—	—	—	—	—	25,005
—	—	15,423	—	—	79,903	—	—	25,425	—
—	—	—	10,932	102,366	—	39,460	—	5,257	6,532
—	127	—	—	344	—	—	—	155	43
1,177,334	24,703	15,423	10,932	102,710	79,903	39,460	24,148	30,837	31,580
—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	19,153	—	—	—	—
—	—	—	—	—	19,153	—	—	—	—
1,177,334	24,703	15,423	10,932	102,710	99,056	39,460	24,148	30,837	31,580
—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
1,177,334	—	—	—	—	—	—	—	9	—
—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	199	—
—	—	—	—	7,266	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
—	24,117	—	—	509	—	28	—	32,411	—
—	—	—	—	—	—	41,757	—	—	—
—	—	—	—	55	—	81	—	—	—
—	—	—	—	185	4,385	—	—	—	—
—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
—	—	—	—	100,359	—	125	—	—	—
—	—	—	8,807	—	—	—	—	—	—
—	—	—	—	—	—	—	19,412	—	871
—	—	13,474	—	—	50,158	—	—	—	—
—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
1,177,334	24,117	13,474	8,807	108,374	54,543	41,991	19,412	32,619	871
—	—	—	—	—	—	—	—	—	—
—	42	359	2,289	6,337	1,795	—	95	3,892	24,541
—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
—	42	359	2,289	6,337	1,795	—	95	3,892	24,541
1,177,334	24,159	13,833	11,096	114,711	56,338	41,991	19,507	36,511	25,412
—	544	1,590	(164)	(12,001)	42,718	(2,531)	4,641	(5,674)	6,168
—	(2,508)	7,621	5,018	122,671	(45,124)	16,940	42,352	17,720	15,696
\$ —	\$ (1,964)	\$ 9,211	\$ 4,854	\$ 110,670	\$ (2,406)	\$ 14,409	\$ 46,993	\$ 12,046	\$ 21,864

continued

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Other Governmental Funds
Fiscal Year Ended June 30, 2018
(Amounts in thousands)

	Special Revenue					
	Convention and Exhibition Center	Grant Anticipation Note Trust	Massachusetts Tourism Trust	Expendable Trust	Other	Debt Service
REVENUES						
Taxes	\$ 149,356	\$ —	\$ 10,293	\$ 347	\$ 1,105	\$ —
Assessments	—	—	—	76,721	31,815	—
Federal grants and reimbursements	—	542,712	—	27,228	9,175	46,692
Departmental	—	—	—	76,313	75,294	—
Miscellaneous	1,059	2,264	—	556,361	2,288	2
Total revenues	150,415	544,976	10,293	736,970	119,677	46,694
OTHER FINANCING SOURCES						
Bonds premium	—	—	—	—	—	159,408
Issuance of general and special obligation bonds	—	—	—	—	—	—
Issuance of current refunding bonds	—	—	—	—	—	466,735
Issuance of advance refunding bonds	—	—	—	—	—	526,180
Transfers in for debt service	—	—	—	—	—	2,480,756
Transfers in	—	36,406	—	17,407	95,526	—
Total other financing sources	—	36,406	—	17,407	95,526	3,633,079
Total revenues and other financing sources	150,415	581,382	10,293	754,377	215,203	3,679,773
EXPENDITURES						
Current:						
Judiciary	—	—	—	320	—	—
Inspector General	—	—	—	9	—	—
Governor and Lieutenant Governor	—	—	5	—	—	—
Secretary of the Commonwealth	—	—	—	—	4,742	—
Treasurer and Receiver-General	—	1,482	—	128,538	—	2,459
Auditor of the Commonwealth	—	—	—	142	—	—
Attorney General	—	—	—	989	560	—
District Attorney	—	—	—	6,657	194	—
Sheriff's Departments	—	—	—	2,371	1,373	—
Disabled Person Protection Commission	—	—	—	—	—	—
Board of Library Commissioners	—	—	—	—	—	—
Massachusetts Gaming Commission	—	—	—	—	22,149	—
Comptroller	—	—	—	316	2,128	—
Administration and Finance	24,386	—	—	33,880	3,238	—
Energy and Environmental Affairs	—	—	—	99,070	36,823	—
Health and Human Services	—	—	—	128,061	22,164	—
Executive Office of Technology Services	—	—	—	754	2,422	—
Massachusetts Department of Transportation	—	—	—	—	—	—
Executive Office of Education	—	—	—	23,888	1,786	—
Center for Health and Information Analysis	—	—	—	—	—	—
Public Safety and Homeland Security	—	—	—	9,748	7,848	—
Housing and Economic Development	—	—	9,594	18,180	848	—
Labor and Workforce development	—	—	—	53,029	226	—
Medicaid	—	—	—	5,731	—	—
Post employment benefits	—	—	—	—	—	—
Direct local aid	—	—	—	—	64,343	—
Capital outlay:						
Capital acquisition and construction	—	—	—	—	—	—
Debt service	—	—	—	—	—	2,518,969
Principal on current refundings	—	—	—	—	—	521,865
Total expenditures	24,386	1,482	9,599	511,683	170,844	3,043,293
OTHER FINANCING USES						
Payments to refunding bond escrow agent	—	—	—	—	—	627,998
Transfers out	—	479,727	2	150,209	21,062	—
Transfers of appropriations	—	—	—	1,321	75	—
Transfers of bond proceeds	—	—	—	—	—	—
Transfers out for debt service	54,474	97,489	—	—	5,432	—
Total other financing uses	54,474	577,216	2	151,530	26,569	627,998
Total expenditures and other financing uses	78,860	578,698	9,601	663,213	197,413	3,671,291
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	71,555	2,684	692	91,164	17,790	8,482
Fund balances (deficits) at beginning of year	144,720	89,852	6,715	653,054	109,389	534
Fund balances (deficits) at end of year	\$ 216,275	\$ 92,536	\$ 7,407	\$ 744,218	\$ 127,179	\$ 9,016

See Independent Auditors' Report

Capital Projects					
General Capital Projects	Convention and Exhibition Center	Highway Capital Projects	Federal Highway Construction Program	Other	Total
\$ —	\$ —	\$ —	\$ —	\$ —	\$ 2,764,802
—	—	—	—	—	936,687
78,587	—	—	20,415	—	4,858,712
—	—	—	7,049	—	1,523,625
—	—	2,781	—	—	569,616
78,587	—	2,781	27,464	—	10,653,442
154,245	—	196,730	—	—	510,383
1,235,600	—	1,147,843	—	1,000	2,384,443
—	—	—	—	—	466,735
—	—	—	—	—	526,180
—	—	—	—	—	2,480,756
—	—	—	588,587	—	1,582,361
1,389,845	—	1,344,573	588,587	1,000	7,950,858
1,468,432	—	1,347,354	616,051	1,000	18,604,300
—	—	—	—	—	2,084
—	—	—	—	—	396
—	—	—	—	—	5
—	—	—	—	—	5,710
4,732	—	3,648	—	—	1,325,408
—	—	—	—	—	142
—	—	—	—	—	49,669
—	—	—	—	—	9,765
—	—	—	—	—	14,839
—	—	—	—	—	571
—	—	—	—	—	2,791
—	—	—	—	—	44,236
—	—	—	—	—	2,444
—	—	—	—	—	286,992
—	—	—	—	—	232,467
—	—	—	—	—	1,891,141
—	—	—	—	—	7,746
101,193	—	1,075,142	605,243	—	2,387,223
—	—	—	—	—	1,054,400
—	—	—	—	—	5
—	—	—	—	—	234,924
—	—	—	—	—	556,837
—	—	—	—	—	199,802
—	—	—	—	—	2,294,331
—	—	—	—	—	45,059
—	—	—	—	—	64,343
1,249,467	—	2,480	548	500	1,252,995
—	—	—	—	—	2,518,969
—	—	—	—	—	521,865
1,355,392	—	1,081,270	605,791	500	15,007,159
—	—	—	—	—	627,998
16,592	—	108,859	10,560	10	1,176,986
—	—	—	—	—	1,396
121,669	—	—	—	—	121,669
—	—	—	—	—	1,296,632
138,261	—	108,859	10,560	10	3,224,681
1,493,653	—	1,190,129	616,351	510	18,231,840
(25,221)	—	157,225	(300)	490	372,460
244,782	8,393	(211,762)	(9,767)	(490)	1,545,361
\$ 219,561	\$ 8,393	\$ (54,537)	\$ (10,067)	\$ —	\$ 1,917,821

Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Budgetary Basis - Budget and Actual
Other Budgeted Nonmajor Governmental Funds

Fiscal Year Ended June 30, 2018

(Amounts in thousands)

	Commonwealth Transportation Fund				Environmental Funds			
	Original Budget	Final Budget	Actual	Variance	Original Budget	Final Budget	Actual	Variance
REVENUES AND OTHER FINANCING SOURCES								
Revenues:								
Taxes	\$ 1,302,000	\$ 1,302,000	\$ 1,331,772	\$ 29,772	\$ 1,000	\$ 1,000	\$ 1,003	\$ 3
Assessments	23,947	23,947	22,204	(1,743)	—	—	—	—
Federal grants and reimbursements	—	—	—	—	6,200	6,200	7,410	1,210
Departmental	675,678	675,756	684,374	8,618	8,566	8,566	9,188	622
Miscellaneous	—	—	702	702	34	34	617	583
Total revenues	<u>2,001,625</u>	<u>2,001,703</u>	<u>2,039,052</u>	<u>37,349</u>	<u>15,800</u>	<u>15,800</u>	<u>18,218</u>	<u>2,418</u>
Other financing sources:								
Operating transfers in	40,000	40,000	43,762	3,762	182	182	199	17
Other fund deficit support	—	—	—	—	—	—	—	—
Total other financing sources	<u>40,000</u>	<u>40,000</u>	<u>43,762</u>	<u>3,762</u>	<u>182</u>	<u>182</u>	<u>199</u>	<u>17</u>
Total revenues and other financing sources	<u>2,041,625</u>	<u>2,041,703</u>	<u>2,082,814</u>	<u>41,111</u>	<u>15,982</u>	<u>15,982</u>	<u>18,417</u>	<u>2,435</u>
EXPENDITURES AND OTHER FINANCING USES								
Expenditures:								
Treasurer and Receiver-General	248,490	—	5,723	(5,723)	—	—	—	—
Attorney General	—	—	—	—	—	—	—	—
Sheriffs' Department	—	—	—	—	—	—	—	—
Administration and Finance	—	—	—	—	85	85	74	11
Energy and Environmental Affairs	—	—	—	—	19,221	19,221	15,762	3,459
Health and human services	—	—	—	—	—	—	—	—
Massachusetts Department of Transportation	127,000	127,000	127,000	—	—	—	—	—
Public Safety and Homeland Security	—	—	—	—	—	—	—	—
Direct local aid	—	—	—	—	—	—	—	—
Post employment benefits	—	—	45,059	(45,059)	—	—	—	—
Debt service:								
Principal retirement	—	668,753	641,016	27,737	—	—	—	—
Interest and fiscal charges	—	511,442	498,221	13,221	—	—	—	—
Total expenditures	<u>375,490</u>	<u>1,307,195</u>	<u>1,317,019</u>	<u>(9,824)</u>	<u>19,306</u>	<u>19,306</u>	<u>15,836</u>	<u>3,470</u>
Other financing uses:								
Fringe benefit cost assessment	—	—	—	—	—	—	3,498	(3,498)
Operating transfers out	393,146	630,650	634,676	(4,026)	—	—	—	—
Stabilization transfer	—	—	129,826	(129,826)	—	—	—	—
Total other financing uses	<u>393,146</u>	<u>630,650</u>	<u>764,502</u>	<u>(133,852)</u>	<u>—</u>	<u>—</u>	<u>3,498</u>	<u>(3,498)</u>
Total expenditures and other financing uses	<u>768,636</u>	<u>1,937,845</u>	<u>2,081,521</u>	<u>(143,676)</u>	<u>19,306</u>	<u>19,306</u>	<u>19,334</u>	<u>(28)</u>
Excess/(deficiency) of revenues and other financing sources over/(under) expenditures and other financing uses	<u>\$ 1,272,989</u>	<u>\$ 103,858</u>	<u>1,293</u>	<u>\$ (102,565)</u>	<u>\$ (3,324)</u>	<u>\$ (3,324)</u>	<u>(917)</u>	<u>\$ 2,407</u>
Fund balances at beginning of year			<u>18,080</u>				<u>15,682</u>	
Fund balances at end of year			<u>\$ 19,373</u>				<u>\$ 14,765</u>	

See Independent Auditors' Report

Public Safety Trust Fund				Community First Trust Fund				Gaming Local Aid Fund			
Original Budget	Final Budget	Actual	Variance	Original Budget	Final Budget	Actual	Variance	Original Budget	Final Budget	Actual	Variance
\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
—	—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—	—
1,900	1,900	1,022	(878)	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—	—
1,900	1,900	1,022	(878)	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	64,400	64,400	68,011	3,611
—	—	—	—	—	—	—	—	64,400	64,400	68,011	3,611
1,900	1,900	1,022	(878)	—	—	—	—	64,400	64,400	68,011	3,611
—	—	—	—	—	—	—	—	—	—	—	—
—	4	4	—	—	—	—	—	—	—	—	—
—	20	20	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	11,666	11,170	496	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—	—
—	2,096	2,048	48	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	64,344	64,343	1
—	—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—	—
—	2,120	2,072	48	—	11,666	11,170	496	—	64,344	64,343	1
—	—	586	(586)	—	—	867	(867)	—	—	—	—
—	—	—	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—	3,668	(3,668)
—	—	586	(586)	—	—	867	(867)	—	—	3,668	(3,668)
—	2,120	2,658	(538)	—	11,666	12,037	(371)	—	64,344	68,011	(3,667)
<u>\$ 1,900</u>	<u>\$ (220)</u>	<u>(1,636)</u>	<u>\$ (1,416)</u>	<u>\$ —</u>	<u>\$ (11,666)</u>	<u>(12,037)</u>	<u>\$ (371)</u>	<u>\$ 64,400</u>	<u>\$ 56</u>	<u>—</u>	<u>\$ (56)</u>
		2,892				12,037				—	
		<u>\$ 1,256</u>				<u>\$ —</u>				<u>\$ —</u>	

(continued)

Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Budgetary Basis - Budget and Actual
Other Budgeted Nonmajor Governmental Funds

Fiscal Year Ended June 30, 2018

(Amounts in thousands)

	Local Aid Stabilization Fund				Marijuana Regulation Control Fund			
	Original Budget	Final Budget	Actual	Variance	Original Budget	Final Budget	Actual	Variance
REVENUES AND OTHER FINANCING SOURCES								
Revenues:								
Taxes	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Assessments	—	—	—	—	—	—	—	—
Federal grants and reimbursements.....	—	—	—	—	—	—	39	39
Departmental.....	—	—	—	—	—	—	—	—
Miscellaneous.....	—	—	—	—	—	—	—	—
Total revenues.....	—	—	—	—	—	—	39	39
Other financing sources:								
Operating transfers in.....	—	—	—	—	—	—	—	—
Total other financing sources.....	—	—	—	—	—	—	—	—
Total revenues and other financing sources.....	—	—	—	—	—	—	39	39
EXPENDITURES AND OTHER FINANCING USES								
Expenditures:								
Treasurer and Receiver-General.....	—	—	—	—	—	—	—	—
Attorney General.....	—	—	—	—	—	—	—	—
Sheriffs' Department	—	—	—	—	—	—	—	—
Administration and Finance.....	—	—	—	—	—	—	—	—
Energy and Environmental Affairs.....	—	—	—	—	—	—	—	—
Health and human services	—	—	—	—	—	—	—	—
Massachusetts Department of Transportation	—	—	—	—	—	—	—	—
Public Safety and Homeland Security	—	—	—	—	—	—	—	—
Direct Local Aid.....	—	—	—	—	—	—	—	—
Post employment benefits	—	—	—	—	—	—	—	—
Debt service:								
Principal retirement	—	—	—	—	—	—	—	—
Interest and fiscal charges.....	—	—	—	—	—	—	—	—
Total expenditures.....	—	—	—	—	—	—	—	—
Other financing uses:								
Fringe benefit cost assessment.....	—	—	—	—	—	—	—	—
Operating transfers out.....	—	—	—	—	—	—	—	—
Stabilization transfer	—	—	—	—	—	—	39	(39)
Total other financing uses.....	—	—	—	—	—	—	39	(39)
Total expenditures and other financing uses	—	—	—	—	—	—	39	(39)
Excess/(deficiency) of revenues and other financing sources over/(under) expenditures and other financing uses	\$ —	\$ —	—	\$ —	\$ —	\$ —	—	\$ —
Fund balances at beginning of year			50				—	
Fund balances at end of year			\$ 50				\$ —	

