

**NEW MONEY ISSUE — BOOK-ENTRY ONLY**

*In the opinion of Nixon Peabody LLP, Bond Counsel, interest on the Notes is included in the gross income of the owners thereof for federal income tax purposes. Bond Counsel is further of the opinion that, under existing law, interest on the Notes is exempt from Massachusetts personal income taxes, and the Notes are exempt from Massachusetts personal property taxes. See “Tax MATTERS” herein regarding certain other tax considerations.*



**\$100,000,000**  
**THE COMMONWEALTH OF MASSACHUSETTS**  
**Federal Highway Grant Anticipation Notes**  
**(Accelerated Bridge Program)**  
**2010 Series A**  
**(Federally Taxable - Build America Bonds - Direct Pay to Issuer)**

**Dated: Date of Delivery**

**Due: As shown on the inside cover**

The Federal Highway Grant Anticipation Notes (Accelerated Bridge Program), 2010 Series A (the “Notes”) are being issued by The Commonwealth of Massachusetts (the “Commonwealth”) pursuant to Sections 7 through 9 of Chapter 233 of the Massachusetts Acts of 2008 and Sections 20 and 2ZZZ of Chapter 29 of the Massachusetts General Laws, as amended, and a Trust Agreement dated as of December 1, 2010 (the “Trust Agreement”), by and between the Commonwealth and Deutsche Bank Trust Company Americas, New York, New York, as trustee (the “Trustee”).

As more fully described herein, the Notes are special limited obligations of the Commonwealth, payable solely from a pledge of the Pledged Funds, as defined herein, and all Funds and Accounts, other than the Project Fund and the Rebate Fund, held under the Trust Agreement. The Notes are subordinate to certain Senior Obligations as described herein. The Pledged Funds are reimbursements received or to be received by the Commonwealth from the federal government pursuant to the Federal-Aid Highway Program, any other moneys from time to time deposited in the Federal Highway Grant Anticipation Trust Fund of the Commonwealth and certain moneys credited to the Commonwealth Transportation Fund, including receipts from certain motor fuels taxes and motor vehicle licensing and registration fees, after payment of such Senior Obligations, and certain other monies, as described herein. See *Security and Sources of Payment for the Notes Under the Trust Agreement* herein.

**The Notes shall be payable solely from the Pledged Funds as described herein. The Notes are not a general obligation of the Commonwealth and the full faith and credit of the Commonwealth is not pledged to the payment of the Notes.**

The Notes will be issued only as fully registered notes, registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”). Purchases of beneficial interests in the Notes will be made in book-entry form in denominations of \$5,000 principal amount or whole multiples thereof. Purchasers will not be entitled to receive physical delivery of the Notes.

Principal and interest on the Notes (with interest accruing from the dated date and payable on June 15, 2011 and thereafter on December 15 and June 15 of each year) will be payable to DTC by the Trustee. So long as DTC or its nominee remains the registered owner, disbursements of such payments to DTC Participants, as defined herein, are the responsibility of DTC and disbursements of such payments to the purchasers of the Notes are the responsibility of DTC Participants, as described herein. The Notes will be subject to optional redemption prior to stated maturity as more fully described herein.

The Notes are offered, subject to prior sale, when, as and if issued by the Commonwealth and accepted by the Underwriters, and to the approval of legality of the Notes and certain other matters by Nixon Peabody LLP, Boston, Massachusetts, Bond Counsel. Certain legal matters will be passed upon for the Underwriters by their counsel, Edwards Angell Palmer & Dodge LLP, Boston, Massachusetts. It is expected that the Notes will be available for delivery to DTC in New York, New York, or its custodial agent on or about December 23, 2010.

**Jefferies & Company**

**Barclays Capital**  
**J.P. Morgan**

**BofA Merrill Lynch**  
**Morgan Stanley**

**Citi**  
**Ramirez & Co., Inc.**

**THE COMMONWEALTH OF MASSACHUSETTS**  
**\$100,000,000**  
**Federal Highway Grant Anticipation Notes**  
**(Accelerated Bridge Program)**  
**2010 Series A**  
**(Federally Taxable - Build America Bonds - Direct Pay to Issuer)**

**Dated: Date of Delivery**

**Due: December 15, as shown below**

<u>Maturity</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Price</u>	<u>CUSIP* Numbers</u>
2015	\$11,390,000	2.983%	100%	57583PEM7
2016	11,635,000	3.586	100	57583PEN5
2017	11,925,000	3.936	100	57583PEP0
2018	12,245,000	4.285	100	57583PEQ8
2019	12,600,000	4.485	100	57583PER6
2020	12,985,000	4.685	100	57583PES4
2021	13,390,000	4.835	100	57583PET2
2022	13,830,000	5.035	100	57583PEU9

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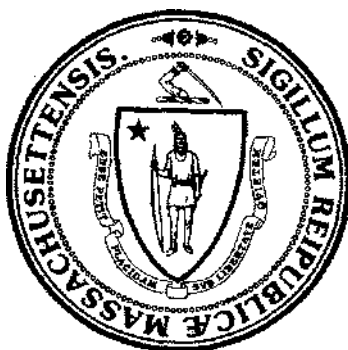
No dealer, broker, salesperson or other person has been authorized by The Commonwealth of Massachusetts (the "Commonwealth") or the Underwriters of the Notes to give any information or to make any representations, other than those contained in this Official Statement, and if given or made, such other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

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their respective responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

In connection with this offering, the Underwriters may overallocate or effect transactions that stabilize or maintain the market price of the Notes at levels above those that might otherwise prevail on the open market. Such stabilizing, if commenced, may be discontinued at any time.

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

**THE COMMONWEALTH OF MASSACHUSETTS**



**CONSTITUTIONAL OFFICERS**

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

**LEGISLATIVE OFFICERS**

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

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## SUMMARY OF TERMS

*The following is qualified in its entirety by reference to the information appearing elsewhere in this Official Statement. Terms used in this summary and not defined herein are defined in APPENDIX B – Summary of Certain Provisions of the Trust Agreement.*

Issuer .....	The Commonwealth of Massachusetts (the “Commonwealth”) acting pursuant to Sections 7 through 9 of Chapter 233 of the Acts of 2008 (the “Accelerated Bridge Program Act”), Section 2O of Chapter 29 of the Massachusetts General Laws, as amended (the “Special Obligation Act”) and Section 2ZZZ of Chapter 29 (the “Commonwealth Transportation Fund Act”).
Securities Offered .....	Federal Highway Grant Anticipation Notes (Accelerated Bridge Program), 2010 Series A (the “Notes”) to be issued pursuant the Trust Agreement by and between the Commonwealth and the Trustee dated as of December 1, 2010 as supplemented by a First Supplemental Trust Agreement of even date therewith (as so supplemented and as further supplemented and amended from time to time, the “Trust Agreement”).
Purpose of Issue.....	The proceeds of the Notes are being issued to finance design, construction, reconstruction and repair of or improvements to bridges and approaches pursuant to the Accelerated Bridge Program Act.
Trustee .....	Deutsche Bank Trust Company Americas, New York, New York
Not General Obligations .....	The Notes are not general obligations of the Commonwealth. The full faith and credit of the Commonwealth is not pledged to the payment of the Notes.
Security and Sources of Payment for the Notes.....	The principal of, interest and premium, if any, on the Notes will be secured solely by and payable solely from the Pledged Funds. The Notes are subordinate to the Senior Obligations, as further described herein. The Senior Obligations consist of the outstanding Senior Federal Highway Notes, the Senior CTF Obligations and the 1994 Trust Agreement Bonds, each as defined below.
Senior Federal Highway Notes.....	The Commonwealth has previously issued its Federal Highway Grant Anticipation Notes, 1998 Series A (the “1998A Notes”), Federal Highway Grant Anticipation Notes, 1998 Series B (the “1998B Senior Notes”), Federal Highway Grant Anticipation Notes, 2000 Series A (the “2000A Senior Notes”) and Special Obligation Notes (Federal Highway Grant Anticipation Note Program), 2003 Series A (the “2003A Senior Notes”) pursuant to a Trust Agreement dated as of June 1, 1998, as supplemented and amended (the “1998 Trust Agreement”) by and between the Commonwealth and State Street Bank and Trust Company, as trustee. Concurrently with the delivery of the Notes, the Commonwealth expects to issue its Special Obligation Refunding Notes (Federal Highway Grant Anticipation Note Program), 2010 Series A (the “2010A Senior Notes” and collectively with the 1998A Senior Notes, 1998B Senior Notes, 2000A Senior Notes and the 2003A Senior Notes, the “Senior Federal Highway Notes”), pursuant to the 1998 Trust Agreement, as amended and

restated on December 1, 2010, and as further amended by a Fifth Supplemental Trust Agreement dated as of December 1, 2010 (as amended, supplemented and restated, the “Senior Federal Highway Notes Trust Agreement”) between the Commonwealth and U.S. Bank National Association, as Trustee (the “Senior Federal Highway Note Trustee”).

The only Senior Federal Highway Notes that will remain outstanding after the issuance of the 2010A Senior Notes are the 2010A Senior Notes and the 2003A Senior Notes.

The Senior Federal Highway Notes are secured by a senior lien on the Federal Highway Reimbursements and a subordinate lien, under the circumstances described in the Senior Federal Highway Notes Trust Agreement, on a certain portion of the receipts credited to the Commonwealth Transportation Fund from the Commonwealth’s gasoline tax imposed by Chapter 64A of the General Laws, not including aviation fuel (the “Gasoline Tax”) equal to ten cents (\$0.10) per gallon. The Senior Federal Highway Notes are senior to the Notes with respect to the Federal Highway Reimbursements and any other moneys deposited to or held for the credit of the Federal Highway Grant Anticipation Note Trust Fund and are included in the definition of “Senior Obligations.”

The final scheduled maturity date for the Senior Federal Highway Notes is June 15, 2015. Upon the issuance of the 2010A Senior Notes, the lien of the Senior Federal Highway Notes Trust Agreement will be closed and the Commonwealth will not be permitted to issue additional notes under the Senior Federal Highway Notes Trust Agreement except refunding notes. Additional Senior Federal Highway Notes are not expected to be issued under the Senior Federal Highway Notes Trust Agreement.

Senior CTF Obligations.....

Concurrently with the delivery of the Notes, the Commonwealth expects to issue its Commonwealth Transportation Fund Revenue Bonds (Accelerated Bridge Program), 2010 Series A (Federally Taxable—Build America Bonds / Recovery Zone Economic Development Bonds—Direct Pay to Issuer) (the “2010 CTF Bonds”), pursuant to a Trust Agreement dated as of December 1, 2010, as supplemented and amended by a First Supplemental Trust Agreement of even date therewith (together, the “Senior CTF Trust Agreement”) between the Commonwealth and The Bank of New York Mellon Trust Company, N.A., as trustee (the “Senior CTF Trustee”) and pursuant to the Accelerated Bridge Program Act. The 2010 CTF Bonds will be secured by a pledge of certain moneys credited to the Commonwealth Transportation Fund, including receipts from a portion of the Gasoline Tax equal to twenty and nine thousand six hundred eighty-five ten thousandths cents (20.9685¢) per gallon, receipts from other motor fuel excises and fees from motor vehicle licensing and registration. The 2010 CTF Bonds and any other bonds issued from time to time under the Senior CTF Trust Agreement, including the issuance of subordinate bonds in accordance with the terms thereof, constitute Senior CTF Obligations. The Senior CTF Obligations are Senior to the Notes with respect to the Net CTF Pledged Funds (defined below) and are included in the definition of “Senior Obligations.” Additional bonds may be issued under the Senior CTF Trust Agreement.



1994 Trust Agreement Bonds..... The Commonwealth previously issued special obligation bonds pursuant to a Trust Agreement dated as of June 1, 1994 between the Commonwealth and Shawmut Bank, N.A. as trustee (as amended and restated as of January 1, 2005, the “1994 Trust Agreement”) and pursuant to the Special Obligation Act. The 1994 Trust Agreement Bonds are secured by a pledge of a portion of the receipts credited to the Commonwealth Transportation Fund from the Gasoline Tax equal to six and eighty-six hundredths cents (6.86¢) per gallon.

At the time of issuance of the 2010 CTF Bonds, the Commonwealth will close the lien on the 1994 Trust Agreement, after which no additional bonds may be issued under such agreement, except for refunding bonds. The 1994 Trust Agreement Bonds are senior to the Notes with respect to the pledge of receipts from the Gasoline Tax credited to the Commonwealth Transportation Fund equal to six and eighty-six hundredths cents (6.86¢) per gallon and are included in the definition of “Senior Obligations.”