See Independent Auditors' Report

Totals			
Original Budget	Final Budget	Actual	Variance
\$ 1,303,000	\$ 1,303,000	\$ 1,332,775	\$ 29,775
23,947	23,947	22,204	(1,743)
6,200	6,200	7,449	1,249
686,144	686,222	694,584	8,362
34	34	1,319	1,285
<u>2,019,325</u>	<u>2,019,403</u>	<u>2,058,331</u>	<u>38,928</u>
104,582	104,582	111,972	7,390
104,582	104,582	111,972	7,390
<u>2,123,907</u>	<u>2,123,985</u>	<u>2,170,303</u>	<u>46,318</u>
248,490	—	5,723	(5,723)
—	4	4	—
—	20	20	—
85	85	74	11
19,221	19,221	15,762	3,459
—	11,666	11,170	496
127,000	127,000	127,000	—
—	2,096	2,048	48
—	64,344	64,343	1
—	—	45,059	(45,059)
—	668,753	641,016	27,737
—	511,442	498,221	13,221
<u>394,796</u>	<u>1,404,631</u>	<u>1,410,440</u>	<u>(5,809)</u>
—	—	4,951	(4,951)
393,146	630,650	634,676	(4,026)
—	—	133,533	(133,533)
<u>393,146</u>	<u>630,650</u>	<u>773,160</u>	<u>(142,510)</u>
<u>787,942</u>	<u>2,035,281</u>	<u>2,183,600</u>	<u>(148,319)</u>
<u>\$ 1,335,965</u>	<u>\$ 88,704</u>	(13,297)	<u>\$ (102,001)</u>
		48,741	
		<u>\$ 35,444</u>	

Combining Budget to GAAP Reconciliation
Other Budgeted Nonmajor Governmental Funds

Fiscal Year Ended June 30, 2018

(Amounts in thousands)

	Commonwealth Transportation Fund	Environmental Funds	Public Safety Trust Fund*	Community First Trust Fund
Total actual revenues - budgetary basis (pages 166–169)	\$ 2,039,052	\$ 18,218	\$ 1,022	\$ —
Adjustments:				
Taxes receivable, net	5,046	(3)	—	—
Tax refunds and abatements payable, net	218	—	—	—
Federal grants receivables, net	—	(133)	—	—
Departmental and other receivables, net	259	(155)	—	—
Total actual revenues - GAAP basis (pages 162–165)	<u>\$ 2,044,575</u>	<u>\$ 17,927</u>	<u>\$ 1,022</u>	<u>\$ —</u>
Total actual other financing sources - budgetary basis (pages 166–169)	\$ 43,762	\$ 199	\$ —	\$ —
Adjustments:				
Miscellaneous adjustments	—	—	—	—
Total actual other financing sources - GAAP basis (pages 162–165)	<u>\$ 43,762</u>	<u>\$ 199</u>	<u>\$ —</u>	<u>\$ —</u>
Total actual expenditures- budgetary basis (pages 166–169)	\$ 1,317,019	\$ 15,836	\$ 2,072	\$ 11,170
Adjustment:				
Due to component units accrual, net	9,022	—	—	—
Reclassification:				
MassDOT transfers out is reclassified to expenditures	611,635	—	—	—
Debt service principal and interest payments are reclassified to transfers out to the debt service fund	(1,139,237)	—	—	—
Nonbudgeted fund included on a GAAP basis	—	—	—	1,668
Total actual expenditures - GAAP basis (pages 162–165)	<u>\$ 798,439</u>	<u>\$ 15,836</u>	<u>\$ 2,072</u>	<u>\$ 12,838</u>
Total actual other financing uses - budgetary basis (pages 166–169)	\$ 764,502	\$ 3,498	\$ 586	\$ 867
Reclassification:				
MassDOT transfers out is reclassified to expenditures	(611,635)	—	—	—
Higher education expenditures are reclassified to transfers out	—	—	—	—
Debt service principal and interest payments are reclassified to transfers out to the debt service fund	1,139,237	—	—	—
Nonbudgeted fund included on a GAAP basis	—	—	—	265
Total actual other financing uses - GAAP basis (pages 162–165)	<u>\$ 1,292,104</u>	<u>\$ 3,498</u>	<u>\$ 586</u>	<u>\$ 1,132</u>

* On a GAAP basis, the activities for the Public Safety Trust fund, the Gaming Local Aid fund, the Local Aid Stabilization Fund and the Marijuana Regulation Fund are combined in the other special revenue funds in the combined statement of revenues, expenditures and changes in fund balance. The revenues, other financing sources, expenditures and other financing uses of the other special revenue funds are \$119,677, \$95,526, \$170,844 and \$26,569, respectively (all amounts in thousands).

See Independent Auditors' Report

Gaming Local Aid Fund*	Local Aid Stabilization Fund*	Marijuana Regulation Fund*	Totals
\$ —	\$ —	\$ 39	\$ 2,058,331
—	—	—	5,043
—	—	—	218
—	—	—	(133)
—	—	—	104
<u>\$ —</u>	<u>\$ —</u>	<u>\$ 39</u>	<u>\$ 2,063,563</u>
\$ 68,011	\$ —	\$ —	\$ 111,972
(1)	—	—	(1)
<u>\$ 68,010</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 111,971</u>
\$ 64,343	\$ —	\$ —	\$ 1,410,440
—	—	—	9,022
—	—	—	611,635
—	—	—	(1,139,237)
—	—	—	1,668
<u>\$ 64,343</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 893,528</u>
\$ 3,668	\$ —	\$ 39	\$ 773,160
—	—	—	(611,635)
—	—	—	1,139,237
—	—	—	265
<u>\$ 3,668</u>	<u>\$ —</u>	<u>\$ 39</u>	<u>\$ 1,301,027</u>

Combining Statement of Net Position Available for Post-Employment Benefits

Pension and OPEB Trust Funds

June 30, 2018

(Amounts in thousands)

	Pension Trust Funds		OPEB Trust Fund	Total
	State Employees' PERS	Teacher's PERS	State Retiree Benefits	
ASSETS				
Cash and cash equivalents	\$ 103,761	\$ 109,801	\$ 99,528	\$ 313,090
Net investment in PRIT at fair value	27,758,610	28,588,059	1,088,179	57,434,848
Other receivables	27,645	95,316	—	122,961
Other assets	105,459	4,515	—	109,974
Total assets	27,995,475	28,797,691	1,187,707	57,980,873
LIABILITIES				
Accounts payable	454	5,980	138	6,572
Net position available for post-employment benefits	<u>\$ 27,995,021</u>	<u>\$ 28,791,711</u>	<u>\$ 1,187,569</u>	<u>\$ 57,974,301</u>

See Independent Auditors' Report

Combining Statement of Changes in Net Position Available for Post-Employment Benefits

Pension and OPEB Trust Funds

Fiscal Year Ended June 30, 2018

(Amounts in thousands)

	Pension Trust Funds		OPEB Trust Fund	Total
	State Employees' PERS	Teacher's PERS	State Retiree Benefits	
ADDITIONS				
Contributions:				
Employer contributions - Commonwealth and MassDOT.....	\$ 840,990	\$ —	\$ 542,896	\$ 1,383,886
Non-employer contributions - Commonwealth.....	35,184	1,314,783	—	1,349,967
Employer and non-employer contributions - other	9,564	—	—	9,564
ERIP funding contribution - Commonwealth.....	28,724	—	—	28,724
Employee contributions.....	600,705	755,688	—	1,356,393
Boston teachers' contribution from Commonwealth.....	—	131,298	—	131,298
Other additions	118,124	100,436	133	218,693
Total contributions	1,633,291	2,302,205	543,029	4,478,525
Net investment gain/(loss):				
Investment gain/(loss)	2,602,831	2,689,173	99,036	5,391,040
Less: investment expense	(142,083)	(146,597)	(5,728)	(294,408)
Net Investment gain/(loss)	2,460,748	2,542,576	93,308	5,096,632
Total additions	4,094,039	4,844,781	636,337	9,575,157
DEDUCTIONS				
Administration.....	16,369	19,528	150	36,047
Retirement benefits and refunds.....	2,314,447	2,992,578	443,763	5,750,788
Payments to State Boston Retirement System	—	131,298	—	131,298
Other deductions.....	50,434	48,275	1,262	99,971
Total deductions	2,381,250	3,191,679	445,175	6,018,104
Change in net position	1,712,789	1,653,102	191,162	3,557,053
Net position available for post-employment benefits at beginning of year	26,282,232	27,138,609	996,407	54,417,248
Net position available for post-employment benefits at end of year	\$ 27,995,021	\$ 28,791,711	\$ 1,187,569	\$ 57,974,301

See Independent Auditors' Report

Combining Statement of Net Position Held in Trust for Pool Participants

External Investment Trust Funds

June 30, 2018

(Amounts in thousands)

	Massachusetts Municipal Depository Trust	Pension Reserves Investment Trust	Total
ASSETS			
Cash and cash equivalents	\$ 4,147,267	\$ —	\$ 4,147,267
Short-term investments.....	39,075	—	39,075
Net investment in PRIT at fair value.....	—	14,362,901	14,362,901
Receivables, net of allowance for uncollectibles:			
Other receivables	6,054	—	6,054
Total assets	4,192,396	14,362,901	18,555,297
LIABILITIES			
Accounts payable	36,185	—	36,185
Net position held in trust for pool/pension participants	\$ 4,156,211	\$ 14,362,901	\$ 18,519,112

See Independent Auditors' Report

Combining Statement of Changes in Net Position Held in Trust for Pool Participants
External Investment Trust Funds
Fiscal Year Ended June 30, 2018
(Amounts in thousands)

	Massachusetts Municipal Depository Trust	Pension Reserves Investment Trust	Total
ADDITIONS			
Contributions:			
Other participant contributions	\$ —	\$ 1,192,119	\$ 1,192,119
Proceeds from sale of units	25,164,571	—	25,164,571
Total contributions	25,164,571	1,192,119	26,356,690
Net investment gain/(loss):			
Investment gain/(loss)	61,225	1,566,055	1,627,280
Less: investment expense	(1,937)	(294,830)	(296,767)
Net Investment gain/(loss)	59,288	1,271,225	1,330,513
Total additions	25,223,859	2,463,344	27,687,203
DEDUCTIONS			
Cost of units redeemed	24,813,579	—	24,813,579
Distributions to unit holders from net interest income	60,030	—	60,030
Retirement benefits and refunds	—	995,258	995,258
Total deductions	24,873,609	995,258	25,868,867
Change in net position	350,250	1,468,086	1,818,336
Net position held in trust for pool/participants at beginning of year	3,805,961	12,894,815	16,700,776
Net position held in trust for pool/participants at end of year	\$ 4,156,211	\$ 14,362,901	\$ 18,519,112

See Independent Auditors' Report

Combining Statement of Changes in Assets and Liabilities

Agency Funds

Fiscal Year Ended June 30, 2018

(Amounts in thousands)

	Balance July 1, 2017	Additions	Deductions	Balance June 30, 2018
<u>Central Agency Funds</u>				
ASSETS				
Cash and cash equivalents	\$ 359,373	\$ 16,096,964	\$ (16,167,894)	\$ 288,443
Investments, restricted investments and annuity contracts	1,062,350	59,008	(149,925)	971,433
Taxes receivable	37,578	41,382	(37,578)	41,382
Other receivables	9,480	—	(9,480)	—
Total assets	\$ 1,468,781	\$ 16,197,354	\$ (16,364,877)	\$ 1,301,258
LIABILITES				
Accounts payable	\$ 114,870	\$ 6,906,760	\$ (6,985,988)	\$ 35,642
Due to cities and towns	47,536	617,655	(621,775)	43,416
Due to federal government	1	99	(99)	1
Lottery prizes payable	1,062,350	59,008	(149,924)	971,434
Agency liabilities	244,024	5,151,139	(5,144,398)	250,765
Total liabilities	\$ 1,468,781	\$ 12,734,661	\$ (12,902,184)	\$ 1,301,258
<u>Court Escrow and Client Accounts</u>				
ASSETS				
Cash and cash equivalents	\$ 170,250	\$ 1,521,749	\$ (1,521,442)	\$ 170,557
Other receivables	121,437	127,101	(121,437)	127,101
Total assets	\$ 291,687	\$ 1,648,850	\$ (1,642,879)	\$ 297,658
LIABILITES				
Accounts payable	\$ 356	\$ 1,934,953	\$ (1,929,421)	\$ 5,888
Agency liabilities	291,331	869,777	(869,338)	291,770
Total liabilities	\$ 291,687	\$ 2,804,730	\$ (2,798,759)	\$ 297,658
<u>Statutory Bonds and Deposits</u>				
ASSETS				
Cash and cash equivalents	\$ 101,158	\$ 1,227,990	\$ (1,184,656)	\$ 144,492
Investments, restricted investments and annuity contracts	552,977	10,040	(43,521)	519,496
Total assets	\$ 654,135	\$ 1,238,030	\$ (1,228,177)	\$ 663,988
LIABILITES				
Agency liabilities	\$ 654,135	\$ 694,491	\$ (684,638)	\$ 663,988

See Independent Auditors' Report

Combining Statement Changes in Assets and Liabilities

Agency Funds

Fiscal Year Ended June 30, 2018

(Amounts in thousands)

	Balance July 1, 2017	Additions	Deductions	Balance June 30, 2018
<u>Total Agency Funds</u>				
ASSETS				
Cash and cash equivalents	\$ 630,781	\$ 18,846,703	\$ (18,873,992)	\$ 603,492
Investments, restricted investments and annuity contracts	1,615,327	69,048	(193,446)	1,490,929
Taxes receivable	37,578	41,382	(37,578)	41,382
Other receivables	130,917	127,101	(130,917)	127,101
Total assets	<u>\$ 2,414,603</u>	<u>\$ 19,084,234</u>	<u>\$ (19,235,933)</u>	<u>\$ 2,262,904</u>
LIABILITIES				
Accounts payable	\$ 115,226	\$ 8,841,713	\$ (8,915,409)	\$ 41,530
Due to cities and towns	47,536	617,655	(621,775)	43,416
Due to federal government	1	99	(99)	1
Lottery prizes payable	1,062,350	59,008	(149,924)	971,434
Agency liabilities	1,189,490	6,715,407	(6,698,374)	1,206,523
Total liabilities	<u>\$ 2,414,603</u>	<u>\$ 16,233,882</u>	<u>\$ (16,385,581)</u>	<u>\$ 2,262,904</u>

See Independent Auditors' Report

Combining Statement of Net Position
Nonmajor Discretely Presented Component Units
June 30, 2018
(Amounts in thousands)