Pledged Funds ..... The Notes will be payable solely from and secured by the following (collectively, the “Pledged Funds”):

(a) all federal highway construction reimbursements and other federal highway assistance (“Federal Highway Reimbursements”) that the Commonwealth from time to time shall receive with respect to federally-aided highway construction projects under or in accordance with Title 23 of the United States Code or any successor program established under federal law (the “Federal-Aid Highway Program”), less the amounts used or expected to be used to pay amounts due and owing under the Senior Federal Highway Notes Trust Agreement (“Net Federal Highway Reimbursements”);

(b) subject to the provisions of the Senior Federal Highway Notes Trust Agreement, any other moneys from time to time deposited in the Federal Highway Grant Anticipation Note Trust Fund of the Commonwealth established by Section 10 of Chapter 11 of the Acts of 1997, as amended (the “Federal Highway Grant Anticipation Note Trust Fund”) (together with the Net Federal Highway Reimbursements, the “Pledged Federal Highway Revenues”);

(c) Net CTF Pledged Funds (defined below);

(d) to the extent permitted by law, any tax credit paid to the Commonwealth by the federal government equal to a percentage of the taxable interest the Commonwealth pays with respect to any Notes issued as Build America Bonds and Recovery Zone Economic Development Bonds under the Trust Agreement;

(e) amounts, securities and any investment earnings with respect thereto in all funds and accounts held under the Trust Agreement other than the Project Fund and the Rebate Fund; and

(f) any amounts payable to the Commonwealth by a Hedge Provider pursuant to a Qualified Hedge Agreement relating to the Notes.

Federal Highway Reimbursements.....

Under the Federal-Aid Highway Program, Federal Highway Reimbursements are paid to the Commonwealth from revenues collected by the United States Treasury on certain federal taxes on gasoline, tire sales, truck sales and other items and deposited into the federal Highway Trust Fund for distribution, subject to Congressional appropriation, to the states in accordance with the federal highway aid programs established initially by the Federal-Aid Highway Act of 1956 and continued under successor statutes. See Appendix A-*The Federal-Aid Highway Program*.

Application of Federal Highway Reimbursements to pay principal of and interest on the Notes when due is not subject to appropriation by the Massachusetts Legislature. See *Commonwealth Participation in the Federal-Aid Highway Program*.

Net CTF Pledged Funds .....

The excise imposed on fuel (other than aviation fuel) by the provisions of Chapter 64A, 64E and 64F is referred to herein as the "Motor Fuels Tax." The Net CTF Pledged Funds include the following revenues and moneys, after the application thereof in accordance with the provisions of the 1994 Trust Agreement, the Senior CTF Trust Agreement and the Senior Federal Highway Notes Trust Agreement:

- (a) all moneys received or to be received by the Commonwealth from the portion equal to (i) fourteen and one thousand and eighty-five ten-thousandths cents (\$0.141085) per gallon with respect to the portion of the Motor Fuels Tax imposed pursuant to Chapter 64A; (ii) twenty-one cents (\$0.21) per gallon with respect to the excise tax imposed on fuel (other than liquefied gas) by the provisions of Chapters 64E and 64F, and (iii) nineteen and one tenth (19.1) percent of the average price per gallon (computed to the nearest tenth of one percent) with respect to the excise tax imposed on liquefied gas by the provisions of Chapter 64E;
- (b) all Registry Fees;
- (c) all other moneys received or to be received by the Senior CTF Trustee from the 1994 Trustee pursuant to the 1994 Trust Agreement;
- (d) immediately upon the discharge and release of the lien of the 1994 Trust Agreement in accordance with the provisions thereof, all moneys received or to be received by the Commonwealth from a portion of the Motor Fuels Tax imposed pursuant to Chapter 64A equal to six and eighty-six hundredths cents (\$0.0686) per gallon, together with any other amounts then constituting "Pledged Funds" within the meaning of the 1994 Trust Agreement; and
- (e) to the extent permitted in the Senior CTF Trust Agreement, such Additional Pledged Funds (as therein defined) as the Commonwealth may by a subsequent supplemental trust agreement pledge to the Senior CTF Trustee as security for the Senior CTF Obligations.

Application of Net CTF Pledged Funds to pay principal and interest on the Notes when due is subject to appropriation. However, if Net CTF Pledged Funds are required to pay debt

service on the Notes and no appropriation of Net CTF Pledged Funds for such purpose is made, the Net CTF Pledged Funds to the extent needed to pay debt service on the Notes and other Trust Agreement Obligations shall not be applied to any other use.

The Senior CTF Trust Agreement permits the Commonwealth to change the revenues and moneys constituting the CTF Pledged Funds, as defined in the Senior CTF Trust Agreement. To the extent that the revenues and moneys constituting CTF Pledged Funds are amended or revised in accordance with the Senior CTF Trust Agreement, the definition of “Net CTF Pledged Funds” shall be likewise amended or revised to reflect the new revenues and moneys constituting CTF Pledged Funds.

Debt Service Funding ..... Semi-annual debt service payments on the Notes are due June 15 and December 15 and are expected to be funded one year in advance (except for the debt service on the Notes due on June 15, 2011 and December 15, 2011). See *Security and Sources of Payment for the Notes Under the Trust Agreement—Funding of Trust Agreement Obligations*.

Perfection and Priority of Lien on Pledged Funds ..... The Act provides that the lien of the Trust Agreement on the Pledged Funds will be perfected by filing the Trust Agreement in the records of the State Treasurer. The Trust Agreement has been so filed and in the opinion of Nixon Peabody LLP, Bond Counsel, the lien of such Pledged Funds securing the Trust Agreement Obligations is valid and binding as against all persons or entities of any kind having claims of any kind in tort, contract or otherwise, irrespective of whether such persons or entities have notice thereof. Bond Counsel is further of the opinion that neither the Commonwealth nor the Federal Highway Grant Anticipation Note Trust Fund is eligible to seek protection from creditors under Title 11 of the United States Code. The lien of the Trust Agreement on the Federal Highway Reimbursements is limited to such moneys when received by the Commonwealth and does not include a pledge of the right to receive such reimbursements or other assistance from the federal government. No person or entity, other than the Commonwealth, will be entitled to assert any claim against the federal government with respect to such reimbursements or other assistance.

Additional Notes ..... The Notes will constitute the first issuance of Notes by the Commonwealth under the Accelerated Bridge Program Act. The Trust Agreement provides that no additional federal highway grant anticipation notes (except Refunding Notes) may be issued unless (1) the amount of Federal Highway Reimbursements received by the Commonwealth during any twelve (12) consecutive months out of an eighteen (18) month period ending with the last full month immediately preceding the date of issuance of the Additional Notes (or, if the information for such last full month is not then available, the last month for which such information is available) was not less than one hundred fifty percent (150%) of the maximum amount due in the then current or any future SFY determined by adding (x) the Adjusted Note Debt Service Requirement (as defined in the Senior Federal Highway Notes Trust Agreement, defined herein) with respect to the Senior Federal Highway Notes Trust Agreement plus (y) the Adjusted Note Debt Service Requirement with respect to the Notes Outstanding including the proposed Additional Notes, and (2) the amount of Net CTF Pledged Funds received by the Commonwealth during the same twelve (12) consecutive months

referred to above was not less than two hundred fifty percent (250%) of the maximum annual aggregate Adjusted Note Debt Service Requirement in the then current or any future SFY on Notes Outstanding including the proposed Additional Notes. See *Security and Sources of Payment for the Notes Under the Trust Agreement – Limitations on Issuance of Additional Notes*.

The Accelerated Bridge Program Act authorized the issuance of up to \$1.108 billion of federal highway grant anticipation notes to finance design, construction, reconstruction and repair of or improvements to bridges and approaches. The Accelerated Bridge Program Act also authorized the issuance of up to \$1.876 billion in special obligation bonds of the Commonwealth for such purposes (i.e., Senior CTF Obligations). Under the Accelerated Bridge Program Act, the Commonwealth may issue any portion of the federal highway grant anticipation notes authorized therein as special obligation bonds and may issue any portion of the special obligation bonds authorized therein as federal highway grant anticipation notes, provided that the aggregate amount of such special obligation bonds and federal highway grant anticipation notes shall not exceed \$2.984 billion. Refunding Notes and subordinate securities also may be issued pursuant to the Trust Agreement.

Commonwealth Covenants.....	As authorized by the Act, the Trust Agreement contains covenants of the Commonwealth with the holders of the Notes that, so long as any Notes shall remain outstanding or any Trust Agreement Obligations shall remain unpaid, except for the senior pledge and lien on certain Pledged Funds in favor of the owners of the 1994 Trust Agreement Bonds, the Senior CTF Obligations and the Senior Federal Highway Notes, the Pledged Funds will be free and clear of any pledge, lien, charge or encumbrance thereon with respect thereto that is prior to, or of equal rank with, the pledge created by the Trust Agreement.
Optional Redemption.....	The Notes are subject to redemption prior to maturity at the option of the Commonwealth, in whole or in part, on a pro-rata basis at any time, at the “Make-Whole Redemption Price” defined herein. The Notes are also subject to extraordinary optional redemption prior to maturity at the option of the Commonwealth, in whole or in part, on a pro-rata basis at any time, at the “Extraordinary Optional Redemption Price” defined herein.
Interest and Principal .....	Interest on the Notes will accrue from their dated date at the rates set forth on the inside cover page hereof. Interest on the Notes will be payable semiannually on June 15 and December 15, commencing on June 15, 2011. Principal of the Notes will be due as shown on the inside cover page.
Tax Matters.....	In the opinion of Bond Counsel, interest on the Notes is included in the gross income of the owners thereof for federal income tax purposes. Bond Counsel is further of the opinion that, under existing law, interest on the Notes is exempt from Massachusetts personal income taxes, and the Notes are exempt from Massachusetts personal property taxes. See <i>Tax Matters</i> herein regarding certain other tax considerations.

Ratings.....

The Notes have been rated “AAA” by Standard & Poor’s Ratings Group, Inc., “Aa2” by Moody’s Investors Service, Inc. and “AA+” by Fitch Ratings, Inc. Such ratings reflect only the respective views of such organizations, and an explanation of the significance of such ratings may be obtained from the rating agency furnishing the same. There is no assurance that a rating will continue for any given period of time or that a rating will not be revised or withdrawn entirely by any or all of such rating agencies, if, in its or their judgment, circumstances so warrant. Any downward revision or withdrawal of a rating could have an adverse effect on the market prices of the Notes.

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## OFFICIAL STATEMENT

**\$100,000,000**

**THE COMMONWEALTH OF MASSACHUSETTS  
Federal Highway Grant Anticipation Notes  
(Accelerated Bridge Program)  
2010 Series A  
(Federally Taxable - Build America Bonds - Direct Pay to Issuer)**

### INTRODUCTION

This Official Statement, including the cover pages and the Appendices hereto, provides certain information in connection with the issuance by The Commonwealth of Massachusetts (the “Commonwealth”), of \$100,000,000 of its Federal Highway Grant Anticipation Notes (Accelerated Bridge Program), 2010 Series A (the “Notes”). The Notes will be issued under the Trust Agreement dated as of December 1, 2010 between the Commonwealth and Deutsche Bank Trust Company Americas, as trustee (the “Trustee”), as supplemented by the First Supplemental Trust Agreement dated as of December 1, 2010 (as so supplemented and as further supplemented and amended from time to time, the “Trust Agreement”).

#### General

The Notes are being issued to finance design, construction, reconstruction and repair of or improvements to bridges and approaches within the Commonwealth. See *The Notes – Plan of Finance*. The Notes are issued pursuant to Chapter 233 of the Acts of 2008 (the “Accelerated Bridge Program Act”), Section 2O of Chapter 29 of the Massachusetts General Laws, as amended (the “Special Obligation Act”) and Section 2ZZZ of Chapter 29 (the “Commonwealth Transportation Fund Act”).

The Notes are payable solely from the Pledged Funds (as defined below). The Notes are subordinate to the Senior Obligations (defined herein). The Notes are not general obligations of the Commonwealth, and the full faith and credit of the Commonwealth is not pledged to the payment of principal of, and interest on, the Notes.

#### Accelerated Bridge Program

Pursuant to the Accelerated Bridge Program Act, the Commonwealth commenced a program to finance the accelerated capital improvement of bridges and related infrastructure (the “Accelerated Bridge Program”). The Accelerated Bridge Program Act authorized the issuance of up to \$1.108 billion of notes secured by federal highway assistance (“Federal Highway Grant Anticipation Notes”) to finance design, construction, reconstruction and repair of or improvements to bridges and approaches. The Notes are the Commonwealth’s first issuance of Federal Highway Grant Anticipation Notes under the Trust Agreement pursuant to the Accelerated Bridge Program Act.