	Massachusetts Convention Center Authority	Massachusetts Development Finance Agency	Massachusetts Clean Energy Center	Massachusetts Technology Park Corporation	Massachusetts Housing Partnership	Economic Development Entities	Higher Education Foundations	Total
ASSETS AND DEFERRED OUTFLOWS								
Current assets:								
Cash and cash equivalents.....	\$ 31,343	\$ 20,536	\$ 29,013	\$ 342	\$ 70,234	\$ 68,498	\$ 26,956	\$ 246,922
Short-term investments.....	—	71,090	141,384	10,755	33,156	2,699	44,660	303,744
Restricted cash and investments.....	587	97,560	35,665	20,227	—	78,026	1,911	233,976
Assets held in trust.....	18,369	—	—	—	—	1,080	—	19,449
Receivables, net of allowance for uncollectibles:								
Loans.....	380	16,440	3,341	—	41,087	11,069	—	72,317
Other receivables.....	6,829	9,173	2,807	603	2,912	3,770	7,439	33,533
Due from primary government.....	7,112	5,319	—	9,984	—	23,583	13	46,011
Inventory.....	—	—	—	—	—	85	—	85
Other current assets.....	2,146	3,248	469	453	—	360	5,815	12,491
Total current assets.....	66,766	223,366	212,679	42,364	147,389	189,170	86,794	968,528
Noncurrent assets:								
Cash and cash equivalents - restricted.....	—	16,035	—	11,703	—	—	—	27,738
Long - term investments.....	—	66,046	—	—	—	—	749,505	815,551
Restricted investments.....	—	—	—	—	—	—	54,892	54,892
Accounts receivables, net.....	—	857	—	—	—	1,201	15,047	17,105
Loans receivables, net.....	15,671	76,987	—	—	540,270	36,763	—	669,691
Non-depreciable capital assets.....	183,906	8,625	4,891	—	—	—	18,704	216,126
Depreciable capital assets, net.....	501,394	163,658	119,060	64,438	533	20,226	41,444	910,753
Other noncurrent assets.....	—	7,528	—	—	599	3,979	2,979	15,085
Total noncurrent assets.....	700,971	339,736	123,951	76,141	541,402	62,169	882,571	2,726,941
Total assets.....	767,737	563,102	336,630	118,505	688,791	251,339	969,365	3,695,469
Deferred outflows of resources:								
Deferred change in fair value of interest rate swaps.....	—	—	—	—	148	—	—	148
Deferred outflows related to pension.....	6,900	—	—	—	—	—	—	6,900
Deferred outflows related to OPEB.....	38	—	—	—	—	—	—	38
Total deferred outflows of resources.....	6,938	—	—	—	148	—	—	7,086
Total assets and deferred outflows.....	774,675	563,102	336,630	118,505	688,939	251,339	969,365	3,702,555
LIABILITIES AND DEFERRED INFLOWS								
Current liabilities:								
Accounts payable and other liabilities.....	13,398	18,627	9,493	19,483	751	22,281	35,002	119,035
Accrued payroll.....	—	—	—	—	1,126	566	—	1,692
Compensated absences.....	970	995	—	—	—	559	—	2,524
Accrued interest payable.....	—	229	—	—	1,988	—	—	2,217
Due to primary government.....	—	543	—	—	—	—	1,404	1,947
Unearned revenue.....	13,578	17,768	—	2,226	—	36,472	1,299	71,343
Bonds, notes payable and other obligations.....	—	5,380	—	—	36,906	2,884	1,542	46,712
Total current liabilities.....	27,946	43,542	9,493	21,709	40,771	62,762	39,247	245,470
Noncurrent liabilities:								
Compensated absences.....	1,273	—	—	577	—	153	—	2,003
Due to primary government.....	—	7,935	—	—	—	—	—	7,935
Unearned revenue.....	417	—	—	—	—	145	—	562
Bonds, notes payable and other obligations.....	—	7,727	—	—	524,225	67,860	11,595	611,407
Net pension liability.....	39,704	—	—	—	—	—	—	39,704
Net OPEB liability.....	8,526	—	—	—	—	—	—	8,526
Other noncurrent liabilities.....	—	7,650	—	4,041	64,735	1,130	3,087	80,643
Total noncurrent liabilities.....	49,920	23,312	—	4,618	588,960	69,288	14,682	750,780
Total liabilities.....	77,866	66,854	9,493	26,327	629,731	132,050	53,929	996,250
Deferred inflows of resources:								
Deferred service concession arrangements.....	—	713	—	—	—	290	—	1,003
Deferred inflows related to pension.....	3,437	—	—	—	—	—	—	3,437
Total deferred inflows of resources.....	3,437	713	—	—	—	290	—	4,440
Total liabilities and deferred inflows.....	81,303	67,567	9,493	26,327	629,731	132,340	53,929	1,000,690
NET POSITION								
Net investment in capital assets.....	685,300	152,325	123,951	64,439	533	24,150	42,776	1,093,474
Restricted for:								
Other purposes.....	18,128	168,895	35,665	21,473	20,822	52,802	791,945	1,109,730
Unrestricted.....	(10,056)	174,315	167,521	6,266	37,853	42,047	80,715	498,661
Total net position.....	\$ 693,372	\$ 495,535	\$ 327,137	\$ 92,178	\$ 59,208	\$ 118,999	\$ 915,436	\$ 2,701,865

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Combining Statement of Revenues, Expenses and Changes in Net Position

Nonmajor Discretely Presented Component Units

Fiscal Year Ended June 30, 2018

(Amounts in thousands)

	Massachusetts Convention Center Authority	Massachusetts Development Finance Agency	Massachusetts Clean Energy Center	Massachusetts Technology Park Corporation	Massachusetts Housing Partnership	Economic Development Entities	Higher Education Foundations	Total
Operating revenues:								
Charges for services.....	\$ 70,615	\$ 56,387	\$ 1,927	\$ 5,303	\$ 10,859	\$ 98,300	\$ 15,297	\$ 258,688
Other	5,873	3,136	22,264	14,091	—	2,191	37,039	84,594
Total operating revenues	76,488	59,523	24,191	19,394	10,859	100,491	52,336	343,282
Operating expenses:								
Cost of services.....	53,280	50,644	40,779	34,970	714	99,244	—	279,631
Administration costs	32,346	17,781	11,830	297	7,681	16,140	54,949	141,024
Depreciation.....	52,526	10,044	3,730	6,891	143	1,588	1,736	76,658
Total operating expenses	138,152	78,469	56,339	42,158	8,538	116,972	56,685	497,313
Operating income/(loss)	(61,664)	(18,946)	(32,148)	(22,764)	2,321	(16,481)	(4,349)	(154,031)
Nonoperating revenues/(expenses):								
Operating grants	14,241	397	26,571	—	417	13,003	—	54,629
Interest income/(loss)	1,390	2,840	—	736	1,068	887	30,585	37,506
Other nonoperating revenue/(expense).....	1,665	(1,414)	8,177	—	1,271	(5,713)	46,074	50,060
Nonoperating revenues/(expenses), net..	17,296	1,823	34,748	736	2,756	8,177	76,659	142,195
Income/(loss) before contributions	(44,368)	(17,123)	2,600	(22,028)	5,077	(8,304)	72,310	(11,836)
Capital contributions.....	8,409	35,274	—	—	—	2,577	—	46,260
Change in net position/(deficits)	(35,959)	18,151	2,600	(22,028)	5,077	(5,727)	72,310	34,424
Net position - beginning, as restated	729,331	477,384	324,537	114,206	54,131	124,726	843,126	2,667,441
Net position - ending	\$ 693,372	\$ 495,535	\$ 327,137	\$ 92,178	\$ 59,208	\$ 118,999	\$ 915,436	\$ 2,701,865

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Statistical Section

(Unaudited)

Schedule of Net Position by Component – Last Ten Fiscal Years
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Statistical Section Narrative and Table of Contents

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These schedules contain trend information to help the reader understand how the Commonwealth's financial performance and fiscal health has changed over time. The schedules are presented for the last ten fiscal years, except where noted. Schedules included are:

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Schedule of Net Position by Component

Last Ten Fiscal Years

(Amounts in thousands)

	2018	2017	2016	2015*	2014*
Governmental activities					
Net investment in capital assets.....	\$ (1,446,934)	\$ (1,320,834)	\$ (1,067,098)	\$ (768,411)	\$ (502,370)
Restricted.....	1,546,202	1,926,716	1,538,662	1,541,566	1,455,704
Unrestricted.....	(74,254,002)	(63,992,915)	(59,111,509)	(55,626,596)	(53,381,910)
Total governmental activities net position...	\$ (74,154,734)	\$ (63,387,033)	\$ (58,639,945)	\$ (54,853,441)	\$ (52,428,576)
Business-type activities					
Net investment in capital assets.....	\$ 3,780,850	\$ 3,623,966	\$ 3,311,658	\$ 3,055,444	\$ 2,794,845
Restricted.....	1,833,109	1,735,575	1,745,840	1,539,785	1,590,545
Unrestricted.....	(595,063)	722,923	678,667	697,056	675,796
Total business-type activities net position ...	\$ 5,018,896	\$ 6,082,464	\$ 5,736,165	\$ 5,292,285	\$ 5,061,186
Commonwealth net position					
Net investment in capital assets.....	\$ 2,333,916	\$ 2,303,132	\$ 2,244,560	\$ 2,287,033	\$ 2,292,475
Restricted.....	3,379,311	3,662,291	3,284,502	3,081,351	3,046,249
Unrestricted.....	(74,849,065)	(63,269,992)	(58,432,842)	(54,929,540)	(52,706,114)
Total Commonwealth net position	\$ (69,135,838)	\$ (57,304,569)	\$ (52,903,780)	\$ (49,561,156)	\$ (47,367,390)

*Restated

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2013	2012	2011	2010*	2009*
\$ (592,483)	\$ (849,338)	\$ (722,469)	\$ (885,593)	\$ 189,913
1,386,416	1,456,715	1,520,702	1,403,877	1,377,951
(26,733,809)	(24,905,165)	(23,631,098)	(22,891,629)	(13,721,519)
\$ (25,939,876)	\$ (24,297,788)	\$ (22,832,865)	\$ (22,373,345)	\$ (12,153,655)
\$ 2,605,263	\$ 2,366,038	\$ 2,026,223	\$ 1,767,434	\$ 1,698,825
1,209,630	1,576,865	1,364,646	1,148,751	1,609,145
1,026,230	969,309	978,043	857,263	621,952
\$ 4,841,123	\$ 4,912,212	\$ 4,368,912	\$ 3,773,448	\$ 3,929,922
\$ 2,012,780	\$ 1,516,700	\$ 1,303,754	\$ 881,841	\$ 1,888,738
2,596,046	3,033,580	2,885,348	2,552,628	2,987,096
(25,707,579)	(23,935,856)	(22,653,055)	(22,034,366)	(13,099,567)
\$ (21,098,753)	\$ (19,385,576)	\$ (18,463,953)	\$ (18,599,896)	\$ (8,223,733)

Changes in Net Position
Last Ten Fiscal Years
(Amounts in thousands)

	2018	2017	2016	2015	2014 (1)
EXPENSES					
Governmental Activities:					
General government.....	\$ 2,792,578	\$ 2,764,614	\$ 2,616,051	\$ 2,703,519	\$ 2,521,394
Judiciary.....	1,162,698	1,226,221	1,154,038	1,026,429	1,007,234
Direct local aid.....	5,900,634	5,734,682	5,598,687	5,469,412	5,353,521
Medicaid.....	18,105,722	17,182,691	16,825,110	15,086,742	14,034,862
Group health insurance.....	1,648,278	1,668,100	1,632,703	1,657,018	1,403,590
Energy and environmental.....	732,161	720,182	1,069,510	671,801	615,854
Housing and economic development.....	1,544,103	1,411,189	1,367,957	1,314,980	1,289,156
Health and human services.....	8,298,704	8,131,843	7,912,817	7,605,180	7,308,295
Transportation and public works.....	2,483,768	2,535,121	2,711,910	2,689,975	2,379,178
Early elementary and secondary education.....	6,101,603	6,243,115	5,420,052	4,654,161	4,714,555
Public safety and homeland security.....	2,757,266	2,913,849	2,746,612	2,486,107	2,451,881
Labor and workforce development.....	295,061	312,510	324,678	309,091	352,454
Lottery.....	4,325,321	4,128,209	4,299,592	4,109,611	3,980,980
Interest (unallocated).....	1,419,910	1,384,248	1,250,004	1,263,218	1,197,709
Total governmental activities.....	\$ 57,567,807	\$ 56,356,574	\$ 54,929,721	\$ 51,047,244	\$ 48,610,664
Business-type Activities:					
Unemployment compensation.....	1,552,404	1,514,002	1,499,811	1,598,084	2,036,431
Higher Education:					
University of Massachusetts.....	3,307,087	3,167,596	3,151,215	2,809,062	2,925,013
State Universities.....	1,089,554	1,063,196	1,002,577	994,341	922,383
Community Colleges.....	891,991	936,241	928,067	891,906	852,946
Total business-type activities.....	\$ 6,841,036	\$ 6,681,035	\$ 6,581,670	\$ 6,293,393	\$ 6,736,773
Total Commonwealth expenses.....	\$ 64,408,843	\$ 63,037,609	\$ 61,511,391	\$ 57,340,637	\$ 55,347,437
REVENUES					
Program Revenues:					
Governmental Activities:					
Charges for services:					
General government.....	\$ 652,138	\$ 594,132	\$ 565,434	\$ 634,289	\$ 361,105
Judiciary.....	91,500	95,937	100,568	105,521	108,766
Medicaid.....	1,054,698	897,542	841,697	1,052,170	1,226,108
Group health insurance.....	941,946	802,628	799,011	755,712	660,359
Energy and environmental.....	273,504	249,565	289,738	253,856	262,339
Housing and economic development.....	213,530	194,940	173,941	164,438	165,365
Health and human services.....	1,292,584	1,359,519	1,224,967	405,710	483,080
Transportation and public works.....	625,595	596,200	577,292	577,430	530,853
Early elementary and secondary education.....	7,846	7,919	7,508	7,649	10,067
Public safety and homeland security.....	248,234	280,400	284,264	256,596	228,730
Labor and workforce development.....	269,293	40,652	38,581	175,130	150,394
Lottery.....	5,436,551	5,254,468	5,405,128	5,193,545	5,049,536
Total Charges for services.....	\$ 11,107,419	\$ 10,373,902	\$ 10,308,129	\$ 9,582,046	\$ 9,236,702
Operating grants and contributions.....	16,230,934	15,519,380	15,158,087	13,950,227	13,121,648
Capital grants and contributions.....	99,002	58,354	85,759	81,475	30,699
Total governmental activities.....	\$ 27,437,355	\$ 25,951,636	\$ 25,551,975	\$ 23,613,748	\$ 22,389,049
Business-type Activities:					
Charges for services:					
Unemployment Compensation.....	1,582,755	1,468,492	1,611,096	1,492,067	1,897,495
Higher Education:					
University of Massachusetts.....	1,907,824	1,882,899	1,875,144	1,602,043	1,697,585
State Universities.....	658,608	654,170	616,025	583,669	558,170
Community Colleges.....	262,629	274,868	274,252	266,956	270,512
Operating grants and contributions.....	932,962	909,228	891,823	936,917	1,347,423
Capital grants and contributions.....	160,201	238,621	265,714	206,128	122,081
Total business-type activities.....	\$ 5,504,979	\$ 5,428,278	\$ 5,534,054	\$ 5,087,780	\$ 5,893,266
Total Commonwealth program revenues.....	\$ 32,942,334	\$ 31,379,914	\$ 31,086,029	\$ 28,701,528	\$ 28,282,315
General Revenues and Other Changes in Net Position (all types consolidated):					
Governmental Activities:					
Taxes (all types):					
Investment earnings and miscellaneous.....	1,283,168	994,982	1,160,994	1,251,193	1,131,754
Transfers.....	(1,123,731)	(1,286,709)	(1,246,055)	(1,429,174)	(1,205,141)
Transfers to/from MassDOT.....	—	—	—	—	—
Total governmental activities.....	\$ 28,123,530	\$ 25,657,850	\$ 25,591,242	\$ 25,031,845	\$ 23,245,781
Business-type Activities:					
Investment earnings and miscellaneous.....	423,390	312,347	245,441	7,536	306,690
Other losses.....	—	—	—	—	—
Transfers.....	1,123,731	1,286,709	1,246,055	1,429,174	1,205,141
Total business-type activities.....	\$ 1,547,121	\$ 1,599,056	\$ 1,491,496	\$ 1,436,710	\$ 1,511,831
Total Commonwealth general revenues.....	\$ 29,670,651	\$ 27,256,906	\$ 27,082,738	\$ 26,468,555	\$ 24,757,612
CHANGES IN NET POSITION					
Governmental activities.....	\$ (2,006,922)	\$ (4,747,088)	\$ (3,786,504)	\$ (2,401,651)	\$ (2,975,834)
Business-type activities.....	211,064	346,299	443,880	231,099	668,324
Restatements.....	—	—	—	—	—
Total changes in net position including restatements.....	\$ (1,795,858)	\$ (4,400,789)	\$ (3,342,624)	\$ (2,170,552)	\$ (2,307,510)

(1) - Prior year amounts were reclassified to conform to current year presentation.
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	2013 (1)	2012 (1)	2011 (1)	2010	2009
\$	2,571,685	\$ 2,384,142	\$ 2,312,037	\$ 2,317,016	\$ 2,591,953
	983,314	936,113	1,000,902	991,310	1,089,569
	5,179,104	4,991,532	4,845,738	5,030,363	5,210,451
	12,286,342	11,708,397	12,124,261	10,677,999	10,842,549
	1,282,661	1,218,079	1,113,544	1,092,178	977,565
	524,632	568,898	689,258	305,233	407,289
	1,250,008	1,246,213	1,365,368	1,291,142	1,036,891
	7,737,736	7,619,987	7,139,948	7,110,366	7,326,979
	1,868,020	1,759,589	2,270,136	2,062,054	1,319,110
	4,493,537	4,336,326	3,585,958	3,806,149	3,574,455
	2,391,982	2,323,452	2,295,561	2,292,163	2,462,398
	385,757	472,044	498,560	470,878	463,901
	3,982,700	3,877,305	3,661,834	3,649,396	3,693,318
	1,206,542	1,202,772	1,177,569	1,090,471	1,116,278
	46,144,020	44,644,849	44,080,673	42,186,717	42,112,704
	2,718,447	3,466,500	4,388,360	5,435,611	3,475,027
	2,759,488	2,684,039	2,865,015	2,640,134	2,474,797
	864,161	851,118	834,453	762,043	736,972
	814,245	801,038	772,883	716,526	671,923
	7,156,341	7,802,695	8,860,711	9,554,314	7,358,719
\$	53,300,361	52,447,544	52,941,384	51,741,031	49,471,424
\$	352,291	\$ 458,320	\$ 443,869	\$ 464,592	\$ 436,344
	111,384	114,170	120,293	128,198	123,819
	471,539	297,566	258,032	185,463	180,380
	619,982	495,377	431,078	349,870	230,456
	228,019	214,340	270,449	214,269	226,754
	150,690	142,320	142,387	221,340	178,011
	1,143,551	931,535	896,328	797,929	718,628
	567,348	505,842	502,004	517,045	494,733
	6,748	6,783	6,645	9,661	15,728
	218,643	205,546	193,983	202,427	175,069
	246,577	237,772	142,731	38,319	37,728
	5,041,329	4,940,151	4,630,205	4,626,777	4,643,592
	9,158,101	8,549,722	8,038,003	7,755,891	7,461,243
	12,836,122	12,909,908	14,217,481	12,771,164	12,059,019
	18,726	79,733	168,912	779,403	853,221
	22,012,948	21,539,363	22,424,397	21,306,458	20,373,482
	1,923,476	1,982,602	1,945,801	1,727,964	1,671,098
	1,640,296	1,519,496	1,685,386	1,527,880	1,419,932
	533,347	523,979	530,078	479,900	442,685
	281,428	275,778	250,341	235,865	219,986
	1,791,196	2,525,342	3,500,210	4,020,351	1,721,199
	123,396	162,271	42,819	48,684	56,377
	6,293,139	6,989,468	7,954,635	8,040,644	5,531,277
\$	28,306,087	28,528,831	30,379,032	29,347,102	25,904,759
\$	22,599,332	\$ 21,403,426	\$ 21,066,430	\$ 19,034,227	\$ 18,499,273
	985,713	1,393,094	991,230	1,474,995	1,489,018
	(1,096,061)	(1,155,955)	(860,904)	(864,697)	(1,070,652)
	—	—	—	(8,983,955)	—
	22,488,984	21,640,565	21,196,756	10,660,570	18,917,639
	271,832	214,056	652,489	504,404	83,850
	—	—	(10,746)	(12,125)	(11,530)
	1,096,061	1,155,955	860,904	864,697	1,070,652
	1,367,893	1,370,011	1,502,647	1,356,976	1,142,972
\$	23,856,877	23,010,576	22,699,403	12,017,546	20,060,611
\$	(1,642,088)	\$ (1,464,923)	\$ (459,521)	\$ (10,219,688)	\$ (2,821,583)
	504,691	556,784	596,571	(156,694)	(684,470)
	—	—	—	—	(152,800)
\$	(1,137,397)	(908,139)	137,050	(10,376,382)	(3,658,853)

Fund Balances, Governmental Funds

Last Ten Fiscal Years

(Modified accrual basis of accounting)

(Amounts in thousands)

	2018	2017	2016	2015	2014
Total Unreserved general fund	\$ —	\$ —	\$ —	\$ —	\$ —
All Other Governmental Funds					
Reserved.....	—	—	—	—	—
Unreserved:					
Special Revenue Funds	—	—	—	—	—
Capital Projects Funds.....	—	—	—	—	—
Permanent Trust Funds.....	—	—	—	—	—
Total Unreserved	—	—	—	—	—
Total all other governmental funds	—	—	—	—	—
Total governmental fund balances	\$ —	\$ —	\$ —	\$ —	\$ —

* 2010 has been restated for GASB 54 presentation. Years prior have not been restated.

Fund balances GASB 54 :

Nonspendable **	\$ —	\$ —	\$ —	\$ —	\$ —
Restricted **	1,519,833	1,926,716	1,377,671	1,792,461	1,518,671
Committed	3,301,976	2,351,175	2,421,647	2,375,021	2,249,906
Assigned	955,830	684,655	845,567	576,632	510,353
Unassigned.....	1,060,559	634,324	628,420	561,105	340,505
Total governmental fund balances	\$ 6,838,198	\$ 5,596,870	\$ 5,273,305	\$ 5,305,218	\$ 4,619,434

** amounts in prior years have been reclassified to conform to current year presentation

See Independent Auditors' Report

2013	2012	2011	2010*	2009*
\$ —	\$ —	\$ —	\$ —	\$ 1,734,822
—	—	—	—	1,401,985
—	—	—	—	2,044,674
—	—	—	—	(125,138)
—	—	—	—	5,000
—	—	—	—	1,924,536
—	—	—	—	3,326,521
\$ —	\$ —	\$ —	\$ —	\$ 5,061,343

\$ —	\$ —	\$ —	\$ 5,000
1,558,842	2,196,201	1,675,969	1,906,663
2,324,228	2,404,158	2,020,009	2,166,175
595,085	574,621	750,462	156,483
391,795	1,143,978	821,188	351,395
\$ 4,869,950	\$ 6,318,958	\$ 5,267,628	\$ 4,585,716

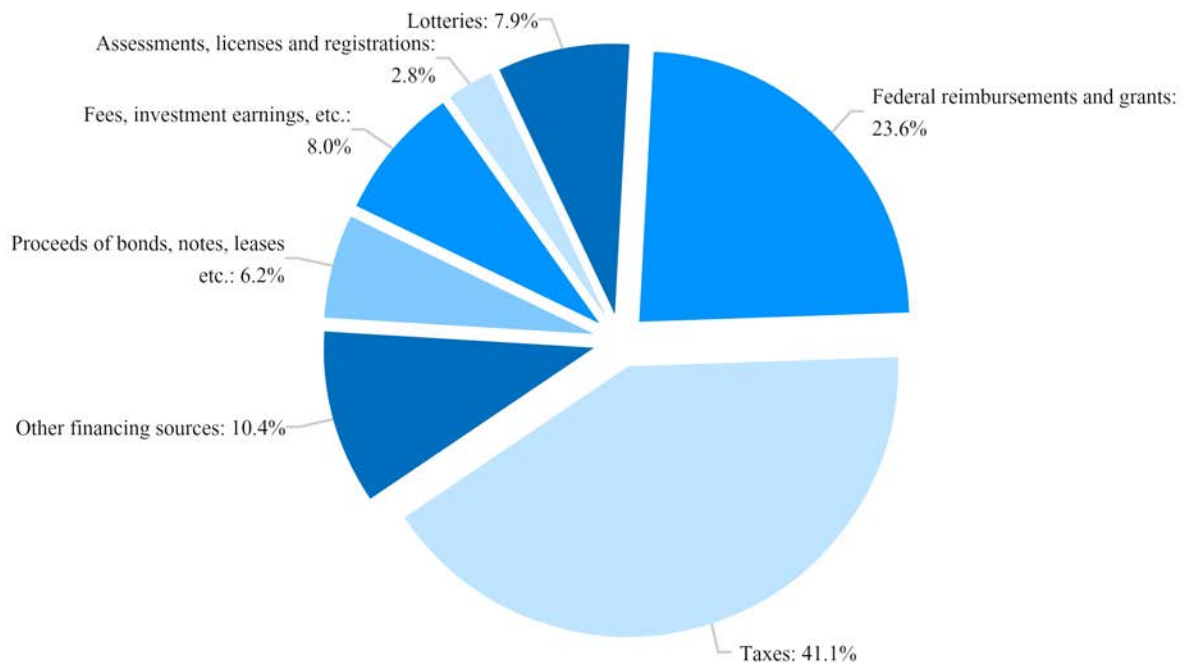
Ten-Year Schedule of Revenues and Other Financing Sources
All Governmental Fund Types - Fund Perspective
(Modified Accrual Basis of Accounting)

(Amounts in millions)

	2018	% Total	2017	% Total	2016	% Total	2015	% Total	2014	% Total
Taxes.....	\$ 28,243	41.1	\$ 25,828	37.7	\$ 25,746	38.0	\$ 25,258	41.7	\$ 23,786	41.6
Federal reimbursements.....	12,647	18.3	11,932	17.4	11,577	17.1	10,462	17.2	9,417	16.5
Federal grants	3,684	5.3	3,635	5.3	3,656	5.4	3,583	5.9	3,730	6.5
Lotteries.....	5,442	7.9	5,258	7.7	5,406	8.0	5,194	8.6	5,049	8.8
Assessments.....	1,354	2.0	1,219	1.8	1,104	1.6	1,026	1.7	1,080	1.8
Motor vehicle licenses and registrations	566	0.8	554	0.8	546	0.8	546	0.9	495	0.9
Fees, investment earnings, etc.....	5,518	8.0	4,966	7.3	4,957	7.3	4,540	7.5	4,152	7.3
Issuance of general and special obligation bonds.....	2,779	4.0	3,464	5.1	3,969	5.9	3,761	6.2	2,360	4.1
Issuance of refunding bonds.....	993	1.4	1,853	2.7	1,463	2.2	632	1	1,236	2.2
Bond premiums	562	0.8	812	1.2	613	0.9	379	0.6	193	0.3
Proceeds of capital lease.....	—	—	1	—	31	—	31	0.1	11	—
Other financing sources.....	7,202	10.4	8,915	13.0	8,682	12.8	5,247	8.6	5,701	10.0
Total revenues and other financing sources.....	\$ 68,990	100.0	\$ 68,437	100.0	\$ 67,750	100.0	\$ 60,659	100.0	\$ 57,210	100.0

See Independent Auditors' Report

**Apportionment of Revenues by Source -
Fiscal Year Ended June 30, 2018**



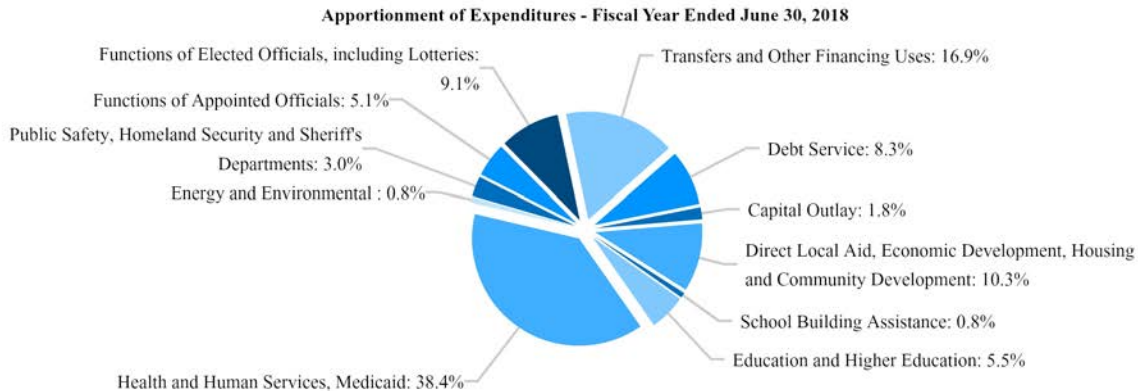
2013	% Total	2012	% Total	2011	% Total	2010	% Total	2009	% Total
\$ 22,391	40.5	\$ 21,533	39.6	\$ 20,854	38.7	\$ 18,991	37.3	\$ 18,354	36.9
8,981	16.2	8,934	16.4	10,066	18.8	9,453	18.5	9,392	18.9
3,887	7.0	4,051	7.5	4,311	8.0	4,097	8.0	3,510	7
5,042	9.1	4,944	9.1	4,631	8.6	4,628	9.1	4,650	9.3
1,093	2.0	1,024	1.9	980	1.8	965	2.0	929	1.9
487	0.9	474	0.9	461	0.9	463	0.9	383	0.8
3,750	6.8	3,823	7.0	3,246	6.0	3,365	6.6	3,204	6.4
1,471	2.7	2,902	5.3	2,233	4.1	2,419	4.7	2,042	4.1
1,913	3.5	388	0.7	888	1.6	538	1.1	390	0.8
398	0.7	260	0.5	130	0.2	16	0.0	99	0.2
1	—	4	—	12	—	17	0.0	18	—
5,876	10.6	6,033	11.1	6,086	11.3	6,027	11.8	6,817	13.7
<u>\$ 55,290</u>	<u>100.0</u>	<u>\$ 54,370</u>	<u>100.0</u>	<u>\$ 53,898</u>	<u>100.0</u>	<u>\$ 50,979</u>	<u>100.0</u>	<u>\$ 49,788</u>	<u>100.0</u>

Ten-Year Schedule of Expenditures and Other Financing Uses by Secretariat
All Governmental Fund Types - Fund Perspective
(Modified Accrual Basis of Accounting)
(Amounts in millions)

	2018	% Total	2017	% Total	2016	% Total	2015	% Total	2014	% Total
Legislature.....	\$ 68	0.1	\$ 67	0.1	\$ 61	0.1	\$ 61	0.1	\$ 56	0.1
Judiciary.....	921	1.4	908	1.3	880	1.3	845	1.4	816	1.4
Inspector General.....	5	—	4	—	5	—	5	—	6	—
Governor and Lieutenant Governor.....	7	—	7	—	7	—	6	—	5	—
Secretary of the Commonwealth.....	45	0.1	51	0.1	44	0.1	50	0.1	51	0.1
Treasurer and Receiver-General.....	5,854	8.6	5,657	8.2	5,799	8.7	5,602	9.7	5,327	9.5
Auditor of the Commonwealth.....	19	—	18	—	19	—	18	—	18	—
Attorney General.....	98	0.1	76	0.1	67	0.1	41	0.1	88	0.2
Ethics Commission.....	2	—	2	—	2	—	2	—	2	—
District Attorney.....	129	0.2	130	0.2	124	0.2	119	0.2	115	0.2
Office of Campaign and Political Finance.....	2	—	2	—	2	—	3	—	1	—
Sheriff's Department.....	635	0.9	624	0.9	616	0.9	593	1.0	565	1.0
Disabled Persons Protection Commission.....	4	—	3	—	3	—	3	—	2	—
Board of Library Commissioners.....	28	—	28	—	28	—	28	—	25	—
Massachusetts Gaming Commission.....	44	0.1	37	0.1	34	0.1	23	—	23	—
Comptroller.....	16	—	17	—	17	—	16	—	16	—
Administration and finance.....	2,475	3.7	2,444	3.6	2,416	3.6	2,490	4.2	2,296	4.0
Energy and environmental.....	445	0.7	405	0.6	436	0.6	417	0.7	410	0.7
Health and human services.....	7,813	11.5	7,463	11.0	7,402	10.9	7,211	12.0	6,957	12.1
Executive Office of Technology Services.....	81	0.1	—	—	—	—	—	—	—	—
Transportation and public works.....	—	—	—	—	—	—	—	—	—	—
Massachusetts department of transportation.....	2,387	3.5	2,391	3.5	2,595	3.8	2,611	4.4	2,296	4.0
Office of the Child Advocate.....	1	—	1	—	1	—	—	—	—	—
Cannabis Control Commission.....	2	—	—	—	—	—	—	—	—	—
Executive office of education*.....	3,723	5.5	3,589	5.3	3,478	5.1	3,320	5.5	3,201	5.6
Center for Health and Information Analysis.....	21	—	23	—	27	—	28	—	26	—
Massachusetts school building assistance.....	550	0.8	621	0.9	626	0.9	732	1.2	869	1.5
Higher education.....	—	—	—	—	—	—	—	—	—	—
Public safety and homeland security.....	1,400	2.1	1,374	2.0	1,385	2.0	1,334	2.2	1,274	2.2
Housing and economic development*.....	1,089	1.6	1,021	1.5	1,048	1.5	1,021	1.7	1,035	1.8
Labor and workforce development*.....	255	0.4	259	0.4	277	0.4	269	0.4	330	0.6
Medicaid.....	18,106	26.9	17,183	25.2	16,825	24.9	15,087	25.2	14,035	24.4
Pension.....	1,294	1.9	1,127	1.7	1,103	1.6	902	1.5	865	1.5
Direct local aid.....	5,901	8.7	5,735	8.4	5,599	8.3	5,469	9.1	5,353	9.3
Capital outlay:										
Local aid.....	—	—	—	—	1	—	—	—	—	—
Capital acquisition and construction.....	1,253	1.8	1,202	1.8	1,162	1.7	1,205	2.0	999	1.7
Debt service:										
Principal/commercial paper repayment.....	3,706	5.5	4,676	6.9	4,487	6.6	1,781	3.0	1,546	2.7
Interest.....	1,381	2.0	1,262	1.9	1,248	1.8	1,187	2.0	1,223	2.1
Principal on current refunding.....	522	0.8	188	0.3	250	0.4	203	0.3	159	0.3
Other financing uses:										
Payments to refunding bond escrow agent.....	628	0.9	2,304	3.4	2,613	3.9	615	1.0	562	1.0
Transfers.....	6,838	10.1	7,215	10.6	7,094	10.5	6,676	11.1	6,907	12.0
Total expenditures and other financing uses.....	<u>\$ 67,749</u>	<u>100.0</u>	<u>\$ 68,114</u>	<u>100.0</u>	<u>\$ 67,781</u>	<u>100.0</u>	<u>\$ 59,973</u>	<u>100.0</u>	<u>\$ 57,461</u>	<u>100.0</u>
Change in Governmental Fund Balance.....	<u>\$ 1,241</u>		<u>\$ 324</u>		<u>\$ (32)</u>		<u>\$ 686</u>		<u>\$ (251)</u>	

* NOTE: Reflects departmental and functional reorganizations as of the year implemented. Prior years not restated.