The Accelerated Bridge Program Act also authorized the issuance of up to \$1.876 billion in special obligation bonds of the Commonwealth pursuant to the Special Obligation Act, secured by revenues in the Commonwealth Transportation Fund pursuant to the Commonwealth Transportation Fund Act (“Special Obligation Bonds”). Under the Accelerated Bridge Program Act, the Commonwealth may issue any portion of the therein authorized Federal Highway Grant Anticipation Notes as Special Obligation Bonds or Special Obligation Bonds as Federal Highway Grant Anticipation Notes, provided that the aggregate amount of such Special Obligation Bonds and Federal Highway Grant Anticipation Notes shall not exceed \$2.984 billion, and provided that the Governor and State Treasurer determine that issuing such Special Obligation Bonds or Federal Highway Grant Anticipation Notes in such manner is necessary or is in the best financial interests of the Commonwealth, based on their consideration of: (i) the Commonwealth’s authority under federal law to issue Federal Highway Grant Anticipation Notes; (ii) generally prevailing financial market conditions; (iii) the impact of each financing approach on the overall capital financing plans and needs of the Commonwealth; (iv) any ratings assigned to outstanding bonds of the

Commonwealth and any ratings expected to be assigned by any nationally-recognized credit rating agency to the bonds or notes proposed to be issued; and (v) any applicable provisions of Chapter 29 of the General Laws.

Additional Notes and Special Obligation Bonds are expected to be issued by the Commonwealth through fiscal year 2016 as part of the Accelerated Bridge Program.

### **Commonwealth Transportation Fund**

In 2009, the Commonwealth enacted comprehensive transportation reform legislation as Chapter 25 of the Acts of 2009, as amended (the "Transportation Reform Act") to reorganize its transportation agencies and to revise certain transportation financing statutes. The Transportation Reform Act established the Commonwealth Transportation Fund under the Commonwealth Transportation Fund Act, to which 99.85% of receipts from the Commonwealth's gasoline tax imposed by Chapter 64A of the General Laws (the "Gasoline Tax"), which is currently imposed at a rate of twenty-one cents (21¢) per gallon, are credited, as well as certain other revenues of the Commonwealth including other motor fuel excises and fees from motor vehicle licensing and registration. The Transportation Reform Act also created a new entity, the Massachusetts Department of Transportation ("MassDOT") to manage and coordinate the Commonwealth's transportation functions, including the divisions of highways (formerly the MassHighway Department), transit (bus, subway and commuter rail services), the registry of motor vehicles and aeronautics.

### **Build America Bonds**

The Commonwealth intends to elect to treat the Notes as "Build America Bonds" for purposes of the American Recovery and Reinvestment Act of 2009 ("ARRA") and to receive subsidy payments from the United States Treasury ("Direct Payments") in connection therewith. As a result of such elections, interest on the Notes will be included in the gross income of holders thereof for federal income tax purposes, and the holders will not be entitled to any federal tax credits as to Build America Bonds in connection with their holding of such Notes. Pursuant to ARRA, the Commonwealth will be entitled to receive Direct Payments equal to 35% of the interest payable on the Notes provided the Commonwealth makes certain required filings in accordance with applicable federal rules pertaining to the Direct Payments. Under current law, Direct Payments received by the Commonwealth will be deposited in the Commonwealth's General Fund and accordingly will not be considered to be Pledged Funds. The Executive Office for Administration and Finance intends to seek legislative authority to provide that any Direct Payments received by the Commonwealth with respect to the Notes shall be credited upon receipt to the Federal Highway Grant Anticipation Note Trust Fund (as defined below). If such authority is enacted into law, such Direct Payments would be included in Pledged Funds. Federal tax law imposes certain requirements for qualification of the Notes as Build America Bonds, including that interest on such Notes issued as Build America Bonds would be, but for the Commonwealth's election, excludable from gross income for federal income tax purposes. Additionally, the proceeds of "Build America Bonds" have limitations on their use; if the Commonwealth were to use the proceeds of the Notes issued as Build America Bonds for expenditures other than capital expenditures, reasonably required reserve funds or costs of issuance, such Notes would not be eligible for the Direct Payments. Direct Payments are treated as overpayments of tax, and accordingly, are subject to offset against certain amounts that may be owed by the Commonwealth to an agency of the United States of America. There can be no assurance that the Notes will qualify as Build America Bonds nor as to the receipt, or timing of receipt, of Direct Payments. The Commonwealth is obligated to make payments of the principal of and interest on the Notes whether or not it receives Direct Payments. Direct Payments could be reduced or eliminated as a result of a change in federal law. See *Tax Matters* herein.

### **Summary of Pledged Funds**

The Notes will be payable solely from and secured by the following (collectively, the "Pledged Funds"):

(a) all federal highway construction reimbursements and other federal highway assistance ("Federal Highway Reimbursements") that the Commonwealth from time to time shall receive with respect to federally-aided highway construction projects under or in accordance with Title 23 of the United States Code or any successor program established under federal law (the "Federal-Aid Highway Program"), less the amounts used or expected to



be used to pay amounts due and owing under the Senior Federal Highway Notes Trust Agreement (“Net Federal Highway Reimbursements”);

(b) subject to the provisions of the Senior Federal Highway Notes Trust Agreement, any other moneys from time to time deposited in the Federal Highway Grant Anticipation Note Trust Fund of the Commonwealth (the “Federal Highway Grant Anticipation Note Trust Fund”) (together with the Net Federal Highway Reimbursements, the “Pledged Federal Highway Revenues”);

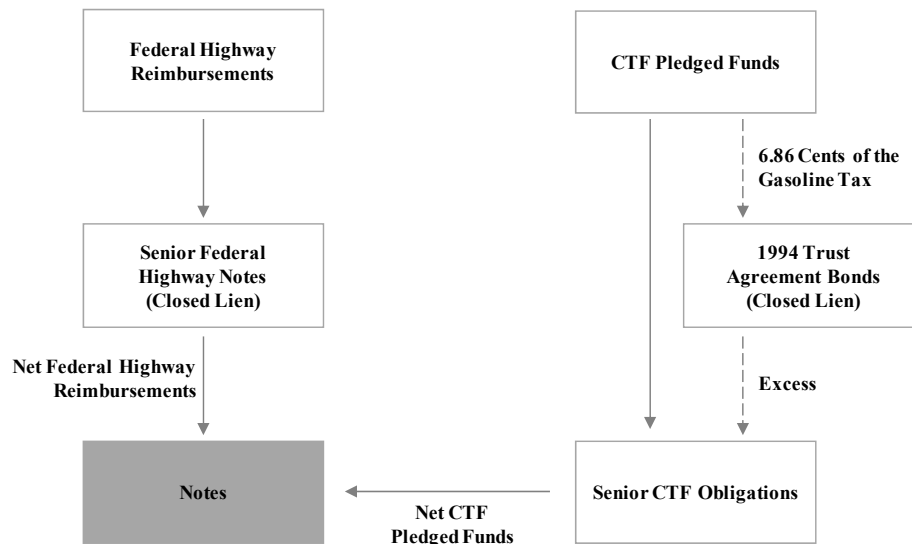
(c) Net CTF Pledged Funds, as further described herein;

(d) to the extent permitted by law, any tax credit paid to the Commonwealth by the federal government equal to a percentage of the taxable interest the Commonwealth pays (“Direct Payments”) with respect to any Notes issued as Build America Bonds and Recovery Zone Economic Development Bonds under the Trust Agreement;

(e) amounts, securities and any investment earnings with respect thereto in all funds and accounts held under the Trust Agreement other than the Project Fund and the Rebate Fund; and

(f) any amounts payable to the Commonwealth by a Hedge Provider pursuant to a Qualified Hedge Agreement relating to the Notes.

The Notes are subordinate to the Senior Federal Highway Notes, as further described herein, with respect to the Federal Highway Reimbursements and other moneys deposited from time to time in the Federal Highway Grant Anticipation Note Trust Fund. The Notes are also subordinate to the Senior CTF Obligations and the 1994 Trust Agreement Bonds with respect to the Net CTF Pledged Funds. See *Security and Sources of Payment for the Notes Under the Trust Agreement* and *Net CTF Pledged Funds*.



**Federal Highway Reimbursements**

Pledged Funds include moneys received by the Commonwealth from the federal government under existing and future federal highway construction assistance programs until paid at maturity. All such assistance received by the Commonwealth will be collected for the benefit of the Noteholders in a trust fund established by law and, to the extent needed for such purpose, will be retained in trust to provide for debt service on the Notes. Application of such funds to the payment of principal of and interest on the Notes is permitted under federal law and may be made without legislative appropriation under Massachusetts law. Neither the Commonwealth nor the trust fund established to secure the Notes is eligible for bankruptcy protection.

Federal highway construction assistance is paid to all states including the Commonwealth through the Federal-Aid Highway Program, hereinafter defined, from revenues collected by the United States Treasury from certain federal taxes on gasoline, tire sales and other items, which revenues are deposited into the federal Highway Trust Fund (“HTF”). Distribution of assistance from the HTF is subject to periodic authorization and annual appropriation by the United States Congress. Since such assistance was established by the Federal-Aid Highway Act of 1956, the Federal-Aid Highway Program has been reauthorized numerous times in various forms at generally increasing funding levels. Actual payments to states have continued without interruption since 1956. The most recent reauthorization, the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users, was enacted in 2005. As amended to date, this legislation is referred to as “SAFETEA-LU.” SAFETEA-LU expired on September 30, 2009, which was the end of federal fiscal year (“FFY”) 2009, and was extended through December 31, 2010. It is unknown whether reauthorizing legislation will be enacted by December 31, 2010.

Federal highway construction assistance is paid to all states including the Commonwealth on a reimbursement basis. Access to all of the amounts of available federal highway assistance for Massachusetts will depend, in part, on its continued spending on federally-eligible projects. The Commonwealth expects that, as a result of its extensive statewide road and bridge program, it will have sufficient federally eligible project expenditures to be able to utilize all the federal highway assistance made available to it. In conjunction with the development of the Statewide Transportation Improvement Program (“STIP”) for FFY 2011-2014, the Federal Highway Administration (“FHWA”) provided the Commonwealth with guidance of annual Obligation Authority (“OA”) of \$600 million, \$40 million of which is redistributed funds.

In addition, the Commonwealth has made extensive use of Advance Construction (“A/C”) status under the Federal-Aid Highway Program. By utilizing A/C status, the Commonwealth may pre-qualify projects and expenditures thereon for federal reimbursement, subject only to the availability of future federal assistance. As of September 30, 2010, Massachusetts had an estimated \$948 million in planned costs so qualified, which, when spent, should ensure that it will be able to draw down future federal assistance when available.

### **The Senior Federal Highway Notes Trust Agreement and the Senior Federal Highway Notes**

The Notes are subordinate to the Senior Federal Highway Notes (defined below). Pursuant to Sections 9 through 10D of Chapter 11 of the Massachusetts Acts of 1997, as amended (the “Senior Federal Highway Note Act”), the Commonwealth has previously issued its Federal Highway Grant Anticipation Notes, 1998 Series A (the “1998A Senior Notes”), Federal Highway Grant Anticipation Notes, 1998 Series B (the “1998B Senior Notes”), Federal Highway Grant Anticipation Notes, 2000 Series A (the “2000A Senior Notes”) and Special Obligation Notes (Federal Highway Grant Anticipation Note Program), 2003 Series A (the “2003A Senior Notes” and collectively with the 1998A Notes, 1998B Notes and 2000A Notes, the “Prior Federal Highway Notes”) pursuant to a Trust Agreement dated as of June 1, 1998 by and between the Commonwealth and U.S. Bank National Association, as successor trustee, as supplemented and amended by the First Supplemental Trust Agreement dated as of June 1, 1998, by the Second Supplemental Trust Agreement dated as of November 1, 1998, by the Third Supplemental Trust Agreement dated as of November 1, 2000 and by the Fourth Supplemental Trust Agreement dated as of June 19, 2003.

Concurrently with the delivery of the Notes, the Commonwealth expects to issue its Special Obligation Refunding Notes (Senior Federal Highway Grant Anticipation Note Program), 2010 Series A (the “2010A Senior Notes”), pursuant to an Amended and Restated Trust Agreement dated as of December 1, 2010 and a Fifth Supplemental Trust Agreement dated as of December 1, 2010 (as amended, restated and supplemented, the “Senior Federal Highway Notes Trust Agreement”). The Prior Federal Highway Notes and the 2010A Senior Notes are referred to herein collectively as the “Senior Federal Highway Notes.” The 2010A Senior Notes are being issued to refund certain of the Prior Federal Highway Notes. Following the issuance of the 2010A Senior Notes, the only Prior Federal Highway Notes remaining outstanding will be the 2003A Senior Notes and the 2010A Senior Notes. The 2010A Senior Notes are being offered by the Commonwealth pursuant to a separate offering document.

Upon the issuance of the 2010A Senior Notes, the Commonwealth will not be permitted to issue additional notes under the Senior Federal Highway Notes Trust Agreement, except for refunding notes. The Senior Federal Highway Notes are scheduled to mature on June 15, 2015, and the final debt service payment is expected to be funded in advance on or about June 15, 2014, in accordance with the Senior Federal Highway Note Trust

Agreement. The Senior Federal Highway Notes are senior to the Notes with respect to the Federal Highway Reimbursements and any other moneys deposited to or held for the credit of the Federal Highway Grant Anticipation Note Trust Fund. The Senior Federal Highway Notes are included in the definition of “Senior Obligations” under the Trust Agreement.

### **Net CTF Pledged Funds**

Net CTF Pledged Funds consist of certain moneys in the Commonwealth Transportation Fund following payment of debt service on the 1994 Trust Agreement Bonds and the Senior CTF Obligations, each described and defined below.

*Senior CTF Obligations.* As part of the Accelerated Bridge Program and concurrently with the delivery of the Notes, the Commonwealth expects to issue its Special Obligation Revenue Bonds (Accelerated Bridge Program), 2010 Series A (Federally Taxable—Build America Bonds / Recovery Zone Economic Development Bonds—Direct Pay to Issuer) (the “2010 CTF Bonds”) pursuant to a Trust Agreement dated as of December 1, 2010, as supplemented and amended by a First Supplemental Trust Agreement of even date therewith (together, the “Senior CTF Trust Agreement”) between the Commonwealth and The Bank of New York Mellon Trust Company, N.A., as trustee (the “Senior CTF Trustee”) and pursuant to the Accelerated Bridge Program Act. The 2010 CTF Bonds and any other bonds of the Commonwealth issued under the Senior CTF Trust Agreement from time to time, secured by a lien on the Net CTF Pledged Funds, including any subordinate bonds in accordance with the terms thereof, constitute “Senior CTF Obligations.” The 2010 CTF Bonds are being offered by the Commonwealth pursuant to a separate offering document.

The excise imposed on fuel (other than aviation fuel) by the provisions of Chapter 64A, 64E and 64F is referred to herein as the “Motor Fuels Tax.” The 2010 CTF Bonds will be secured by a pledge of the following: (i) all moneys received or to be received by the Commonwealth from a portion equal to 14.1085¢ per gallon with respect to the portion of the Motor Fuels Tax (other than aviation fuel) imposed by the provisions of Chapter 64A, equal to 21¢ per gallon with respect to the excise tax imposed on fuel (other than liquefied gas) by the provisions of Chapters 64E and 64F, and equal to 19.1% of the average price per gallon with respect to the excise tax imposed on liquefied gas; (ii) all Registry Fees; (iii) all moneys received or to be received by the Senior CTF Trustee from the 1994 Trust Agreement pursuant to the 1994 Trust Agreement; (iv) immediately upon the discharge and release of the lien of the 1994 Trust Agreement in accordance with the provisions thereof, all the funds pledged thereunder; (v) to the extent permitted by law, Direct Payments received by the Commonwealth from the United States Treasury with respect to any Senior CTF Obligations issued as Build America Bonds and Recovery Zone Economic Development Bonds pursuant to the Senior CTF Trust Agreement; and (vi) to the extent permitted in the Senior CTF Trust Agreement, such additional pledged funds as the Commonwealth may by a subsequent supplemental trust agreement pledge to the Senior CTF Trustee as security for the bonds issued under the Senior CTF Trust Agreement.

The Senior CTF Trust Agreement permits the Commonwealth to change the revenues and moneys constituting the CTF Pledged Funds, as defined in the Senior CTF Trust Agreement. To the extent that the revenues and moneys constituting CTF Pledged Funds are amended or revised in accordance with the Senior CTF Trust Agreement, the definition of “Net CTF Pledged Funds” shall be likewise amended or revised to reflect the new revenues and moneys constituting CTF Pledged Funds.

*1994 Trust Agreement Bonds.* The Commonwealth previously issued special obligation revenue bonds in 1997 (the “1997 Bonds”) pursuant to a Trust Agreement dated as of June 1, 1994 between the Commonwealth and Shawmut Bank, N.A. as trustee (as amended and restated as of January 1, 2005, the “1994 Trust Agreement”). The outstanding 1997 Bonds are secured by the Commonwealth’s pledge of 4.86¢ per gallon of revenues from the Gasoline Tax. The Commonwealth also issued such bonds in 2002 (the “2002 Bonds”) and in 2005 (the “2005 Bonds”) and collectively with the 1997 Bonds and the 2002 Bonds, the “1994 Trust Agreement Bonds”) pursuant to the 1994 Trust Agreement. The outstanding 2002 Bonds and 2005 Bonds are secured by the Commonwealth’s pledge of 6.86¢ per gallon of revenues from the Gasoline Tax. The 1994 Trust Agreement Bonds are currently outstanding in the aggregate principal amount of \$413,920,000, with a final maturity of June 1, 2023. At the time of issuance of the 2010 CTF Bonds, the Commonwealth will close the lien on the 1994 Trust Agreement, after which no additional bonds may be issued under such agreement, except for refunding bonds. The 1994 Trust Agreement

Bonds are senior to the Notes with respect to the pledge of receipts from the Gasoline Tax credited to the CTF equal to 6.86¢ per gallon and constitute “Senior Obligations” as described herein.

The above summary is intended only as a general introduction to the Notes and does not purport to be comprehensive or definitive. For more information concerning the Notes and the specific pledge and other provisions of the Trust Agreement and descriptions of the Federal-Aid Highway Program and the Commonwealth’s participation therein, prospective purchasers of the Notes should examine the entirety of this Official Statement.

### **Purpose and Content of Official Statement**

This Official Statement describes the terms and use of the proceeds of and security for the Notes. This introduction is subject in all respects to the additional information contained in this Official Statement, including Appendices A through D. Attached hereto as Appendix B is a summary of certain provisions of the Trust Agreement. Terms used in this Official Statement and not defined herein are defined in Appendix B. Appendix C attached hereto contains the proposed form of legal opinion of Bond Counsel with respect to the Notes. Appendix D attached hereto contains the proposed form of the Commonwealth’s continuing disclosure undertaking to be included in the Notes to facilitate compliance by the Underwriters with the requirements of paragraph (b)(5) of Rule 15c2-12 of the Securities and Exchange Commission. See *Continuing Disclosure*. All descriptions of documents contained in this Official Statement are only summaries and are qualified in their entirety by reference to each such document.

## **THE NOTES**

### **General**

The Notes will be dated the date of delivery and will bear interest from such date payable semiannually on June 15 and December 15 of each year, commencing June 15, 2011 (each an “Interest Payment Date”), until the principal amount is paid. The Notes will mature on the dates and in the years and in the aggregate principal amounts, and shall bear interest at the rates per annum (calculated on the basis of a 360-day year of twelve 30-day months), as set forth on the inside cover page of this Official Statement. The Trustee will act as paying agent with respect to the Notes. In such capacity, the Trustee is sometimes referred to herein as the “Paying Agent”.

*Book-Entry Only System.* The Notes will be issued by means of a book-entry only system, with one note certificate for each maturity immobilized at The Depository Trust Company, New York, New York. The certificates will not be available for distribution to the public and will evidence ownership of the Notes in principal amounts of \$5,000, or whole multiples thereof. Transfers of ownership will be effected on the records of DTC and its participants pursuant to rules and procedures established by DTC and its participants. Interest and principal due on the Notes will be paid to DTC or its nominee as registered owner of the Notes. The record date for payments on account of the Notes will be the last business day of the month preceding each June 15 and December 15. As long as the book-entry only system remains in effect DTC or its nominee will be recognized as the owner of the Notes for all purposes, including notices and voting. The Commonwealth will not be responsible or liable for maintaining, supervising or reviewing the records maintained by DTC, its participants or persons acting through such participants. See *Book-Entry Only System*.

### **Redemption**

*Optional Redemption of Notes with Make-Whole Payment.* The Notes are subject to redemption prior to maturity at the option of the Commonwealth, in whole or in part (on a pro-rata basis as described below), at any time, at the “Make-Whole Redemption Price” (as defined herein). The “Make-Whole Redemption Price” is the greater of:

- (i) 100% of the principal amount of the Notes to be redeemed; or
- (ii) the sum of the present value of the remaining scheduled payments of principal and interest to the maturity date of the Notes to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which such Notes are to be redeemed, discounted to the date on which such Notes are to

be redeemed on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate (defined herein) plus 30 basis points,

plus, in each case, accrued and unpaid interest on the Notes being redeemed to the date fixed for redemption.

The “Treasury Rate” is, as of any redemption date, the yield to maturity as of such redemption date of United States Treasury securities with a constant maturity (as compiled and published in the most recent Federal Reserve Statistical Release H.15 (519) that has become publicly available at least five Business Days prior to the redemption date (excluding inflation indexed securities) (or, if such Statistical Release is no longer published, any publicly available source of similar market data)) most nearly equal to the period from the redemption date to the maturity date of the Notes to be redeemed; provided, however, that if the period from the redemption date to such maturity date is less than one year, the weekly average yield on actually traded United States Treasury securities adjusted to a constant maturity of one year will be used.

The redemption price of the Notes to be redeemed pursuant to the make whole redemption provision described above will be determined by an independent accounting firm, investment banking firm or financial advisor retained by the Commonwealth at the Commonwealth’s expense to calculate such redemption price.

*Extraordinary Optional Redemption of Notes.* The Notes are subject to redemption prior to maturity at the option of the Commonwealth, in whole or in part (on a pro-rata basis as described below), at any time, (i) in the event Sections 54AA or 6431 of the Code (as such sections were added by Section 1531 of ARRA, pertaining to Build America Bonds) are amended to reduce or eliminate the Direct Payments payable with respect to such Notes or there is any guidance published by the Internal Revenue Service or the Department of the Treasury with respect to such sections or any other determination by the Internal Revenue Service or the Department of the Treasury pursuant to which the Direct Payments are reduced or eliminated or (ii) if in the opinion of Bond Counsel, or based on a written determination of the Internal Revenue Service, such Notes fail, or would fail absent the taking of remedial action, to comply with the requirements of Sections 54AA or 6431 of the Code, at a redemption price equal to the greater of:

(i) 100% of the principal amount of the Notes to be redeemed; or

(ii) the sum of the present value of the remaining scheduled payments of principal and interest to the maturity date of the Notes to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which the Notes are to be redeemed, discounted to the date on which the Notes are to be redeemed on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate plus 100 basis points,

plus, in each case, accrued and unpaid interest on the Notes being redeemed to the date fixed for redemption.

The redemption price of the Notes to be redeemed pursuant to the extraordinary optional redemption provision described above will be determined by an independent accounting firm, investment banking firm or financial advisor retained by the Commonwealth at the Commonwealth’s expense to calculate such redemption price.

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

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

*Pro Rata Redemption of the Notes.* If the Notes are registered in book-entry-only form and so long as DTC or a successor securities depository is the sole registered owner of such Notes, partial redemptions will be done in accordance with DTC procedures. It is the Commonwealth's intent that redemption allocations made by DTC, the DTC Participants or such other intermediaries that may exist between the Commonwealth and the beneficial owners be made in accordance with these same proportional provisions. However, the Commonwealth can provide no assurance that DTC, the DTC Participants or any other intermediaries will allocate redemptions among beneficial owners on such a proportional basis.

If the Notes are not registered in book-entry-only form, any redemption of less than all of the Notes of any maturity will be allocated among the registered owners of such Notes as nearly as practicable in proportion to the principal amounts of the Notes of such Series and of such maturity owned by each registered owner, subject to the authorized denominations applicable to the Notes. This will be calculated based on the formula: (principal amount of applicable maturity to be redeemed) x (principal amount of applicable maturity owned by owner) / (principal amount of applicable maturity outstanding). The particular Notes to be redeemed will be determined by the Commonwealth, using such method as it deems fair and appropriate.

### Plan of Finance

The Notes are being issued pursuant to the provisions of the Accelerated Bridge Program Act and the Trust Agreement for the purpose of financing the design, construction, reconstruction and repair of or improvements to bridges and approaches in the Commonwealth.