See Independent Auditors' Report



	2013	% Total	2012	% Total	2011	% Total	2010	% Total	2009	% Total
\$	57	0.1	\$ 58	0.1	\$ 58	0.1	\$ 59	0.1	\$ 60	0.1
	792	1.4	757	1.4	771	1.4	769	1.5	797	1.5
	6	—	3	—	4	—	4	—	3	—
	6	—	7	—	5	—	5	—	8	—
	49	0.1	41	0.1	45	0.1	52	0.1	51	0.1
	5,307	9.5	5,282	9.9	5,084	9.6	4,862	9.4	5,097	9.8
	18	—	17	—	18	—	18	—	19	—
	76	0.1	55	0.1	34	0.1	52	0.1	53	0.1
	2	—	2	—	2	—	2	—	2	—
	115	0.2	110	0.2	104	0.2	102	0.2	112	0.2
	1	—	1	—	3	—	1	—	1	—
	541	1.0	529	1.0	514	1.0	394	0.8	296	0.6
	2	—	2	—	2	—	2	—	3	—
	25	—	24	—	25	—	28	0.1	37	0.1
	14	—	1	—	—	—	—	—	—	—
	14	—	14	—	14	—	13	—	14	—
	2,295	4.1	1,949	3.7	1,852	3.3	1,686	3.3	1,709	3.4
	365	0.6	351	0.7	368	0.7	403	0.8	352	0.7
	7,384	13.1	7,301	13.6	6,791	12.8	6,655	12.9	6,684	12.9
	—	—	—	—	—	—	—	—	—	—
	—	—	—	—	—	—	474	0.9	389	0.8
	1,785	3.1	1,679	3.1	2,086	3.9	1,209	2.3	—	—
	—	—	—	—	—	—	—	—	—	—
	—	—	—	—	—	—	—	—	—	—
	3,008	5.3	3,069	5.8	3,232	6.1	2,968	5.8	2,920	5.6
	9	—	—	—	—	—	—	—	—	—
	1,037	1.8	975	1.8	791	1.5	973	1.9	657	1.3
	—	—	—	—	—	—	—	—	—	—
	1,296	2.3	1,208	2.3	1,146	2.2	1,282	2.5	1,416	2.7
	988	1.7	999	1.9	1,082	2.0	1,060	2.1	793	1.5
	350	0.6	455	0.9	478	0.9	447	0.9	398	0.8
	12,286	21.7	11,708	22.0	12,124	22.8	10,678	20.8	10,843	20.9
	878	1.5	801	1.5	744	1.4	587	1.1	647	1.2
	5,179	9.1	4,991	9.4	4,846	9.1	5,030	9.8	5,208	10.1
	—	—	—	—	—	—	1	—	3	—
	854	1.5	847	1.6	885	1.7	1,300	2.5	2,514	4.9
	—	—	—	—	—	—	—	—	—	—
	1,525	2.7	1,297	2.4	1,071	2.0	1,300	2.5	1,296	2.5
	1,229	2.2	1,207	2.3	1,149	2.2	1,107	2.2	1,114	2.2
	230	0.4	—	—	—	—	—	—	—	—
	—	—	—	—	—	—	—	—	—	—
	2,046	3.6	388	0.7	945	1.8	537	1.0	410	0.8
	6,972	12.3	7,189	13.5	6,947	13.1	7,395	14.4	7,887	15.2
\$	56,739	100.0	\$ 53,319	100.0	\$ 53,217	100.0	\$ 51,455	100.0	\$ 51,789	100.0
\$	(1,448)		\$ 1,051		\$ 681		\$ (476)		\$ (2,001)	

**Personal Income by Industry
Last Ten Calendar Years**

(Amounts in millions)

	2017	2016	2015	2014	2013
Total personal income	\$ 450,962	\$ 442,500	\$ 415,636	\$ 396,206	\$ 381,271
Unearned income.....	111,017	108,349	97,728	94,494	91,615
Farm earnings.....	129	151	195	178	151
Nonfarm earnings.....	339,816	334,000	317,713	301,534	289,505
Private earnings	297,325	292,750	272,533	262,843	252,939
Agricultural services, forestry, fishing.....	716	677	406	354	373
Mining.....	608	379	276	270	201
Construction.....	20,609	19,473	17,197	15,481	14,759
Manufacturing	26,550	27,181	26,497	25,921	25,341
Durable goods.....	18,709	18,894	18,193	18,224	17,977
Nondurable goods.....	7,841	8,287	8,304	7,697	7,364
Transportation and utilities.....	8,649	8,330	7,600	7,295	7,083
Wholesale trade.....	14,830	14,621	13,938	13,546	13,483
Retail trade.....	15,982	15,520	14,716	14,137	13,565
Services.....	235,931	233,750	191,903	185,839	178,134
Government	42,492	41,130	39,921	38,691	36,567
Federal, civilian.....	5,477	5,427	5,202	5,007	4,792
Military.....	891	860	860	874	943
State and local.....	36,124	34,843	33,859	32,810	30,832
Personal income tax revenue (fiscal year, statutory basis)...	\$ 16,240	\$ 14,394	\$ 14,449	\$ 13,202	\$ 12,831
Total personal income.....	\$ 450,962	\$ 442,500	\$ 415,636	\$ 396,206	\$ 381,271
Average Effective Rate.....	3.60%	3.25%	3.48%	3.33%	3.40%
Highest Earned Income Tax Rate.....	5.10%	5.10%	5.15%	5.20%	5.25%

Sources: U.S. Department of Commerce, Bureau of Economic Analysis, Regional Economic Information System and the Massachusetts Department of Revenue. Average effective rate is individual income tax revenue divided by personal income.

Note: U.S. Department of Commerce, Bureau of Economic Analysis, Regional Economic Information System adjusted its methodology in 2008. Prior years restated.

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2012	2011	2010	2009	2008
\$ 363,944	\$ 352,243	\$ 336,400	\$ 324,680	\$ 335,722
87,333	83,338	81,190	78,336	80,365
150	136	186	137	180
276,461	268,769	255,024	246,208	255,176
243,502	236,763	223,784	215,396	225,122
426	409	383	376	383
113	124	97	101	181
13,426	12,526	11,687	11,717	13,671
26,375	25,387	25,108	23,290	25,449
19,223	18,319	18,053	16,466	18,170
7,152	7,069	7,055	6,824	7,280
6,742	6,604	6,208	6,029	6,235
12,979	13,082	12,501	12,458	13,412
13,333	12,891	12,599	12,255	12,545
170,109	165,740	155,202	149,171	153,246
32,959	32,006	31,240	30,812	30,054
5,442	5,426	5,431	5,314	5,157
1,221	1,245	1,260	1,220	1,092
26,296	25,335	24,550	24,278	23,806
\$ 11,911	\$ 11,576	\$ 10,110	\$ 10,584	\$ 12,484
\$ 363,944	\$ 352,243	\$ 336,400	\$ 324,680	\$ 335,722
3.30%	3.30%	3.00%	3.30%	3.70%
5.25%	5.30%	5.30%	5.30%	5.30%

Commonwealth of Massachusetts
Personal Income Tax Filers and Liability by Income Level
Calendar (Tax) Years 2016 and 2007

(Amounts, except income level are in thousands)

Calendar Year 2016 (or Fiscal Year 2017)

Income Level	Number of Filers	Percentage of Total	Personal Income Tax Liability	Percentage of Total
\$100,001 and higher.....	788,359	20.7%	\$ 9,951,412	72.8%
\$75,001 - \$100,000.....	310,000	8.1%	1,130,890	8.3%
\$50,001 - \$75,000.....	498,208	13.1%	1,236,388	9.0%
\$25,001 - \$50,000.....	816,177	21.4%	1,051,854	7.7%
\$10,001 - \$25,000.....	662,011	17.4%	271,197	2.0%
\$10,000 and lower.....	736,924	19.3%	33,274	0.2%
Total.....	<u>3,811,679</u>	<u>100.0%</u>	<u>\$ 13,675,015</u>	<u>100.0%</u>

Calendar Year 2007 (or Fiscal Year 2008)

Income Level	Number of Filers	Percentage of Total	Personal Income Tax Liability	Percentage of Total
\$100,001 and higher.....	574,025	16.3%	\$ 7,902,091	68.2%
\$75,001 - \$100,000.....	288,487	8.3%	1,084,892	9.4%
\$50,001 - \$75,000.....	463,892	13.3%	1,189,974	10.3%
\$25,001 - \$50,000.....	791,323	22.7%	1,073,848	9.3%
\$10,001 - \$25,000.....	651,173	18.7%	285,485	2.5%
\$10,000 and lower.....	722,208	20.7%	34,435	0.3%
Total.....	<u>3,491,108</u>	<u>100.0%</u>	<u>\$ 11,570,725</u>	<u>100.0%</u>

Source: Massachusetts Department of Revenue - 2016 is the most recent tax year for which complete data is available.

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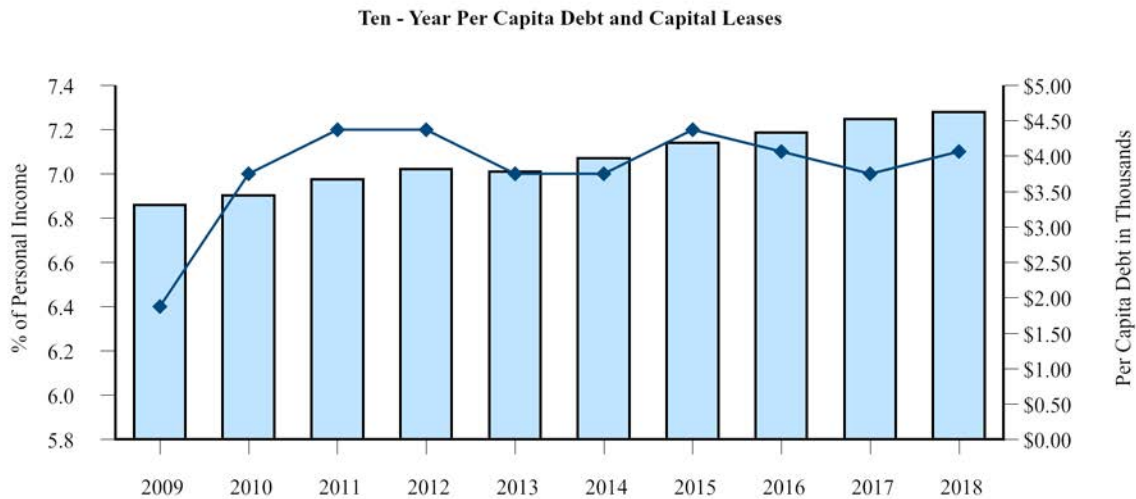
Ten -Year Schedule of Per Capita General Long-Term Bonded Debt and Capital Leases

(Amounts in thousands, except for percentages)

Fiscal Year Ended June 30	Governmental Activities		Business-Type Activities		Total Primary Government	Prior Year Personal Income	Massachusetts Resident Population (4)	Debt as a Percentage of Personal Income	Amount of Debt Per Capita
	Bonded Debt (1)	Capital Leases (2)	Bonded Debt (3)	Capital Leases					
2018	\$ 27,360,819	\$ 22,492	\$ 4,438,502	\$ 9,825	\$ 31,831,638	\$ 450,961,579	6,860	7.1%	\$ 4.64
2017	26,445,665	30,856	4,529,353	8,979	31,014,853	442,500,000	6,824	7.0%	4.54
2016	25,079,591	41,302	4,438,282	9,887	29,569,062	415,636,000	6,794	7.1%	4.35
2015	23,826,301	42,928	4,553,105	9,895	28,432,229	396,206,000	6,758	7.2%	4.21
2014	22,419,852	55,878	4,243,731	14,529	26,733,990	381,271,000	6,711	7.0%	3.98
2013	21,513,039	50,831	3,736,432	19,299	25,319,601	363,943,750	6,660	7.0%	3.80
2012	21,907,683	60,457	3,370,389	23,327	25,361,856	352,242,750	6,612	7.2%	3.84
2011	20,875,055	60,975	3,277,413	31,105	24,244,548	336,399,750	6,565	7.2%	3.69
2010	19,726,507	76,608	2,731,124	40,924	22,575,163	324,680,250	6,518	7.0%	3.46
2009	19,264,569	109,765	2,103,675	58,885	21,536,894	335,721,500	6,469	6.4%	3.33

- (1) Excludes Massachusetts School Building Authority debt. Amounts of bonded debt for governmental activities are the amount of debt for statutory debt calculation purposes. For fiscal 2009 through 2012, debt outstanding was defined in state finance law as net proceeds of debt issued. State finance law was amended, effective January 1, 2013, to change the statutory definition of outstanding debt from net proceeds to principal. Therefore, fiscal years prior to 2013 are calculated using net proceeds; fiscal 2013 and thereafter are calculated using principal.
- (2) Governmental capital leases exclude the lease between the Commonwealth and the Route 3 North Transportation Improvement Association, a discretely presented component unit.
- (3) Business-type activities bond debt includes notes payable of the Institutions of Higher Education.
- (4) Population estimates have been restated to most current United States Census Bureau Data. Population data is reported as of July 1 of the previous year. *Source: - HTTP://www.fedstats.gov (US Census Bureau.)*

See Independent Auditors' Report



Ten Year Schedule of Outstanding Direct Debt and Statutory Debt Limit

(Amounts in thousands)

	2018 (3)	2017 (3)	2016 (3)	2015 (3)	2014 (3)
Outstanding principal as of June 30 (1).....	\$ 27,360,819	\$ 26,445,665	\$ 25,079,591	\$ 23,826,301	\$ 22,419,852
Plus/(less) amounts excluded:					
Net amortized (discount)/premium and issuance costs	—	—	—	—	—
Total net proceeds/principal	27,360,819	26,445,665	25,079,591	23,826,301	22,419,852
Less net proceeds/principal of direct debt excluded from statutory debt limit:					
Central artery project bonds	(1,092,519)	(1,110,195)	(1,150,296)	(1,197,127)	(1,241,263)
Accelerated bridge program	(2,429,000)	(2,380,740)	(2,192,930)	(2,195,004)	(1,756,395)
County debt assumed.....	—	—	—	—	—
(Premium)/discount	—	—	—	—	—
Grant anticipation notes (2).....	—	—	—	—	(178,390)
School Modernization and Reconstruction Trust Bonds...	(598,985)	(632,348)	(652,197)	(689,446)	(723,917)
Convention center bonds	(552,110)	(575,420)	(597,630)	(618,705)	(638,700)
MBTA forward funding bonds	(207)	(207)	(207)	(207)	(207)
Special obligation gas bonds	(105,230)	(128,270)	(170,735)	(210,635)	(249,705)
Rail enhancement program bonds (4)	(1,131,105)	(644,540)	—	—	—
Outstanding direct debt, net proceeds/principal	21,451,663	20,973,945	20,315,596	18,915,177	17,631,275
Statutory debt limit*	22,875,433	21,786,126	20,748,692	19,760,659	18,819,675
Debt margin (debt limit less direct debt).....	<u>\$ 1,423,770</u>	<u>\$ 812,181</u>	<u>\$ 433,096</u>	<u>\$ 845,482</u>	<u>\$ 1,188,400</u>
Debt margin as a percentage of direct debt limit.....	<u>6.2%</u>	<u>3.7%</u>	<u>2.1%</u>	<u>4.3%</u>	<u>6.3%</u>

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

(2) Inclusive of crossover refunding amounts.

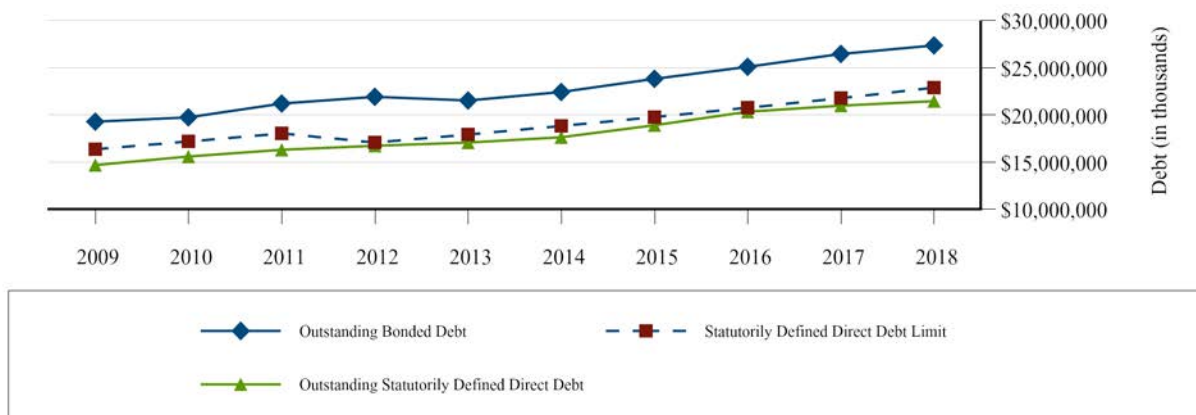
(3) For fiscal 2009 through 2012, debt outstanding was defined in state finance law as net proceeds of debt issued. State finance law was amended, effective January 1, 2013, to change the statutory definition of outstanding debt from net proceeds to principal. Therefore, fiscal years prior to 2013 are calculated using net proceeds; fiscal 2013 and thereafter are calculated using principal.