### SOURCES AND USES OF FUNDS

The sources and uses of funds with respect to the inaugural Notes financing are as follows:

Sources of Funds		
Principal of the Notes		<u>\$100,000,000.00</u>
	Total:	\$100,000,000.00
Uses of Funds		
Deposit to Project Account		\$99,448,933.55
Underwriters' Discount		<u>551,066.45</u>
	Total:	\$100,000,000.00

### DEBT SERVICE REQUIREMENTS

The following table sets forth the debt service requirements on the Senior Federal Highway Notes and the Notes:

SFY Ending June 30	Debt Service on Senior Federal Highway Notes <sup>1</sup>	Debt Service on Notes			Total Debt Service on Senior Federal Highway Notes and Notes
		Principal	Interest	Total	
2011	\$187,373,056	---	\$2,039,282	\$2,039,282	\$189,412,338
2012	184,393,600	---	4,268,265	4,268,265	188,661,865
2013	183,892,600	---	4,268,265	4,268,265	188,160,865
2014	183,892,425	---	4,268,265	4,268,265	188,160,690
2015	183,894,500	---	4,268,265	4,268,265	188,162,765
2016	---	\$11,390,000	4,098,383	15,488,383	15,488,383
2017	---	11,635,000	3,719,886	15,354,886	15,354,886
2018	---	11,925,000	3,276,587	15,201,587	15,201,587
2019	---	12,245,000	2,779,553	15,024,553	15,024,553
2020	---	12,600,000	2,234,649	14,834,649	14,834,649
2021	---	12,985,000	1,647,921	14,632,921	14,632,921
2022	---	13,390,000	1,020,044	14,410,044	14,410,044
2023	---	13,830,000	348,170	14,178,170	14,178,170

<sup>1</sup> Upon delivery of the Notes, the 2003A Senior Notes and the 2010A Senior Notes are the only Senior Federal Highway Notes outstanding. Includes a full year's debt service for SFY 2011.

## DEBT SERVICE COVERAGE

The following table sets forth estimated debt service coverage on the Notes. For coverage purposes, annual Federal Highway Reimbursements are assumed to be \$560 million, based on guidance provided to the Commonwealth by the FHWA for the FFY 2011-2014 STIP (see *General Overview of Federal-Aid Highway Program* below). The FHWA notified the Commonwealth it should plan for \$600 million of annual OA during this timeframe, which includes \$40 million of redistributed funds; the coverage analysis below excludes these redistributed funds. Net Federal Highway Reimbursements represent Federal Highway Reimbursements available to pay debt service on the Notes, following payment of Senior Federal Highway Notes, which fully mature by SFY 2015. Net CTF Pledged Funds assume the issuance of \$576.1 million of Senior CTF Obligations, utilizing SFY 2010 receipts in the Commonwealth Transportation Fund. Debt service on the Notes represents debt service on the \$100 million inaugural issuance. Total debt service coverage on the Notes ranges from 104.3x to 705.3x through SFY 2023. While not shown below, following the issuance of approximately \$1.9 billion of Senior CTF Obligations and approximately \$1.1 billion of Notes to finance the Accelerated Bridge Program, and utilizing the aforementioned assumptions for Pledged Funds, debt service coverage on the Notes is estimated to be no less than 12.3x. All projections and estimates are subject to change. The actual debt service coverage will likely vary from the amounts shown below as actual circumstances in the future will likely vary from the assumptions used for this Official Statement.

SFY Ending June 30	<u>Pledged Funds</u>			Debt Service on Notes <sup>1</sup>	<u>Estimated Debt Service Coverage</u>		
	Net Federal Highway Reimbursements	Net CTF Pledged Funds	Total		Net Federal Highway	Net CTF	Total
					Reimbursements Only	Pledged Funds Only	
2011	\$372,626,944	\$1,065,584,038	\$1,438,210,982	\$ 2,039,282	182.7x	522.5x	705.3x
2012	375,606,400	1,047,272,056	1,422,878,456	4,268,265	88.0x	245.4x	333.4x
2013	376,107,400	1,047,288,971	1,423,396,371	4,268,265	88.1x	245.4x	333.5x
2014	376,107,575	1,053,507,081	1,429,614,656	4,268,265	88.1x	246.8x	334.9x
2015	376,105,500	1,053,509,981	1,429,615,481	4,268,265	88.1x	246.8x	334.9x
2016	560,000,000	1,054,828,831	1,614,828,831	15,488,383	36.2x	68.1x	104.3x
2017	560,000,000	1,054,458,331	1,614,458,331	15,354,886	36.5x	68.7x	105.1x
2018	560,000,000	1,075,909,336	1,635,909,336	15,201,587	36.8x	70.8x	107.6x
2019	560,000,000	1,075,916,536	1,635,916,536	15,024,553	37.3x	71.6x	108.9x
2020	560,000,000	1,075,913,036	1,635,913,036	14,834,649	37.7x	72.5x	110.3x
2021	560,000,000	1,075,913,883	1,635,913,883	14,632,921	38.3x	73.5x	111.8x
2022	560,000,000	1,075,913,658	1,635,913,658	14,410,044	38.9x	74.7x	113.5x
2023	560,000,000	1,096,214,655	1,656,214,655	14,178,170	39.5x	77.3x	116.8x

<sup>1</sup> Represents gross debt service on the Notes (i.e., excludes any Direct Payments received from Build America Bonds).

## **Transfer**

So long as Cede & Co., as nominee for DTC, is the holder of record of the Notes, beneficial ownership interests in the Notes may be transferred only through a Direct Participant or Indirect Participant, as defined herein, and recorded on the book-entry system operated by DTC. In the event the book-entry only system is discontinued, Note certificates will be delivered to the Beneficial Owners, which shall be transferable only upon the register for the Notes maintained by the Paying Agent. Thereafter, the Notes, upon surrender thereof at the Boston office of the Paying Agent with a written instrument of transfer satisfactory to the Paying Agent, duly executed by the holder thereof or such holder's duly authorized attorney, may be exchanged for an equal aggregate principal amount of Notes of the same maturity and of authorized denominations.

In all cases in which the privilege of exchanging or transferring Notes is exercised, the Commonwealth shall execute the Notes and (if the Trust Agreement applies) the Trustee shall authenticate and deliver the Notes in accordance with the provisions of the Trust Agreement. For every such exchange or transfer of Notes, the Paying Agent may make a charge sufficient to reimburse it for any tax, fee or other governmental charge required to be paid with respect to such exchange or transfer. The Paying Agent shall not be required to make any such exchange or transfer of Notes during the period beginning on the record date next preceding an interest or principal payment date and the interest or principal payment date.

## **SECURITY AND SOURCES OF PAYMENT FOR THE NOTES UNDER THE TRUST AGREEMENT**

### **General**

The principal of and premium, if any, and interest on the Notes and other obligations of the Commonwealth from time to time owing under the Trust Agreement (collectively, the "Trust Agreement Obligations") are secured by a pledge of, and payable solely from, the Pledged Funds. The Notes are subordinate to the Senior Obligations. The Pledged Funds consist of the following:

- (a) the Pledged Federal Highway Revenues;
- (b) Net CTF Pledged Funds;
- (c) to the extent permitted by law, Direct Payments received by the Commonwealth with respect to Build America Bonds and Recovery Zone Economic Development Bonds;
- (d) amounts, securities and any investment earnings with respect thereto in all funds and accounts held under the Trust Agreement other than the Project Fund and the Rebate Fund; and
- (e) any amounts payable to the Commonwealth by a Hedge Provider pursuant to a Qualified Hedge Agreement relating to the Notes.

The Pledged Federal Highway Revenues consist of Federal Highway Reimbursements, less the amounts used or expected to be used to pay amounts due and owing under the Senior Federal Highway Notes Trust Agreement (the "Net Federal Highway Reimbursements") and, subject to the provisions of the Senior Federal Highway Notes Trust Agreement, any other moneys deposited to or held for the credit of the Federal Highway Grant Anticipation Note Fund.

The Net CTF Pledged Funds include the following revenues and moneys, after the application thereof in accordance with the provisions of the 1994 Trust Agreement, the Senior CTF Trust Agreement and the Senior Federal Highway Notes Trust Agreement:

- (a) all moneys received or to be received by the Commonwealth from the portion equal to: (i) fourteen and one thousand and eighty-five ten-thousandths cents (\$0.141085) per gallon with respect to the portion of the Motor Fuels Tax (other than aviation fuel) imposed by the provisions of Chapter 64A, (ii) twenty-one cents (\$0.21) per gallon with respect to the excise tax imposed on fuel (other than liquefied gas) by the provisions of Chapters 64E and 64F, and (iii) 19.1 percent of the average price per gallon (computed to the nearest tenth of one percent) with respect to the excise tax imposed on liquefied gas by the provisions of Chapter 64E;



- (b) all Registry Fees pursuant to Section 34(iii) of Chapter 90;
- (c) all other moneys received or to be received by the Senior CTF Trustee from the 1994 Trust Agreement;
- (d) immediately upon the discharge and release of the lien of the 1994 Trust Agreement in accordance with the provisions thereof, all moneys received or to be received by the Commonwealth from that portion of the Motor Fuels Tax (other than aviation fuel) imposed pursuant to Chapter 64A equal to six and eighty-six hundredths cents (\$0.0686) per gallon, together with any other amounts then constituting “Pledged Funds” within the meaning of the 1994 Trust Agreement;
- (e) to the extent permitted in the Senior CTF Trust Agreement, such Additional Pledged Funds (as therein defined) as the Commonwealth may by a subsequent supplemental trust agreement pledge to the Senior CTF Trustee as security for the Senior CTF Obligations.

The Senior CTF Trust Agreement permits the Commonwealth to change the revenues and moneys constituting the CTF Pledged Funds, as defined in the Senior CTF Trust Agreement. See *Net CTF Pledged Funds*.

The Notes and the other Trust Agreement Obligations are not general obligations of the Commonwealth, and the full faith and credit of the Commonwealth is not pledged to the payment of the Notes or the other Trust Agreement Obligations. The Commonwealth is not obligated to make any payments with respect to the Notes or the other Trust Agreement Obligations except as specified in the Notes and in the Trust Agreement, and the Commonwealth is not obligated to impose any taxes to satisfy the Notes or the other Trust Agreement Obligations.

The Act provides that the lien of the Trust Agreement on the Pledged Funds will be perfected by filing the Trust Agreement in the records of the State Treasurer. The Trust Agreement has been so filed. In the opinion of Bond Counsel, as the result of such filing the lien of the Trust Agreement is valid and binding as against all persons or entities of any kind having claims of any kind in tort, contract or otherwise, irrespective of whether such persons or entities have notice thereof. Pledged Funds may be pledged to secure other obligations of the Commonwealth provided that the pledge of the Pledged Funds securing such other obligations is subordinate to the pledge of the Pledged Funds securing the Notes.

The lien of the Trust Agreement on the Net Federal Highway Reimbursements is limited to such moneys when received by the Commonwealth and does not include a pledge of the right to receive such reimbursements or other assistance from the federal government. No person or entity, other than the Commonwealth, will be entitled to assert any claim against the federal government with respect to such reimbursements or other assistance.

As required by the Senior Federal Highway Note Act, the Trust Agreement contains a covenant to the effect that, except to the extent necessary to pay Trust Agreement Obligations due and payable in any SFY (as originally scheduled), no more than fifty percent (50%), or such other percentage as may be permitted by Massachusetts law, of the amount apportioned by law to the Commonwealth in any FFY with respect to the Federal-Aid Highway Program shall be applied in the SFY ending on June 30 of such FFY or in the SFY commencing on July 1st of such FFY to the payment of Trust Agreement Obligations, including without limitation, the payment, redemption or defeasance prior to maturity of the principal of and interest on Notes Outstanding. Any such use of Federal Highway Reimbursements also requires the concurrence of the Secretary of Administration and Finance and the Secretary of Transportation (collectively, the “Secretaries”). This provision limits the amount of Federal Highway Reimbursements that may be available in any year for any optional redemption or defeasance of Notes, although the percentage limitation may be modified or eliminated by future action of the Massachusetts Legislature without Noteholder consent. Moreover, the Commonwealth makes no representation as to the likelihood of any optional redemption or defeasance of the Notes or that it will not utilize other available funds, if any, for such purposes.

The Commonwealth has waived its sovereign immunity and consented to be sued on contractual obligations, including the Notes and the Trust Agreement, and all claims with respect thereto. The application of the Pledged Funds other than the Net CTF Pledged Funds to satisfy the Trust Agreement Obligations, including satisfaction of any judgment enforcing the Trust Agreement Obligations, will not be subject to appropriation by the

Massachusetts Legislature. However, application of the Net CTF Pledged Funds to pay Trust Agreement Obligations will require appropriation. If Net CTF Pledged Funds are required to pay Trust Agreement Obligations and no appropriation of Net CTF Pledged Funds for such purpose is made, the Net CTF Pledged Funds shall not be applied to any other use to the extent needed to pay debt service on the Notes and other Trust Agreement Obligations. Enforcement of a claim for payment of the Trust Agreement Obligations may also be subject to the provisions of federal or state statutes, if any, hereafter enacted extending the time for payment or imposing other constraints upon enforcement, insofar as the same may be constitutionally applied.

Neither the Commonwealth nor the Federal Highway Grant Anticipation Note Trust Fund is eligible for protection from its creditors pursuant to Title 11 of the United States Code.

### **Funds and Accounts**

The Federal Highway Grant Anticipation Note Trust Fund was established by the Senior Federal Highway Note Act. The Trust Agreement establishes within the Federal Highway Grant Anticipation Note Trust Fund a Revenue Account and a Project Fund. The Revenue Account is held and administered by the Trustee and constitutes part of the security for the Notes. Pursuant to the Trust Agreement, all Pledged Federal Highway Revenues received by the Commonwealth and any other moneys deposited with or paid to the Trustee for application in accordance with the Trust Agreement, including any Direct Payments related to the Notes, are required to be deposited within two business days of receipt by the Commonwealth into the Revenue Account of the Federal Highway Grant Anticipation Note Trust Fund. Such moneys may be expended without further appropriation for payment of Trust Agreement Obligations. The Trust Agreement also establishes the following Funds and Accounts, which are separate from the Federal Highway Grant Anticipation Note Trust Fund:

- (i) Redemption Fund;
- (ii) Debt Service Fund, including a June 15 Debt Service Payment Account, a December 15 Debt Service Payment Account, a Holding Account and a Defeasance Account;
- (iii) Note Related Costs Fund; and
- (iv) Rebate Fund.

All these Funds and Accounts are held and administered by the Trustee. All these Funds and Accounts are included in the Pledged Funds securing the Trust Agreement Obligations, except for the Rebate Fund. Moneys and securities held in the Rebate Fund are not available to pay the Trust Agreement Obligations and do not constitute security therefor.

The *Redemption Fund* provides a depository for any funds, including Pledged Funds, not otherwise required by the Trust Agreement to be deposited or applied with respect to the Notes, so that such funds may be used for the purposes of purchasing or optionally redeeming Notes. Such use of Federal Highway Reimbursements without appropriation is limited by a provision of the Act described above. See “General.” In the event of a deficiency in the Debt Service Fund, any funds held in the Redemption Fund, other than moneys held for Notes with respect to which a notice of redemption has been given, shall be transferred to the applicable Account of the Debt Service Fund to the extent necessary to make up such deficiency.

The *Debt Service Fund* contains two accounts, the June 15 Debt Service Account and the December 15 Debt Service Account, for the accumulation of Pledged Funds for the purpose of paying scheduled principal and interest on the Notes when due. Deposits to such Accounts are to be made as described below in “Funding of Trust Agreement Obligations”. The Debt Service Fund also contains a Holding Account, which account shall be deemed to be part of the Commonwealth Transportation Fund, for the purpose of holding Net CTF Pledged Funds received from the Commonwealth and needed to pay debt service on the Trust Agreement Obligations. The Debt Service Fund also contains a Defeasance Account for the retention of funds and securities held for the purpose of paying defeased Notes.

The *Note Related Costs Fund* holds Pledged Funds to be used to pay fees, costs and other amounts included in the Trust Agreement Obligations, other than debt service on the Notes. Funds held in the Note Related Costs Fund are available to pay debt service on the Notes in the event of a deficiency in the Debt Service Fund.

The Rebate Fund holds amounts, if any, payable by the Commonwealth to the United States Treasury with respect to the Notes pursuant to the arbitrage rebate requirements of Section 148 of the Internal Revenue Code of 1986, as amended. Amounts deposited in the Rebate Fund are not included in the Pledged Funds and are not available to pay debt service on the Notes.

### **Funding of Trust Agreement Obligations**

Under the Trust Agreement, the Commonwealth will fund the June 15 and December 15 debt service payments on the Notes up to one year in advance of each payment to Noteholders, using the following procedure:

- No later than October 10 of each FFY, the State Treasurer will deliver to the Trustee a “Statement of Available Revenues” setting forth the following:
  - amount of Federal Highway Reimbursements expected to be received during current FFY;
  - existing deficiencies in Funds and Accounts under the Trust Agreement due and payable in current FFY;
  - amount of Federal Highway Reimbursements expected to be used to pay Senior Federal Highway Notes Trust Agreement Obligations during the next FFY;
  - expected amount of Net Federal Highway Reimbursements; and
  - Trust Agreement Obligations expected to be due and payable during next FFY.
  - The State Treasurer will revise the Statement of Available Revenues throughout the FFY based upon material revisions in the projections set forth therein.
- If there are any existing deficiencies in the Funds and Accounts, Net Federal Highway Reimbursements will be retained by the Trustee to the extent of such deficiencies to replenish such Funds and Accounts.
- Once the deficiencies, if any, have been replenished, if the amount of expected Federal Highway Reimbursements during the current FFY shown in the Statement of Available Revenues is equal to or greater than 120% of the sum of projected Senior Federal Highway Notes Trust Agreement Obligations plus Trust Agreement Obligations for the next FFY, then the Trustee will apply such moneys as follows:
  - the Trustee will transfer the Federal Highway Reimbursements to the Commonwealth for any lawful purposes until the earlier of either December 15 or the date (the “December 15 Shortfall Date”) when the expected Federal Highway Reimbursements for the current FFY falls below 120% of the sum of projected Senior Federal Highway Notes Trust Agreement Obligations plus Trust Agreement Obligations for the next FFY;
  - beginning on the earlier of December 15 or the December 15 Shortfall Date, the Trustee shall, after provision for the payment of Senior Federal Highway Notes Trust Agreement Obligations, retain an amount equal to next year’s December 15 Debt Service Requirement;
  - once next year’s December 15 Debt Service Requirement is satisfied, the Trustee will transfer the Federal Highway Reimbursements to the Commonwealth for any lawful purposes until the earlier of either June 15 or the date (the “June 15 Shortfall Date”) when the expected Federal Highway

Reimbursements for the current FFY as set forth in the Statement of Available Revenues, less amounts received to date, falls below 120% of the sum of projected Senior Federal Highway Notes Trust Agreement Obligations plus Trust Agreement Obligations expected to be paid after December 15 for the next FFY;

- beginning on the earlier of June 15 or the June 15 Shortfall Date, the Trustee shall, after provision for the payment of Senior Federal Highway Notes Trust Agreement Obligations, retain an amount equal to next year's June 15 Debt Service Requirement; and
- once next year's June 15 Debt Service Requirement is satisfied, the Trustee will transfer the Federal Highway Reimbursements to the Commonwealth for any lawful purposes.
- Once the deficiencies, if any, have been replenished, if the amount of expected Federal Highway Reimbursements during the current FFY shown in the Statement of Available Revenues is less than 120% of the sum of projected Senior Federal Highway Notes Trust Agreement Obligations plus Trust Agreement Obligations for the next FFY, then the Trustee will apply such moneys as follows:
  - the Trustee will retain the Net Federal Highway Reimbursements thereafter received first in an amount equal to next year's December 15 Debt Service Requirement, second in an amount equal to next year's June 15 Debt Service Requirement, and thereafter to pay all other projected Trust Agreement Obligations in accordance with the Statement of Available Revenues.
  - If the Statement of Available Revenues shows that projected Net Federal Highway Reimbursements are not expected to be sufficient to pay projected Trust Agreement Obligations during the following Commonwealth Fiscal Year, the Governor, after notice from the State Treasurer not later than December 15, shall include in the annual operating budget a recommendation to appropriate from Net CTF Pledged Funds an amount equal to the Trust Agreement Obligations due in such Commonwealth Fiscal Year not provided from other sources. Immediately upon recognition of a deficiency, Net CTF Pledged Funds will be retained in a Holding Account. Funds will be dispensed from the Holding Account to the June 15 Debt Service Account and the December 15 Debt Service Account upon receipt of an appropriation. Funds in the Holding Account will be retained in an amount sufficient to ensure that Net Federal Highway Reimbursements plus Net CTF Pledged Funds will be available to pay next year's Trust Agreement Obligations, and are unavailable for other purposes should no appropriation be received. See *Net CTF Pledged Funds* and *Appendix B – Summary of Certain Provisions of the Trust Agreement – Net CTF Pledged Funds*.
- Notwithstanding the foregoing, upon the occurrence and during the continuance of an Event of Default under the Trust Agreement, all Net Federal Highway Reimbursements will be retained by the Trustee.

For a more complete description of the foregoing, see Appendix B - "Summary of Certain Provisions of the Trust Agreement – Revenue Account and – Covenants as to Pledged Funds and Federal Highway Grant Anticipation Note Trust Fund".

#### **Limitations on Issuance of Additional Notes**

Under the Trust Agreement, Additional Notes may be issued on a parity basis with the Notes for the purpose of providing for the costs of the projects authorized by the Accelerated Bridge Program Act and any other projects hereafter authorized, and for refunding Outstanding Notes. The Trust Agreement provides that no Additional Notes may be issued unless:

- (a) as of the delivery of such Additional Notes, no Event of Default will have happened and will then be continuing;

(b) the Commonwealth delivers a certificate setting forth the amount of (1) Federal Highway Reimbursements and (2) Net CTF Pledged Funds received by the Commonwealth for each month for the eighteen (18) month period ending with the last full month immediately preceding the date of issuance of the Additional Notes (or, if the information for such last full month is not then available, the last month for which such information is available);

(c) the amount of Federal Highway Reimbursements received by the Commonwealth during any twelve (12) consecutive months out of such eighteen (18) month period referred to in clause (b) above was not less than one hundred fifty percent (150%) of the maximum amount due in the then current or any future Commonwealth Fiscal Year determined by adding (x) the Adjusted Note Debt Service Requirement (as defined in the Senior Federal Highway Notes Trust Agreement) with respect to the Senior Federal Highway Notes outstanding under the Senior Federal Highway Notes Trust Agreement plus (y) the Adjusted Note Debt Service Requirement with respect to the Notes Outstanding including the proposed Additional Notes;

(d) the amount of Net CTF Pledged Funds received by the Commonwealth during the same twelve (12) consecutive months referred to in clause (c) above was not less than two hundred fifty percent (250%) of the maximum annual aggregate Adjusted Note Debt Service Requirement in the then current or any future Commonwealth Fiscal Year on Notes Outstanding including the proposed Additional Notes;

(e) Net Federal Highway Reimbursements expected to be received by the Commonwealth during the remainder of the FFY in which such Additional Notes are issued will be at least 120% of the Trust Agreement Obligations due with respect to such Additional Notes in the next succeeding FFY (minus any portion of such Trust Agreement Obligations to be paid from proceeds of the Additional Notes or other available amounts deposited with the Trustee for such purpose);

(f) all interest and principal, if any, payable on the Additional Notes during the FFY in which such Additional Notes are issued shall be provided for from portions of the proceeds of such Additional Notes or by other available funds deposited with the Trustee as of the date of issuance of such Additional Notes; and

(g) the aggregate amount of bonds and notes, including the Notes and the Senior CTF Bonds, issued under the Accelerated Bridge Program Act, other than any Refunding Notes and refunding Senior CTF Bonds, does not exceed the limit imposed by law (which, as of the date of this Official Statement, is \$2,984,000,000).

The Commonwealth may issue Refunding Notes without regard to the conditions specified above so long as (a) no Event of Default shall exist under the Trust Agreement and (b) the Adjusted Note Debt Service Requirement for each Commonwealth Fiscal Year in which Notes are or will be Outstanding (i) computed immediately prior to the delivery of such Refunding Bonds and (ii) computed immediately after the delivery of such Refunding Bonds, and showing either that (x) the Adjusted Note Debt Service Requirement for each Commonwealth Fiscal Year in which Notes will be Outstanding as computed in (ii) of this paragraph will not be greater than the Adjusted Note Debt Service Requirement in each such Commonwealth Fiscal Year as computed in (i) of this paragraph or (y) the net present value of the Adjusted Note Debt Service Requirement as computed in paragraph (ii) of this paragraph is less than the net present value of the Adjusted Note Debt Service Requirement as computed in paragraph (i) of this paragraph. In lieu of the requirements set forth in clause (b) of this paragraph, the Commonwealth may deliver to the Trustee certificates satisfying the conditions of clauses (b)-(f) of the preceding paragraph and in each case treating the Refunding Notes to be issued as Additional Notes thereunder.

Prior to the issuance of any Additional Notes or Refunding Notes, the Trustee also shall have received any other documents required by the Trust Agreement or the Applicable Supplemental Trust Agreement. The Trust Agreement permits the Commonwealth to issue obligations that are secured by a subordinate pledge of the Pledged Funds.