(4) Section 4 of Chapter 220 of the Acts of 2016 exempted bonds issued under the Rail Enhancement Program from the statutory debt limit.

* Section 60A of Chapter 165 of the Acts of 2012, as amended, reset the statutory defined debt limit, effective July 1, 2012, to \$17.070 billion

See Independent Auditors' Report

**Outstanding Bonded Debt, Statutory Direct Debt and Statutory Debt Limit
2009 - 2018**



2013 (3)	2012	2011	2010	2009
\$ 21,513,039	\$ 21,433,553	\$ 20,875,056	\$ 19,509,819	\$ 19,047,679
—	474,130	335,078	216,688	216,890
21,513,039	21,907,683	21,210,134	19,726,507	19,264,569
(1,303,013)	(1,342,841)	(1,356,606)	(1,243,250)	(1,401,581)
(1,088,605)	(1,095,385)	(676,125)	—	—
—	(75)	(150)	(225)	(300)
—	(474,130)	(335,078)	216,688	216,890
(349,100)	(510,385)	(666,790)	(997,467)	(1,134,797)
(764,337)	(795,009)	(824,279)	(894,502)	(921,751)
(638,700)	(638,700)	(643,715)	(643,715)	(643,715)
(207)	(207)	(44,472)	(165,559)	(231,000)
(296,395)	(337,545)	(371,665)	(419,785)	(456,984)
—	—	—	—	—
17,072,682	16,713,406	16,291,254	15,578,692	14,691,331
17,923,500	17,070,000	18,042,424	17,183,261	16,365,011
\$ 850,818	\$ 356,594	\$ 1,751,170	\$ 1,604,569	\$ 1,673,680
4.7%	2.1%	9.7%	9.3%	10.2%

Ten Fiscal Year Schedule of Pledged Revenue Coverage

Special Obligation Highway Bonds (Motor Fuels Taxation and Motor Vehicle Fees), Convention Center Bonds (Tax Incremental Financing) and Grant Anticipation Notes (Federal Highway Grants)

(Statutory Basis, Amounts in Thousands, Except for Ratios)

	2018	2017**	2016**	2015	2014
Highway Bonds					
For issues prior to December 2010, the bonds are secured by a pledge of 6.86¢ of the 21¢ per gallon state gasoline excise tax for FY2008 and before. For FY2009 and after, the pledge is up to 10¢ of the tax. Bonds issued in December 2010, May 2012 and November 2013 (Commonwealth Transportation Fund, or "CTF bonds") are secured by a senior lien on 17.085 cents of the total 24 cent per gallon gasoline tax, the full 21 cents per gallon of special fuels taxes (comprised primarily of taxes on diesel fuel), the full 19.1% of the average price per gallon tax on liquefied natural gas and all Registry of Motor Vehicle fees deposited in the Commonwealth Transportation Fund. Federal Build America Bonds subsidies are also pledged to all CTF bonds. The bonds also have a subordinate lien on 6.86¢ of the 24¢ per gallon gasoline tax not included in the senior lien. Revenues pledged to the bonds are available prior to use for any other purposes. Thus, operating expenses paid from these revenue sources are not applicable for the purpose of calculating debt service coverage ratios and are not shown in this table. The 2010 bonds were issued as federally taxable Build America Bonds/Recovery Zone Economic Development Bonds; the programs provide an interest subsidy of 35-45% directly to the Commonwealth. The interest subsidy is shown as pledged funds and debt service is gross of the subsidy.					
<u>Pre-2010 Bond Issues</u>					
Tax Receipts.....	191,183	\$ 191,820	\$ 190,803	\$ 187,913	\$ 187,467
Operating Expenses	N/A	N/A	N/A	N/A	N/A
Net Available Revenues	\$ 191,183	\$ 191,820	\$ 190,803	\$ 187,913	\$ 187,467
Annual Debt Service.....	29,825	\$ 51,276	\$ 50,906	\$ 52,225	\$ 52,228
Debt Service Coverage Ratio.....	6.41	3.74	3.75	3.60	3.59
Ratings History of Bonds (Fitch, Moody's and S&P)*	AA+, Aa1, AAA	AA+, Aa1, AAA	AA+, Aa1, AAA	AA+, Aa1, AAA	AA+, Aa1, AAA
<u>Post-2010 Bond Issues (Includes Revenues in Excess of Those Needed to Pay Debt Service on Pre-2010 Highway Bonds)</u>					
Receipts.....	\$ 1,362,788	\$ 1,326,734	\$ 1,294,357	\$ 1,283,248	\$ 1,210,405
Operating Expenses	N/A	N/A	N/A	N/A	N/A
Net Available Revenues	\$ 1,362,788	\$ 1,326,734	\$ 1,294,357	\$ 1,283,248	\$ 1,210,405
Annual Debt Service.....	149,968	\$ 129,024	\$ 94,859	\$ 81,054	\$ 69,921
Debt Service Coverage Ratio.....	9.09	10.28	13.65	15.83	17.31
Ratings History of Bonds (Fitch, Moody's and S&P)*	NA, Aaa, AAA	NA, Aaa, AAA	NA, Aaa, AAA	NA, Aaa, AAA	NA, Aaa, AAA
Convention Center Bonds					
These bonds are secured by amounts payable to the Convention Center Fund, which include certain hotel tax receipts in Boston, Cambridge, Springfield, surcharges on car rentals, parking, sightseeing tours and cruises and sales tax receipts in those cities. Revenues pledged to the bonds are available prior to use for any other purposes. Thus, operating expenses paid from these revenue sources are not applicable for the purpose of calculating debt service coverage ratios and are not shown in this table.					
Receipts.....	146,872	\$ 133,789	\$ 134,806	\$ 124,937	\$ 109,879
Operating Expenses	N/A	N/A	N/A	N/A	N/A
Net Available Revenues	\$ 146,872	\$ 133,789	\$ 134,806	\$ 124,937	\$ 109,879
Annual Debt Service.....	54,474	\$ 54,540	\$ 54,540	\$ 52,852	\$ 34,486
Debt Service Coverage Ratio.....	2.70	2.45	2.47	2.36	2.99
Ratings History of Bonds (Fitch, Moody's and S&P)*	NA, A1, A	NA, A1, A	NA, A1, A	NA, A1, A	NA, A1, A
Grant Anticipation Notes (GANS)					
Notes issued prior to December 2010 ("Senior Federal Highway Notes") were secured by all federal highway reimbursements, which are deposited in the Grant Anticipation Note Trust fund. The outstanding pre-December 2010 notes were retired in June 2015 and Notes issued in December 2010 ("Federal Highway Grant Anticipation Notes") and after are secured by all federal highway reimbursements. Revenues pledged to the notes are available prior to use for any other purposes. Thus, operating expenses paid from these revenue sources are not applicable for the purpose of calculating debt service coverage ratios and are not shown in this table. The 2010 bonds were issued as federally taxable Build America Bonds; the program provides an interest subsidy of 35% directly to the Commonwealth. The interest subsidy is shown as pledged funds and debt service is gross of the subsidy.					
<u>Post 2010 GANS (Includes Revenues in Excess of those Needed to Pay Debt Service on Pre-2010 Highway Bonds)</u>					
Receipts.....	\$ 1,756,726	\$ 1,734,397	\$ 1,707,187	\$ 1,556,243	\$ 1,562,732
Operating Expenses	N/A	N/A	N/A	N/A	N/A
Net Available Revenues	\$ 1,756,726	\$ 1,734,397	\$ 1,707,187	\$ 1,556,243	\$ 1,562,732
Annual Debt Service.....	83,804	\$ 80,486	\$ 76,049	\$ 33,472	\$ 4,268
Debt Service Coverage Ratio.....	20.96	21.55	22.45	46.49	366.15
Ratings History of Bonds (Fitch, Moody's and S&P)*	AA+, Aa1, AAA	AA+, Aa1, AAA	AA+, Aa1, AAA	AA+, Aa1, AAA	AA+, Aa1, AAA

*Uninsured rating, if available.

**Restated

See Independent Auditors' Report

2013	2012	2011	2010	2009
\$ 186,638	\$ 190,129	\$ 189,763	\$ 188,666	\$ 189,246
N/A	N/A	N/A	N/A	N/A
\$ 186,638	\$ 190,129	\$ 189,763	\$ 188,666	\$ 189,246
\$ 58,922	\$ 58,939	\$ 59,453	\$ 58,931	\$ 58,924
3.17	3.23	3.19	3.2	3.21
AA+, Aa1, AAA	AA+, Aa1, AAA	AA, Aa1, AAA	AA, Aa2, AA+	AA+, Aa3, AA+
\$ 1,170,297	\$ 1,121,709	\$ 626,619		
N/A	N/A	N/A		
\$ 1,170,297	\$ 1,121,709	\$ 626,619		
\$ 58,108	\$ 32,623	\$ 14,318		
20.14	34.38	43.76		
NA, Aaa, AAA	NA, Aaa, AAA	NA, Aaa, AAA		
\$ 100,631	\$ 94,234	\$ 84,905	\$ 75,432	\$ 73,918
N/A	N/A	N/A	N/A	N/A
\$ 100,631	\$ 94,234	\$ 84,905	\$ 75,432	\$ 73,918
\$ 34,486	\$ 34,486	\$ 34,486	\$ 34,486	\$ 34,486
2.76	2.59	2.40	2.08	2.04
NA, A1, A	NA, A1, A	NA, A1, A	NA, A1, A	NA, A1, A
\$ 1,575,266	\$ 1,674,485	\$ 909,546		
N/A	N/A	N/A		
\$ 1,575,266	\$ 1,674,485	\$ 909,546		
\$ 4,973	\$ 4,271	\$ 2,039		
316.76	392.06	446.01		
AA+, Aa2, AAA	AA+, Aa2, AAA	AA+, Aa2, AAA		

**Ten-Year Schedule of Percentage of Annual Debt Service Expenditures
For General Bonded Debt to Total Non-Capital Expenditures - Fund Perspective
All Governmental Fund Types**

(Amounts in thousands)

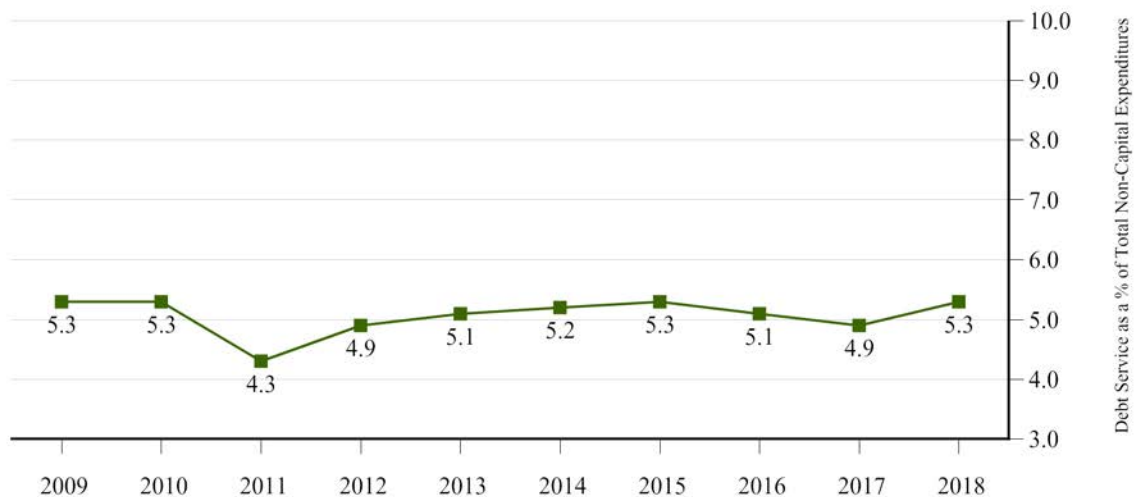
Fiscal year ended June 30	Debt service (1)	Total non-capital expenditures (2)	Ratio (%)
2018	\$ 3,040,834	\$ 56,925,468	5.3
2017	2,667,043	54,239,919	4.9
2016	2,720,117	53,748,227	5.1
2015*	2,703,200	51,171,135	5.3
2014*	2,534,285	48,312,870	5.2
2013*	2,351,074	45,733,298	5.1
2012*	2,160,589	44,070,405	4.9
2011*	1,904,881	43,881,014	4.3
2010*	2,116,507	40,152,632	5.3
2009*	2,144,733	40,605,292	5.3

- (1) Business type activities debts are secured solely by leases between the Institutions of Higher Education and two blended building authorities. Excludes Massachusetts School Building Authority debt service paid by the Authority.
- (2) Expenditures are shown net of Massachusetts School Building Authority expenditures as they are school building assistance capital grants to local cities and towns.

* - Amounts have been restated to conform to current year presentation.

See Independent Auditors' Report

Debt Service to Non-Capital Expenditures Ratio 2009 - 2018



**Component Units Revenue Bond Coverage
For the Last Ten Fiscal Years**

(Amounts in thousands)

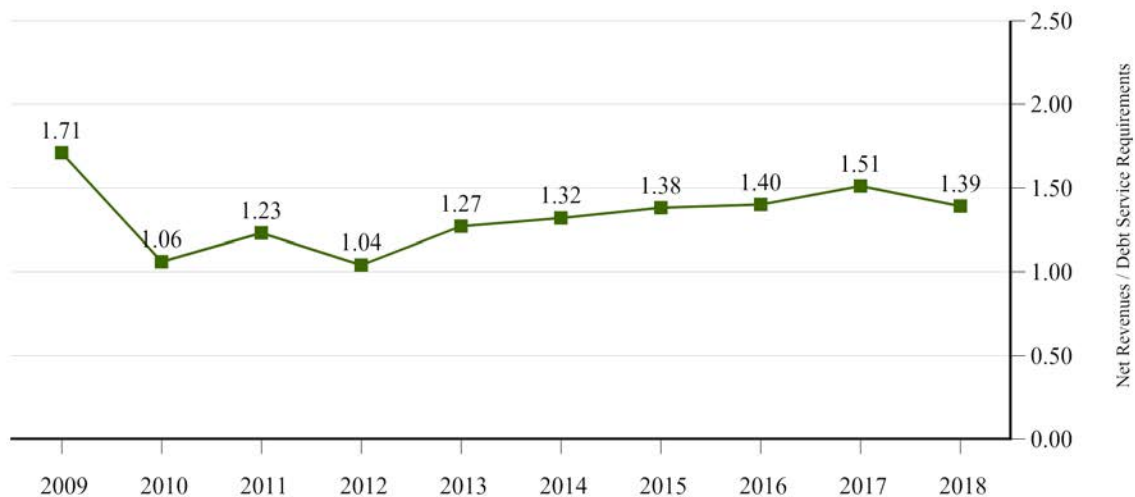
Fiscal year ended June 30	Net Revenues ⁽¹⁾	Debt service requirements ⁽²⁾	Coverage Ratio (%)
2018	\$ 1,831,742	\$ 1,322,491	1.39
2017	1,763,564	1,169,651	1.51
2016	1,817,135	1,298,267	1.40
2015	1,950,292	1,417,420	1.38
2014	1,481,374	1,126,392	1.32
2013	1,585,500	1,244,358	1.27
2012	1,584,013	1,517,899	1.04
2011	1,444,813	1,170,149	1.23
2010	1,460,045	1,383,231	1.06
2009	1,825,018	1,066,175	1.71

- (1) Net revenues represent revenue pledged and available for the repayment of revenue bonds. In most cases, revenue pledged for the bonds is available prior to use for any other purposes. Thus operating expenses paid from these revenue sources are not applicable when calculating debt service coverage and are not subtracted from pledged revenues.
- (2) Debt service requirements represent total debt service payments made less debt service paid on short-term borrowings of only those Authorities with revenue bonds outstanding.