## GENERAL OVERVIEW OF FEDERAL-AID HIGHWAY PROGRAM

The process of financing the Federal-Aid Highway Program begins with congressional approval of a federal highway act, the most recent reauthorization of which is the SAFETEA-LU, which was originally enacted in 2005. SAFETEA-LU expired on September 30, 2009, which was the end of FFY 2009, yet, as of the date of this Official Statement, has been extended through December 31, 2010. See *Appendix A – The Federal-Aid Highway Program – Reauthorization Risk*.

The amounts authorized in the federal highway acts serve as notice to the states of the size of the Federal-Aid Highway Program, which gives the states the ability to start their planning process through the life of the reauthorization. It permits the states to assign the funds to particular projects for planning purposes without the funds having yet been annually appropriated. Subsequent appropriations acts are necessary for the actual payment of the moneys to the states.

Annually, Congress sets the upper limits on that year's authorizations from the Federal-Aid Highway Program, and the FHWA, after making certain administrative deductions and set asides, apportions, or distributes, the program funds to the states using federally mandated formulas and procedures. The annual federal apportionment generally occurs on the first day of the FFY (October 1) and cannot be taken away except by lapsing (generally, after approximately four years) or through a congressional action. As more particularly detailed herein under *Commonwealth Participation in the Federal-Aid Highway Program*, since 1998, the year of the first issuance by the Commonwealth of Prior Federal Highway Notes, annual apportionments to the Commonwealth have not been less than \$504 million and, since 2005, have not been less than \$628.4 million.

Because of the multi-year authorization and multi-year availability of funds associated with the Federal-Aid Highway Program, federal limitations are placed on the amount of funds that a state can obligate within a given FFY – OA – which applies to the total obligations of apportioned funds within a given year, regardless of the year in which the funds were apportioned and carry-forward amounts from previous years' unused amounts. The ceiling on annual OA does not take back authorized funds already apportioned to the states, it only limits the annual rate of obligation. As more particularly detailed herein under *Commonwealth Participation in the Federal-Aid Highway Program*, since 1998, annual OA to the Commonwealth has not been less than \$481.4 million and, since 2005, has not been less than \$604.9 million.

The amount of the OA is included in the federal annual appropriations act for payment purposes. Historically, FHWA has reimbursed the states for all appropriations, using other federal moneys during recent periods when the federal HTF did not have sufficient funds to cover the reimbursements. Since 1999, the Commonwealth has received not less than \$449.6 million annually in Federal Highway Reimbursements.

States can seek approval from FHWA of A/C status for a project, which allows the state to begin a project and pay it from the state's own funding sources, subject to later reimbursement when the OA becomes available. A/C approval allows the states to further leverage their future expected receipt of Federal-Aid Highway Program funds. As of September 30, 2010, the Commonwealth's A/C balance was \$948 million.

Generally, projects are required to be included in the STIP before work can be authorized and initiated using Federal-Aid Highway Program funds. The Commonwealth and its ten metropolitan transportation planning organizations ("MPOs") have a STIP for FFY 2011-2014 covering approximately \$600 million annually in projects, approximately 70% of which are statewide projects and the remaining approximately 30% of which are local. The assumed \$600 million of annual OA is based on guidance provided by the FHWA.

Annually, when the Commonwealth receives its FHWA apportionment, it first sets aside the projected debt service payments on outstanding debt secured by Federal Highway Reimbursements, then the amount of A/C projects' cash flow, and is able to obligate, or contractually commit, to other projects the remaining apportionment. As a matter of policy, the Commonwealth currently uses grant anticipation note proceeds for A/C projects, leaving remaining moneys for other projects.

For additional detail on the Federal-Aid Highway Program, see Appendix A.

## COMMONWEALTH PARTICIPATION IN THE FEDERAL-AID HIGHWAY PROGRAM

The flow of Federal Highway Reimbursements into the Federal Highway Grant Anticipation Note Trust Fund will depend on several factors, most notably, the amount of funding provided to Massachusetts by the federal government under the Federal-Aid Highway Program and the Commonwealth's ability to use such funding. The sections below summarize the implementation and management of the Federal-Aid Highway Program in the Commonwealth, the recent history of funding levels provided to the Commonwealth, the Commonwealth's use of such funding, and the anticipated funding levels that could be made available to Massachusetts under successor legislation to SAFETEA-LU.

### Program Implementation and Management

Implementation of the Federal-Aid Highway Program involves three key steps: (i) budgeting; (ii) planning and programming; and (iii) fiscal management and reimbursement.

*Budgeting.* In Massachusetts, MassDOT's Capital Budget Division (the "Capital Budget Division") and Office of Transportation Planning ("OTP") have primary responsibility for budgeting transportation needs.

*Planning and Programming.* The Capital Budget Division and OTP coordinate transportation planning and programming activities for MassDOT. At the state level, MassDOT and the Massachusetts Port Authority prepare plans. The Commonwealth's plans are then reviewed by U.S. Environmental Protection Agency ("EPA") and the FHWA at the federal level.

The long-range planning requirements are followed in Massachusetts in both a state and a regional planning process. In 1995, Massachusetts released its 25-year long-range plan, titled *Accessing the Future*. This document identifies the Commonwealth's transportation policies, goals and initiatives through 2020, based on anticipated levels of state and federal transportation funding, and is not intended to provide a project-by-project description of the state's future transportation investments. The plan was prepared by Mass Highway (predecessor to MassDOT) and OTP, in coordination with several agencies and organizations including the FHWA, the Executive Office of Environmental Affairs (predecessor to the Executive Office of Energy and Environmental Affairs) and the Massachusetts Association of Regional Planning Authorities ("MARPA").

The Massachusetts STIP is developed annually, and covers a four-year period. STIP development is coordinated by the Capital Budget Division and OTP. Initially, the Capital Budget Division and OTP project available state and federal funding for the next five years, based on anticipated federal apportionments and anticipated state transportation funding. This total is then reduced to account for regionally significant projects and programs. After such needs have been determined, formulas established by MARPA are applied to the remaining balance in order to calculate programming targets for each Regional Planning Association. Only after this process is complete can a project formally be considered part of the Commonwealth's transportation funding plan.

*Fiscal Management and Reimbursement.* In Massachusetts, the reimbursement process is coordinated by the Capital Budget Division and performed by the Office of Fiscal Operations within MassDOT.

The fiscal management group within MassDOT has day-to-day responsibility for paying project bills and for securing prompt reimbursement for the federal share of those bills. A computer-based project accounting, reporting and billing system is used to track encumbrances and expenditures for all projects, including highway projects, administered by the Commonwealth. This system is called the Massachusetts Management Accounting and Reporting System ("MMARS"). Within MMARS, an initial encumbrance for each project is established, based on the total amount of revenues specified in the project agreement. As the project is implemented, MMARS is used to track all expenditures and remaining encumbrance amounts. For federal-aid highway projects for which the Commonwealth must seek reimbursement for expenditures, MMARS generates federal billing information, and tracks the federal and Commonwealth sources of funding in detail. The federal-aid billing capabilities of MMARS are designed specifically for the needs of MassDOT, while satisfying the cost accumulation and billing requirements of the FHWA.

Reimbursement requests are submitted weekly and reimbursements are made by wire transfer generally within four days. The Commonwealth's system and management are highly automated, leading to a routine, weekly flow of Federal Highway Reimbursements based on actual spending on approved projects. To the best of its knowledge, the Commonwealth has never not received Federal Highway Reimbursements that have been requested.

## Funding History

*Role of OA.* As noted in the previous section, the culmination of the federal authorization and appropriation process for the Federal-Aid Highway Program is the provision of OA to a state. OA, which is apportioned to states on an annual basis, sets the upper limit on the federal government's commitment to pay, through reimbursements, its share of eligible expenditures on approved projects. Thus, current year OA plus prior years' OA obligated but not yet expended determines the maximum amount of federal highway assistance that a state may receive under the Federal-Aid Highway Program. Although annual OA is not a direct representation of the amount of reimbursements a state will receive under the Federal-Aid Highway Program in a given year (e.g., due to lags in spending), OA levels will determine over time the amount of reimbursements that a state may receive.

*OA Provided to Massachusetts.* Since the advent of the multi-year federal authorization acts in 1982, Massachusetts has received substantial funding through the Federal-Aid Highway Program. The table below details the amount of OA made available to the Commonwealth from FFY 1991 through FFY 2010 and the amount of such OA actually obligated by the Commonwealth. As shown, the amount of annual OA provided to Massachusetts under the Federal-Aid Highway Program averaged \$702.4 million per year during this period. The amount of OA made available varied substantially, ranging from \$714.2 million to \$1.1 billion from FFY 1991 through FFY 1997; ranging from \$481.4 million to \$579.3 million from FFY 1998 through FFY 2003; and ranging from \$591.3 million to \$655.0 million from FFY 2004 to FFY 2010, with the exception of \$1.1 billion made available in FFY 2009, which included ARRA funds. The increased levels for FFY 1991 to 1997 resulted, in large part, from targeted aid for the completion of the Interstate Highway System, for which the CA/T Project was eligible. The funding levels available to Massachusetts between FFY 1991 and FFY 1995 and in FFY 2009 are not indicative of future levels.

### The Commonwealth of Massachusetts History of OA and Actual Obligations (in millions)

FFY	Formula OA	Non-Formula OA <sup>(1)</sup>	Total OA	Actual Obligations
1991	\$1,091.4	\$0.0	\$1,091.4	\$1,091.4
1992	687.6	45.6	733.2	733.2
1993	889.8	54.4	944.2	944.2
1994	984.5	55.5	1,040.0	1,040.0
1995	718.8	36.9	755.7	755.7
1996	696.0	33.9	729.9	729.9
1997	672.5	41.7	714.2	714.2
1998	559.7	19.6	579.3	579.3
1999	390.4	137.2	527.6	527.6
2000	400.3	81.1	481.4	481.4
2001	434.5	80.8	515.3	518.9
2002	489.5	72.6	562.1	562.1
2003	467.9	68.7	536.6	533.4
2004	528.7	62.6	591.3	563.8
2005	507.2	97.7	604.9	550.9
2006	531.0	102.2	633.2	567.9
2007	554.0	77.9	631.9	585.0
2008	548.1	75.2	623.3	590.0
2009	569.4	527.7 <sup>(2)</sup>	1,097.1	883.2
2010	625.1	29.9	655.0	813.4
Average	617.3	85.1	702.4	688.3

SOURCES: Massachusetts Federal Aid and Program Office (FAPO).

- (1) Includes amounts attributable to Redistribution, Minimum Guarantee, High Priority Funds and 1999 Omnibus Reconciliation Act (\$100.0 million in 1999 only).
- (2) FFY 2009 Non-Formula OA includes \$437.9 million attributable to ARRA.



*Actual Obligations.* Since FFY 1991 the Commonwealth has used virtually all of the formula OA provided by the federal government, including redistribution/bonuses of OA resulting from under-utilization in other states. This is, in large part, the result of funding requirements for the CA/T Project and the Commonwealth's extensive statewide road and bridge program. Going forward, the Commonwealth anticipates to continue using its full formula OA.

*Reimbursements.* The amount of Federal Highway Reimbursements received by the Commonwealth has averaged approximately \$552.5 million per year since FFY 1999. As noted, cash reimbursements tend to lag behind the commitment of OA. Reimbursements received by the Commonwealth during the period shown tend to track the use of OA, albeit on a delayed basis.

*SAFETEA-LU.* The total apportionments which Massachusetts received during the SAFETEA-LU period (FFY 2005 through 2010), not including any future redistribution funds, was \$4.261 billion, including ARRA funds, for an annual average of \$710.2 million. The following chart shows the SAFETEA-LU apportionments for Massachusetts:

**SAFETEA-LU Apportionments  
(in millions)**

FFY	2005	2006	2007	2008	2009	2010	Total	Average
Apportionments-Formula	\$522.7	\$520.5	\$561.6	\$552.1	\$563.6	\$621.5	\$3,342.0	\$557.0
Minimum Guarantee/ Equity Bonus	28.6	28.6	13.2	10.9	11.8	11.8	104.9	17.5
High Priority/ DEMO/Other	77.1	89.4	70.4	68.2	64.6	6.7	376.4	62.7
ARRA	–	–	–	–	437.9	–	437.9	–
Total Apportionments	\$628.4	\$638.5	\$645.2	\$631.2	\$1,077.9	\$640.0	\$4,261.2	\$710.2

SOURCE: Massachusetts FAPO.

While the Commonwealth believes that sufficient Federal Highway Reimbursements will be received during the term of the Notes to pay the principal of and interest due on the Notes and all other Trust Agreement Obligations, various factors beyond the control of the Commonwealth may affect its ability to do so, including, without limitation, subsequent reauthorizations of SAFETEA-LU, federal budgetary limitations and other possible changes in the Federal-Aid Highway Program that cannot now be anticipated. However, in the case that Federal Highway Reimbursements are not sufficient, Net CTF Pledged Funds are available for debt service, subject to appropriation. See *The Federal-Aid Highway Program – History*.