Source: Office of the Comptroller

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Component Units Revenue Bond Coverage 2009 - 2018



Ten-Year Schedule of Massachusetts and United States Resident Population

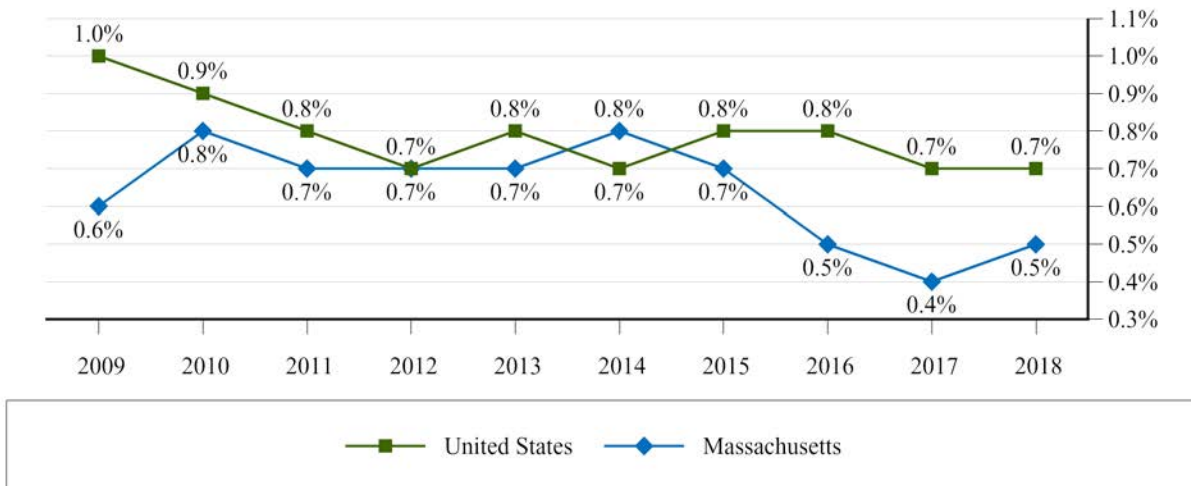
(Amounts in thousands)

Beginning of Fiscal Year	United States ⁽¹⁾	% Change	Massachusetts Resident Population ⁽¹⁾	% Change	Massachusetts as % of U.S.
2018	325,719	0.7%	6,860	0.5%	2.1%
2017	323,406	0.7%	6,824	0.4%	2.1%
2016	321,040	0.8%	6,794	0.5%	2.1%
2015	318,623	0.8%	6,758	0.7%	2.1%
2014	316,235	0.7%	6,711	0.8%	2.1%
2013	313,993	0.8%	6,660	0.7%	2.1%
2012	311,644	0.7%	6,612	0.7%	2.1%
2011	309,338	0.8%	6,565	0.7%	2.1%
2010	306,772	0.9%	6,518	0.8%	2.1%
2009	304,094	1.0%	6,469	0.6%	2.1%

(1) Population estimates have been restated using most current United States Census Bureau Data. Population data is reported as of July 1 of the previous year and has been restated to most recent United States Census Bureau Data.

See Independent Auditors' Report

**Massachusetts and United States Estimated Year-to-Year Population Change
2009 - 2018**



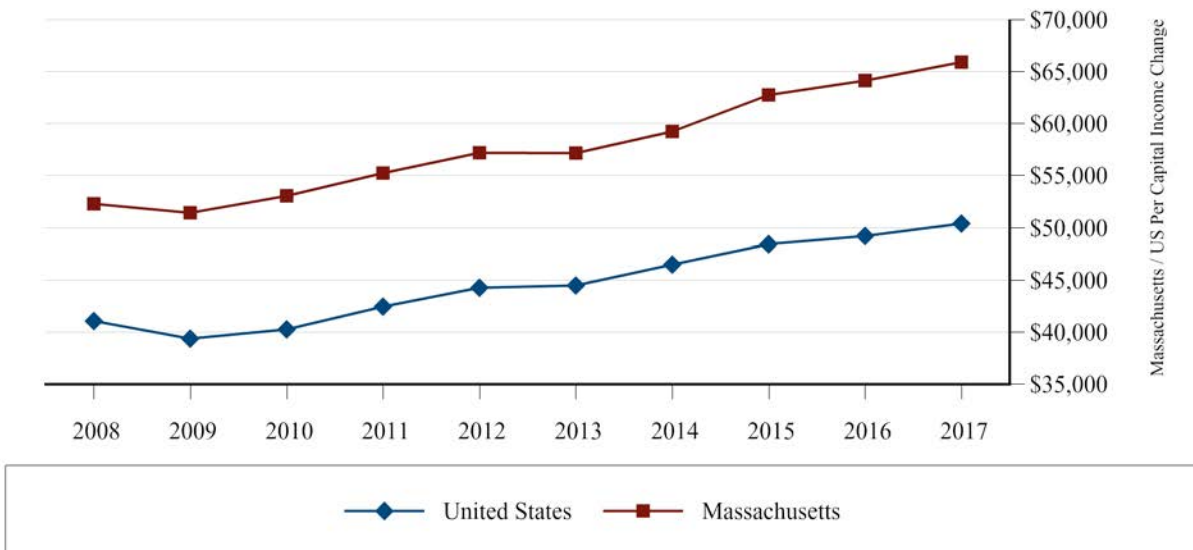
Ten-Year Schedule of Massachusetts and United States Resident Per Capita Net Income

Calendar year	United States	% Change	Massachusetts	% Change	Massachusetts as % of U.S.
2017	\$ 50,392	2.4 %	\$ 65,890	2.8 %	130.8%
2016	49,204	1.6 %	64,122	2.2 %	130.3%
2015	48,429	4.2 %	62,755	6.0 %	129.6%
2014	46,486	4.5 %	59,226	3.6 %	127.4%
2013	44,489	0.5 %	57,145	(0.1)%	128.4%
2012	44,283	4.3 %	57,178	3.5 %	129.1%
2011	42,463	5.4 %	55,230	4.1 %	130.1%
2010	40,278	2.3 %	53,058	3.2 %	131.7%
2009	39,376	(4.2)%	51,412	(1.7)%	130.6%
2008	41,082	3.2 %	52,283	3.7 %	127.3%

Source: Bureau of Economic Analysis, US Department of Commerce. Prior years restated due to revised estimates released on March 22, 2018.

See Independent Auditors' Report

**Massachusetts and United States Estimated Per Capita Net Income
2008 - 2017**



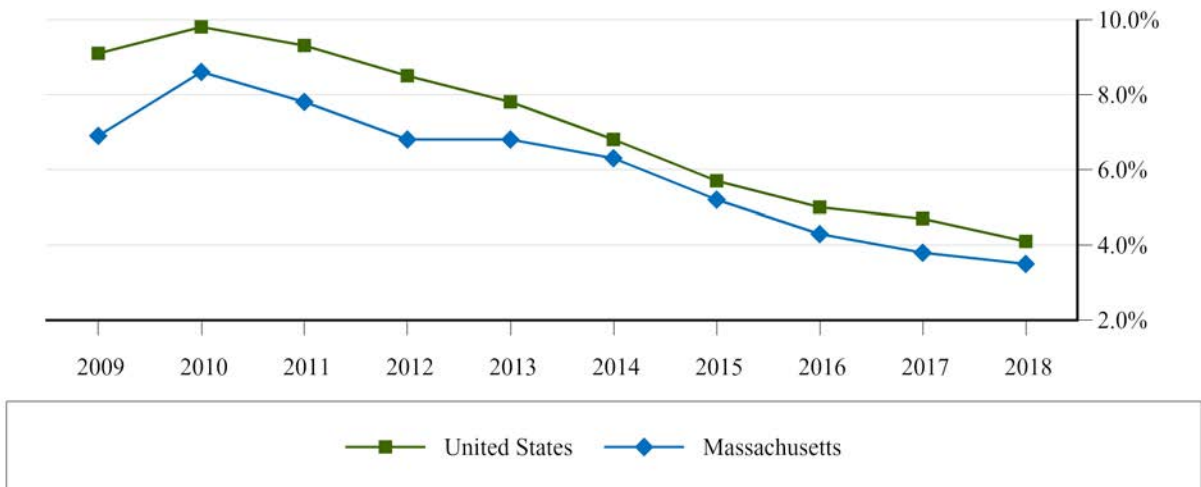
**Ten-Year Schedule of Fiscal Year Annual Average Civilian Labor Force,
Unemployment and Unemployment Rates
For Massachusetts and the United States**
(Amounts in thousands)

Fiscal Year	Massachusetts			United States			Massachusetts Rate as % of U.S. Rate
	Labor Force	Unemployment	Unemployment Rate %	Labor Force	Unemployment	Unemployment Rate %	
2018	3,680	130	3.5%	161,138	6,626	4.1%	85.4%
2017	3,641	138	3.8%	159,792	7,439	4.7%	81.4%
2016	3,590	156	4.3%	158,028	7,891	5.0%	87.0%
2015	3,592	188	5.2%	156,618	8,905	5.7%	92.1%
2014	3,531	221	6.3%	155,476	10,515	6.8%	92.5%
2013	3,504	238	6.8%	155,346	12,079	7.8%	87.4%
2012	3,472	237	6.8%	154,297	13,153	8.5%	80.1%
2011	3,472	270	7.8%	153,615	14,252	9.3%	83.8%
2010	3,478	299	8.6%	153,906	15,009	9.8%	88.2%
2009	3,468	239	6.9%	154,559	14,094	9.1%	75.6%

Source: Federal Bureau of Labor Statistics, September, 2018. Seasonally adjusted. Previous data has been updated by the Federal Bureau of Labor Statistics

See Independent Auditors' Report

**Massachusetts and United States Average Unemployment Rates
FY2009 to FY2018**



Largest Private Sector Massachusetts Employers 2018 and 2009

(Alphabetical Order)

2018			2009		
Employer	Headquarters	Product or Service	Employer	Headquarters	Product or Service
Bay State Medical Center, Inc.	Springfield	Hospital	Bay State Medical Center, Inc.	Springfield	Hospital
Beth Israel Deaconess Medical Center	Boston	Hospital	Beth Israel Deaconess Medical Center	Boston	Hospital
Boston Medical Center Corporation	Boston	Hospital	Boston Medical Center Corporation	Boston	Hospital
Boston University	Boston	University	Boston University	Boston	University
Brigham and Women's Hospital, Inc.	Boston	Hospital	Brigham and Women's Hospital, Inc.	Boston	Hospital
DeMoulas Supermarkets, Inc.	Tewksbury	Supermarket	DeMoulas Supermarkets, Inc.	Tewksbury	Supermarket
EMC Corporation	Hopkinton	Computer Storage & Peripherals	EMC Corporation	Hopkinton	Computer Storage & Peripherals
General Hospital Corporation	Boston	Hospital	General Hospital Corporation	Boston	Hospital
Harvard University	Cambridge	University	Harvard University	Cambridge	University
Massachusetts Institute of Technology	Cambridge	University	Massachusetts Institute of Technology	Cambridge	University
Partners Healthcare Systems, Inc.	Boston	Hospital	Raytheon Company	Lexington	Electronics / Defense
Raytheon Company	Lexington	Electronics / Defense	S & S Credit Company, Inc.	Quincy	Supermarket
The Stop & Shop Supermarkets, Co.	Quincy	Supermarket	Shaw's Supermarkets, Inc.	West Bridgewater	Supermarket
Shaw's Supermarkets, Inc.	West Bridgewater	Supermarket	Southcoast Hospitals Group	New Bedford	Hospital
State Street Bank and Trust Company	Boston	Banking	State Street Bank and Trust Company	Boston	Banking
The Children's Hospital Corporation	Boston	Hospital	The Children's Hospital Corporation	Boston	Hospital
The TJX Companies, Inc.	Framingham	Retail	Tufts University	Boston	University
Tufts University	Boston	University	UMASS Memorial Medical Center, Inc.	Worcester	Hospital
UMASS Memorial Medical Center, Inc.	Worcester	Hospital	Verizon New England, Inc.	Boston	Telecommunications

Source: Massachusetts Executive Office of Labor and Workforce Development, Division of Unemployment Assistance - March 2018 survey. In addition, CVS Pharmacy, Inc, Home Depot U.S.A.; Inc., Target Corp, United Parcel Services, Inc., Wal-Mart Associates, Inc. and Whole Foods Market Group, Inc. are all large Massachusetts employers, but are headquartered outside of Massachusetts. Verizon New England is a subsidiary of Verizon Communications, headquartered in New York. The information is based on employers 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.

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Full Time Equivalent Employees
By Function / Program
Last Ten Years

Functions/Programs	2018	2017	2016	2015 *	2014
General government.....	6,855	6,905	7,017	7,696	7,637
Judiciary.....	7,229	7,208	7,263	7,264	7,195
Energy and environmental affairs.....	2,533	2,509	2,539	2,689	2,629
Health and human services.....	22,104	21,817	21,557	22,060	21,496
Transportation and construction.....	3,527	3,482	4,004	4,357	4,301
Education.....	821	815	907	970	1,099
Public safety and homeland security.....	16,502	16,522	16,868	17,057	17,215
Housing and economic development.....	918	818	844	884	891
Higher Education:					
University of Massachusetts.....	14,737	15,032	15,130	14,670	14,066
State universities.....	5,233	5,186	5,050	5,036	4,969
Community colleges.....	4,917	5,066	5,032	5,077	4,990
Totals.....	85,376	85,360	86,211	87,760	86,488
Percentage change.....	—%	(1.0)%	(1.8)%	1.5%	(0.8)%

Source: Office of the State Comptroller

* Certain amounts were reclassified to conform to current year presentation.

"Education" includes the Department of Elementary & Secondary Education, Executive Office of Education, Board of Higher Education and in 2009 Early Education and Care. Transportation and construction includes MassDOT. FTE's are rounded. Prior years not restated for changes. Includes approximately 6,600 FTEs transferred to the Commonwealth's payroll in FY09 and FY10 in the categories of Higher Education, Transportation and construction and Public safety and homeland security.

See Independent Auditors' Report

2013	2012	2011	2010	2009	Change - 2018 from 2009
7,627	7,408	8,020	8,280	6,277	9.2 %
7,297	7,087	7,111	7,388	7,821	(7.6)%
2,684	2,685	2,737	2,783	2,955	(14.3)%
21,996	21,042	21,011	21,401	22,605	(2.2)%
4,243	4,230	4,209	4,127	3,043	15.9 %
928	922	1,037	1,575	844	(2.7)%
16,907	16,503	15,785	15,857	13,951	18.3 %
868	845	831	846	2,314	(60.3)%
14,688	14,159	14,159	14,031	13,814	6.7 %
4,856	4,747	4,487	4,282	4,650	12.5 %
5,111	4,834	4,684	4,276	4,781	2.8 %
87,205	84,462	84,071	84,846	83,055	2.8 %
3.2%	(0.9)%	2.2%	2.2%	(0.7)%	

**Average Annual Medicaid Caseload and
Medicaid Expenditures - Fund Perspective
Last Ten Fiscal Years**

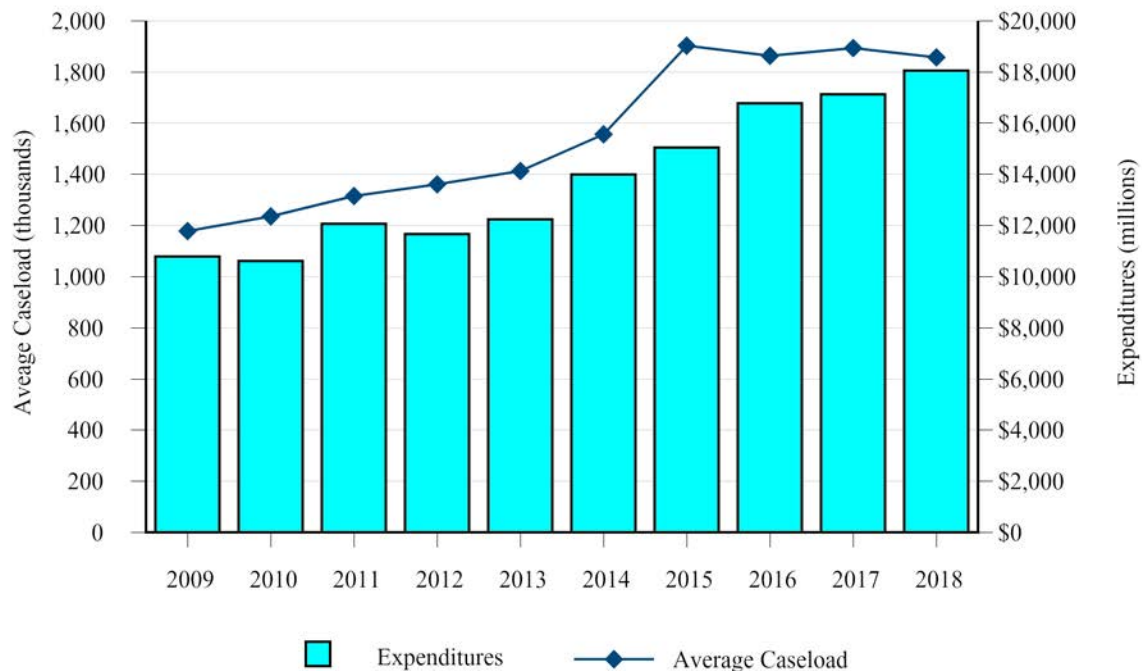
(Caseload amount in thousands, Expenditure amounts in Millions)

Fiscal year ended June 30	Average Annual Caseload	Medicaid expenditures	Average Expenditures per Case
2018*	1,857	\$18,106	\$9,750
2017*	1,893	17,183	9,077
2016*	1,863	16,825	9,031
2015*	1,903	15,087	7,928
2014*	1,556	14,035	9,020
2013	1,413	12,286	8,695
2012	1,361	11,708	8,602
2011	1,315	12,124	9,220
2010	1,263	10,678	8,454
2009	1,178	10,843	9,205

* Includes members in transitional coverage program starting January 1, 2014.

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Average Annual Caseload and Medicaid Expenditures 2009 - 2018



Massachusetts Road Inventory
Calendar Year End, Lane Miles by Type
Last Ten Calendar Years

Calendar Year	Interstate	Arterial	Collector	Local	Total	% Change	Total Urban	Total Rural
2017	3,204	15,618	9,051	44,761	72,634	1.16 %	85.9%	14.1%
2016	3,204	15,624	9,050	43,926	71,804	(1.02)%	85.9%	14.1%
2015	3,204	15,641	9,048	44,654	72,547	0.24 %	85.8%	14.2%
2014	3,211	15,645	9,048	44,472	72,376	(0.01)%	85.7%	14.3%
2013	3,211	15,674	9,058	44,438	72,381	0.16 %	85.7%	14.3%
2012	3,212	15,639	9,038	44,379	72,268	0.13 %	85.8%	14.2%
2011	3,212	15,051	9,611	44,300	72,174	0.2 %	81.1%	18.9%
2010*	3,210	15,047	9,607	44,169	72,033	0.2 %	81.1%	18.9%
2009	3,212	14,974	9,589	44,112	71,887	0.3 %	81.1%	18.9%
2008	3,212	14,976	9,591	43,893	71,672	0.4 %	81.1%	18.9%

*2010 was restated to include both urban and rural roads.

Source: Massachusetts Highway Department, Bureau of Transportation Planning and Development Annual Road Inventory Reports, Lane Miles Table 8. Exclusive of shoulders

See Independent Auditors' Report

**Massachusetts Real Property Owned and Leased
Annual Inventory, Acreage, Improvements and Square Footage
Last Ten Years**

Functions/Programs	Survey Year 2018	Survey Year 2017	Survey Year 2016	Survey Year 2015	Survey Year 2014
General Government:					
Total Acreage.....	5,108	4,964	2,488	2,574	3,114
Number of Improvements	287	268	118	173	513
Gross square footage	5,848,109	6,054,449	4,808,125	6,803,498	10,916,681
Judiciary:					
Total Acreage.....	155	154	153	153	149
Number of Improvements	73	75	75	75	74
Gross square footage	4,935,067	5,224,810	4,843,949	4,843,949	5,310,049
Energy and environmental affairs					
Total Acreage.....	689,821	688,129	680,310	674,046	668,631
Number of Improvements	2,352	2,184	2,186	2,186	1,806
Gross square footage	8,410,119	8,214,843	8,134,142	8,134,142	6,507,161
Housing and economic development:					
Total Acreage.....	2	2	2	2	—
Number of Improvements	6	6	6	6	4
Gross square footage	78,012	78,012	78,012	78,012	57,812
Health and human services:					
Total Acreage.....	2,760	2,862	5,568	5,623	5,834
Number of Improvements	455	455	627	627	907
Gross square footage	8,390,655	8,131,022	8,361,435	8,360,310	10,995,096
Transportation and public works:					
Total Acreage.....	7,160	7,195	6,968	6,966	7,014
Number of Improvements	965	952	930	929	675
Gross square footage	6,273,557	6,123,984	5,820,282	4,919,282	1,989,583
Education:					
Total Acreage.....	220	208	208	208	208
Number of Improvements	40	40	40	40	40
Gross square footage	207,633	207,633	207,633	207,633	205,503
Public safety and homeland security:					
Total Acreage.....	12,071	19,271	19,150	19,150	19,166
Number of Improvements	1,100	1,118	1,063	1,014	1,083
Gross square footage	15,176,714	14,998,157	13,845,503	13,376,555	14,402,161
Higher Education:					
Total Acreage.....	5,715	6,770	7,244	7,243	7,128
Number of Improvements	1,136	1,101	1,078	1,076	873
Gross square footage	40,434,772	43,339,713	38,443,057	38,411,260	29,666,140
Totals for Commonwealth (exclusive of Component Units):					
Total Acreage	723,012	729,555	722,091	715,965	711,244
Number of Improvements	6,414	6,199	6,123	6,126	5,975
Gross square footage	89,754,638	92,372,623	84,542,138	85,134,641	80,050,186
Percentage Change for Commonwealth:					
Acreage	(0.9)%	1.0%	0.9 %	0.7%	2.3 %
Improvement	3.5 %	1.2%	— %	2.5%	(6.1)%
Gross square footage	(2.8)%	9.3%	(0.7)%	6.4%	(1)%

Source: Executive Office of Administration and Finance, Division of Capital Asset Management. See <http://www.mass.gov/anf/property-mgmt-and-construction/sale-and-lease-of-state-assets/comprehensive-real-estate-serv/massets-reports.html>

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Survey Year 2013	Survey Year 2012	Survey Year 2011	Survey Year 2010	Survey Year 2009
3,101	3,039	2,993	2,373	2,495
333	279	255	227	240
9,076,550	7,690,761	7,206,548	6,797,819	6,660,792
148	148	141	141	141
73	73	68	68	69
4,700,920	4,700,920	4,787,564	4,787,564	4,826,836
652,400	642,799	627,286	623,952	606,662
2,192	2,191	2,182	2,183	2,170
7,287,961	7,283,666	7,295,922	7,299,322	7,246,280
2	2	2	2	2
5	5	6	6	6
68,412	68,412	77,642	77,642	77,642
5,829	6,407	6,449	7,196	7,166
792	855	866	866	902
9,759,611	10,923,090	10,834,266	10,809,259	11,214,034
6,965	6,972	7,013	6,966	7,050
921	919	918	918	915
4,876,689	4,876,689	4,873,783	4,876,689	4,876,936
208	208	233	233	233
43	43	43	43	43
272,352	272,352	272,352	272,352	272,352
19,169	19,172	19,158	18,693	18,331
997	990	991	1,029	1,028
12,213,112	12,191,229	12,141,396	12,685,447	12,632,897
7,473	7,254	7,178	7,169	7,151
1,009	1,007	987	975	937
32,594,800	32,523,400	32,144,815	32,117,854	31,101,329
695,295	686,001	670,454	666,725	649,231
6,365	6,362	6,316	6,315	6,310
80,850,407	80,530,519	79,634,288	79,723,948	78,909,098
1.4%	2.3%	0.6%	2.7%	2.5%
—%	0.7%	—%	0.1%	0.1%
0.4%	1.1%	(0.1)%	1%	(0.6)%

Massachusetts Public Higher Education
Enrollment and Degrees Conferred
Last Ten Academic Years

Academic Year	Fall 2017	Fall 2016	Fall 2015	Fall 2014	Fall 2013
<u>ENROLLMENT</u>					
<u>University System</u>					
Undergraduate (FTE).....	56,275	51,209	50,816	49,725	48,893
Graduate (FTE).....	18,284	12,769	12,517	12,576	12,442
System Enrollment.....	74,559	63,978	63,333	62,301	61,335
<u>State University System</u>					
Undergraduate (FTE).....	36,074	35,909	34,700	35,507	35,429
Graduate (FTE).....	5,694	5,641	8,007	7,507	7,704
System Enrollment.....	41,768	41,550	42,707	43,014	43,133
<u>Community College System</u>					
Undergraduate (FTE).....	52,306	55,336	59,827	58,764	64,584
<u>DEGREES CONFERRED</u>					
	2018	2017	2016	2015	2014
<u>University System</u>					
Certificates (MD).....	571	505	423	435	376
Associates.....	82	73	85	103	96
Bachelors.....	13,037	12,754	12,125	11,841	11,544
Masters.....	4,013	3,771	3,669	3,787	3,559
Doctoral.....	601	603	575	504	501
Certificate of Advance Graduate Study.....	71	76	86	81	77
Post-Baccalaureate Certificate.....	708	842	769	738	691
First Professional.....	49	50	53	64	79
Total Degrees.....	19,132	18,674	17,785	17,553	16,923
<u>State University System</u>					
Certificates.....	28	35	40	29	34
Bachelors.....	8,867	8,775	8,762	8,534	8,184
Masters.....	2,388	2,283	2,353	2,116	2,478
Certificate of Advance Graduate Study.....	85	83	73	64	113
Post-Baccalaureate Certificate.....	303	359	283	304	327
Total Degrees.....	11,671	11,535	11,511	11,047	11,136
<u>Community College System</u>					
Certificates.....	3,332	3,147	3,131	3,288	3,365
Associates.....	10,417	11,067	11,318	11,517	11,341
Total Degrees.....	13,749	14,214	14,449	14,805	14,706
Total All Systems - Degrees.....	44,552	44,423	43,745	43,405	42,765

Source: Massachusetts Board of Higher Education. Enrollment information based at the start of the academic year.

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Fall 2012	Fall 2011	Fall 2010	Fall 2009	Fall 2008	Change - 2017 from 2008
48,136	47,432	48,018	44,543	42,768	31.6 %
12,202	12,048	11,734	10,177	9,460	93.3 %
60,338	59,480	59,752	54,720	52,228	42.8 %
34,773	35,639	36,721	34,129	33,040	9.2 %
7,894	6,224	7,227	4,582	4,495	26.7 %
42,667	41,863	43,948	38,711	37,535	11.3 %
62,445	64,586	64,971	60,602	54,228	(3.5)%
2013	2012	2011	2010	2009	% Change - 2018 from 2009
426	348	246	329	280	103.9 %
121	97	100	111	103	(20.4)%
10,910	10,399	9,958	9,362	8,763	48.8 %
3,442	3,360	3,242	3,029	2,882	39.2 %
486	450	414	400	381	57.7 %
62	89	87	79	70	1.4 %
664	659	550	509	173	309.2 %
103	43	47	—	—	N/A
16,214	15,445	14,644	13,819	12,652	51.2 %
37	29	35	572	605	(95.4)%
8,024	7,722	7,190	6,886	6,621	33.9 %
2,327	2,404	2,376	2,467	2,343	1.9 %
108	143	116	170	157	(45.9)%
371	362	408	362	406	(25.4)%
10,867	10,660	10,125	10,457	10,132	15.2 %
2,929	2,888	3,020	2,770	2,587	28.8 %
10,772	10,404	9,693	9,257	8,549	21.9 %
13,701	13,292	12,713	12,027	11,136	23.5 %
40,782	39,397	37,482	36,303	33,920	31.3 %

Calculation of Transfers: Stabilization Fund*

June 30, 2018

(Amounts are in thousands)

This statement is prepared on the statutory basis of accounting pursuant to General Laws Chapter 29, Section 5c. It presents information contained in the official books and accounting records of the Commonwealth. Financial statements supporting this calculation are presented in the Financial Section of this report.

	General Fund	Commonwealth Transportation Fund	Gaming Local Aid	Marijuana Regulation Fund	Total
Budgeted Fund Undesignated Balances (Consolidated Net Surplus).....	\$ 95,754	\$ 129,826	\$ 3,668	\$ 39	\$ 229,286
<u>Disposition of Consolidated Net Surplus per Section 65 of Ch. 273 of the Acts of 2018:</u>					
To the Massachusetts Community Preservation Trust Fund.....	(10,000)	—	—	—	(10,000)
To the Massachusetts Life Sciences Investment Fund.....	(10,000)	—	—	—	(10,000)
Remaining Consolidated Net Surplus to be Deposited in Stabilization Fund.....	\$ 75,754	\$ 129,826	\$ 3,668	\$ —	\$ 209,287

Stabilization Balance Reconciliation:

Balance as of July 1, 2017	\$ 1,300,678
Capital Gains Tax Transfers to Stabilization Fund during FY2018 per Chapter 29, Section 5G	513,908
Minus Capital Gains Tax Transfers from Stabilization Fund to State Pension and State Retiree Benefits Trust Funds	(51,390)
Transfer to Stabilization Fund from Abandoned Property Revenue Growth from Prior Fiscal Year	13,450
Transfer of certain tax revenues to the Stabilization Fund	272
Stabilization Fund investment income.....	15,094
Remaining Consolidated Net Surplus Deposited in Stabilization Fund, per Calculation Above	209,287
Stabilization Fund Balance as of June 30, 2018	\$ 2,001,299
Memo: Change in Stabilization Fund Balance, FY17-18.....	\$ 700,621

* Excludes funds with no FY18 balances or activity

Note: Details may not add to totals due to rounding

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Calculation Of Transfers: Tax Reduction Fund

June 30, 2018

(Amounts in thousands)

This statement is prepared pursuant to Chapters 29 Sections 2H and 2I of the Massachusetts General Laws, as amended. It is prepared on the statutory basis of accounting and presents information contained in the official books and accounting records of the Commonwealth. Supporting information is presented in individual schedules, as indicated, and in the Financial Section of this report.

The computation is as follows:

Part 1: Comparison of Stabilization Fund, after current fiscal year transfers,
to 15% of budgeted revenues and other financial resources:

Undesignated fund balance in the Stabilization Fund	\$ 2,001,299
Allowable Stabilization Fund balance	<u>6,572,883</u>
Stabilization Fund excess, if any, transferable to Tax Reduction Fund	<u>\$ —</u>

Part 2: Status of Stabilization Fund after transfers:

Stabilization Fund balance	\$ 2,001,299
Transfer to Tax Reduction Fund	<u>—</u>
Stabilization Fund balance after transfer to Tax Reduction Fund	<u>\$ 2,001,299</u>

Part 3: Status of Tax Reduction Fund after transfers:

Tax Reduction Fund balance	\$ —
Transfers from Stabilization Fund	<u>—</u>
Tax Reduction Fund balance after transfers	<u>\$ —</u>

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MASSACHUSETTS GENERAL INFORMATION

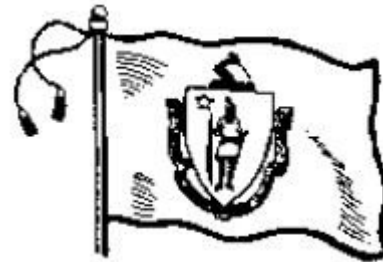
Admitted to Union (6th State): 1788
Population: 6,859,819

Capital: Boston
Nickname: Bay State

The State Seal



The State Flag



The State Seal, adopted by Governor John Hancock and the Council on December 13, 1780 and made official by the General Court on June 4, 1885, is circular and bears a representation of the arms of the Commonwealth encircled with the words "Sigillum Reipublicae Massachusettensis" (Seal of the Republic of Massachusetts). The arms, according to legislative enactment, consists of "a shield having a blue field or surface with an Indian thereon, dressed in a shirt and moccasins, holding in his right hand a bow, and in his left hand an arrow, point downward, all of gold; and in the upper corner of the field, above his right arm, bent at the elbow, clothed and ruffled, with the hand grasping a broadsword."

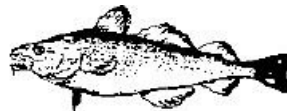
The State Flag is white, bearing on both sides a representation of the coat of arms. It was adopted in its final form in 1971; before that, the obverse side depicted a pine tree.

The State Flower



The Mayflower

The State Fish



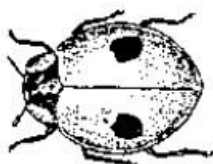
The Cod, a soft-finned fish, usually 10-20lbs. A sculpture of a cod hangs in the House of Representatives as a tribute to this useful aquatic creature.

The State Bird



The Black Capped Chickadee

The State Insect



The Lady Bug

The State Tree



The American Elm was adopted as the official tree March 21, 1941 to commemorate the fact that General George Washington took command of the Continental Army beneath one on Cambridge Common in 1775.

The State Dog



The Boston Terrier, the first purebred dog developed in America (1869), is a cross between an English bulldog and an English terrier.

Beverage: Cranberry Juice
Dessert: Boston Cream Pie

Muffin: The Corn Muffin
Cookie: Chocolate Chip

Horse: The Morgan Horse
Bean: Navy Bean