*Equity Provisions.* Since FFY 1982, all Federal-Aid Highway Program authorization acts have included so-called equity provisions which assure states that they will receive a certain minimum percentage of the federal transportation related user taxes collected in that state and paid into the Highway Account of the HTF. SAFETEA-LU includes such an equity provision and sets the minimum percentage at 92% of their proportional share of apportioned programs, based on the state's percentage contribution to HTF receipts through FFY 2010.

If future Federal-Aid Highway Program authorization acts provide funding levels for Massachusetts similar to those authorized under SAFETEA-LU, such assistance, if fully utilized, would substantially exceed the anticipated maximum annual debt service on the Senior Federal Highway Notes and the Notes of approximately \$188 million. Similarly, if the equity provisions noted above remain in place, the level of Massachusetts contributions into the Highway Account of the HTF should ensure that funding provided to Massachusetts under the Federal-Aid Highway Program would exceed the debt service requirements of the Notes. However, future funding and the continuance of the equity provisions will be subject to future Congressional action, and there can be no assurance as to the level of such funding or the continuation of the equity provisions.

## **Future Utilization of Federal Highway Assistance**

Under the Federal-Aid Highway Program, as projects are approved by the FHWA, the aggregate dollar amount of each state contract relating thereto is obligated against the remaining annual amount of OA still available to that state. The state then pays the amounts owed under each contract as the work progresses and receives reimbursement from the federal government for the federal share of the total costs. The aggregate amount of reimbursements received by a state in any year is not necessarily equal to the state's apportionment for such year. Many projects and contracts extend over a number of years; the aggregate amount made available to a state in any one year, if fully obligated, may be received as reimbursement over a longer period of time relating to the actual pace of construction. The Commonwealth expects that, as a result of its extensive statewide road and bridge program and the Accelerated Bridge Program, it will have sufficient federally-eligible project expenditures to be able to utilize all the federal highway assistance that will be made available to the state.

In addition, the Commonwealth has made extensive use of A/C status under the Federal-Aid Highway Program. By utilizing A/C status, the Commonwealth may pre-qualify projects and expenditures thereon for federal reimbursement, subject to the availability of future OA and the continued inclusion of the relevant projects on the STIP. The Commonwealth estimates that as of September 30, 2010, \$948 million in Commonwealth project costs were so qualified. Such costs, when spent, should ensure that the Commonwealth will be able to draw down future federal reimbursements when available.

## **NET CTF PLEDGED FUNDS**

Although the Commonwealth anticipates repaying the Notes from Federal Highway Reimbursements, Net CTF Pledged Funds are available to pay debt service on the Notes, if necessary. Net CTF Pledged Funds consist of revenues and moneys in the Commonwealth Transportation Fund from the following sources:

*Motor Fuels Tax.* The Commonwealth's Motor Fuels Tax revenues are derived from the excise imposed on fuel (other than aviation fuel) by the provisions of Chapter 64A, 64E, and 64F. Chapter 64A currently imposes a tax of 21¢ per gallon on gasoline sold in the Commonwealth by distributors and unclassified exporters, of which 99.85% or 20.9685¢ per gallon is credited to the Commonwealth Transportation Fund. Fuel subject to the provisions of Chapter 64A consisting of cellulosic biofuel or a blend of gasoline and cellulosic biofuel is taxable in proportion to the percentage of the fuel content consisting of gasoline, as determined by the Commonwealth's Department of Energy Resources. Aviation fuel subject to the provisions of Chapter 64A is credited to the Commonwealth Transportation Fund and may be used only for airport development projects approved and carried out at airports and landing facilities, and revenue from the tax thereon is not included in Pledged Funds. To the extent that the Commonwealth's receipts from the Gasoline Tax are in excess of the requirements to pay debt service associated with the 1994 Trust Agreement Bonds and to satisfy any other requirements under the 1994 Trust Agreement, such amounts are available to the Senior CTF Trustee for payment of the Senior CTF Obligations, in accordance with the Senior CTF Trust Agreement. In addition, immediately upon the discharge and release of the lien of the 1994 Trust Agreement, all revenues received or to be received by the Commonwealth with respect to the 6.86¢ per gallon portion of the Motor Fuels Tax imposed pursuant to Chapter 64A, plus any other amounts then constituting "Pledged Funds" within the meaning of the 1994 Trust Agreement, will be available to the Senior CTF Trustee for payment of the Senior CTF Obligations.

Chapter 64E imposes a Special Fuels Tax on all combustible gases and liquids used or sold for use in an internal combustion engine, other than those fuels which are subject to the provisions of Chapter 64A, including diesel fuel and liquefied gases, such as propane gas. Special fuels are currently taxed at a rate per gallon 21¢ per gallon, except for liquefied gas, which is taxed at a rate of 19.1% of the average price per gallon. All of the Commonwealth's revenues from the Special Fuels Tax imposed under Chapter 64E are credited to the Commonwealth Transportation Fund.

Chapter 64F currently imposes Motor Carrier Tax on anyone who regularly operates motor vehicles on the highways of the Commonwealth which are propelled by gasoline or special fuels acquired outside the Commonwealth equal to the rate imposed by Chapter 64A, or 21¢ per gallon, of which 100% is credited to the Commonwealth Transportation Fund.

*Registry Fees.* The Commonwealth Transportation Fund is credited with Registry Fees received by the Registrar of Motor Vehicles pursuant to Section 34 of Chapter 90 of the General Laws.

*Additional Pledged Funds under Senior CTF Trust Agreement.* To the extent permitted in the Senior CTF Trust Agreement, any Additional Pledged Funds (defined therein) as the Commonwealth may pledge to the Senior CTF Obligations in a supplemental trust agreement may be used as security for the Senior CTF Obligations.

For purposes of the definition of “Net CTF Pledged Funds,” the Senior CTF Trust Agreement permits the Commonwealth to change the revenues and moneys constituting the CTF Pledged Funds, as defined in the Senior CTF Trust Agreement. To the extent that the revenues and moneys constituting CTF Pledged Funds are amended or revised in accordance with the Senior CTF Trust Agreement, the definition of “Net CTF Pledged Funds” in the Trust Agreement shall be likewise amended or revised to reflect the new revenues and moneys constituting CTF Pledged Funds.

The table below shows estimated CTF Pledged Funds through SFY 2027, which is the last year under current law in which Federal Highway Grant Anticipation Notes issued under the Accelerated Bridge Program Act can mature. For purposes of this estimate, CTF Pledged Funds in each year are assumed to be equal to SFY 2010 receipts. Net CTF Pledged Funds represent CTF Pledged Funds following payment of debt service on the 1994 Trust Agreement Bonds and \$576.1 million of Senior CTF Obligations. The actual amount of available Net CTF Pledged Funds will be reduced by any issuance of additional Senior CTF Obligations and will also vary to the extent actual receipts of CTF Pledged Funds vary from year to year.

<b>SFY Ending June 30</b>	<b>CTF Pledged Funds</b>	<b>Less: Debt Service on 1994 Trust Agreement Bonds</b>	<b>Less: Debt Service on Senior CTF Obligations</b>	<b>Net CTF Pledged Funds</b>
2011	\$1,138,833,934	\$58,931,902	\$14,317,995	\$1,065,584,038
2012	1,138,833,934	58,938,599	32,623,280	1,047,272,056
2013	1,138,833,934	58,921,684	32,623,280	1,047,288,971
2014	1,138,833,934	52,703,574	32,623,280	1,053,507,081
2015	1,138,833,934	52,700,674	32,623,280	1,053,509,981
2016	1,138,833,934	51,381,824	32,623,280	1,054,828,831
2017	1,138,833,934	51,752,324	32,623,280	1,054,458,331
2018	1,138,833,934	30,301,319	32,623,280	1,075,909,336
2019	1,138,833,934	30,294,119	32,623,280	1,075,916,536
2020	1,138,833,934	30,297,619	32,623,280	1,075,913,036
2021	1,138,833,934	30,296,772	32,623,280	1,075,913,883
2022	1,138,833,934	30,296,997	32,623,280	1,075,913,658
2023	1,138,833,934	9,996,000	32,623,280	1,096,214,655
2024	1,138,833,934		53,948,280	1,084,885,655
2025	1,138,833,934		53,940,727	1,084,893,207
2026	1,138,833,934		53,930,516	1,084,903,419
2027	1,138,833,934		53,914,415	1,084,919,519

### COMMONWEALTH PARTICIPANTS

*State Treasurer.* The State Treasurer has four primary statutory responsibilities: (i) the collection of all state revenues (other than small amounts of funds held by certain agencies); (ii) the management of both short-term and long-term investments 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 all debt obligations of the Commonwealth, including notes, commercial paper and long-term bonds.

*Secretary of Administration and Finance.* The Secretary of Administration and Finance acts as the Governor's chief fiscal officer and administers the Executive Office for Administration and Finance. The activities of this Executive Office fall within five broad categories: (i) administrative and fiscal supervision, including supervision of the implementation of the Commonwealth's budget 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 for remittance to the State Treasurer; (iii) human resource management, including administration of the state personnel system, civil service system and employee benefit programs, and negotiations 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 information technology services.

*Secretary of Transportation.* The Secretary of Transportation administers MassDOT, which is the coordinating state agency for the Federal-Aid Highway Program and includes the Division of Highways. MassDOT owns and operates the Commonwealth's transportation systems and is responsible for the construction, maintenance and oversight of roads, bridges and other transportation assets.

### **BOOK-ENTRY ONLY SYSTEM**

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Notes. The Notes will be issued in fully-registered form registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One-fully registered Refunding Note certificate will be issued for each maturity and interest rate, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org).

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

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

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

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to securities deposited with it unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the issuer of such securities or its paying agent as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on securities deposited with DTC will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the issuer of such securities or its paying agent, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC (nor its nominee), the issuer of such securities or its paying agent, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the issuer of such securities or its paying agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to securities held by it at any time by giving reasonable notice to the issuer of such securities or its paying agent. Under such circumstances, in the event that a successor depository is not obtained, physical certificates are required to be printed and delivered to Beneficial Owners.

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

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Commonwealth believes to be reliable, but the Commonwealth takes no responsibility for the accuracy thereof.

## **LITIGATION**

No litigation is pending or, to the knowledge of the Attorney General of the Commonwealth threatened against or affecting the Commonwealth seeking to restrain or enjoin the execution and delivery of the Trust Agreement or the issuance, sale or delivery of the Notes or in any way contesting or affecting the validity of the Notes, the right of the Commonwealth to receive Federal Highway Reimbursements or to collect the Net CTF Pledged Funds or the pledge of the Pledged Funds to secure any of the Notes as provided in the Trust Agreement.

## TAX MATTERS

The Notes will be issued as Build America Bonds the interest on which is not excluded from gross income for federal income tax purposes.

### **Federally Taxable Build America Bonds**

*IRS Circular 230 Notice.* The advice under this caption concerning certain income tax consequences of the acquisition, ownership and disposition of the Notes was written to support the promotion or marketing of the Notes. To ensure compliance with requirements imposed by the Internal Revenue Service, Bond Counsel to the Commonwealth informs prospective purchasers that (i) any federal tax advice contained in this Official Statement (including any attachments) or in writings furnished by Bond Counsel to the Commonwealth is not intended to be used, and cannot be used, by any noteowner, for the purpose of avoiding penalties that may be imposed on the noteowner under the Code, and (ii) each noteowner should seek advice based on the noteowner's particular circumstances from an independent tax advisor.

*Build America Bonds.* Since the Notes are being issued as "Build America Bonds," the Commonwealth will elect to receive cash subsidy payments from the U.S. Treasury equal to 35 percent of the interest payable by the Commonwealth on such Notes. Under no circumstances will the owners of such Notes be entitled to a credit against the taxes imposed by the Code with respect to such bonds or the interest thereon.

*General.* The following is a summary of certain anticipated United States federal income tax consequences of the purchase, ownership and disposition of the Notes. The summary is based upon the provisions of the Code, the regulations promulgated thereunder and the judicial and administrative rulings and decisions now in effect, all of which are subject to change. The summary generally addresses Notes held as capital assets and does not purport to address all aspects of federal income taxation that may affect particular investors in the light of their individual circumstances or certain types of investors subject to special treatment under the federal income tax laws, including but not limited to financial institutions, insurance companies, dealers in securities or currencies, persons holding such Notes as a hedge against currency risks or as a position in a "straddle" for tax purposes, or persons whose functional currency is not the United States dollar. Bond Counsel will render its opinion upon the issuance of the Notes in substantially the form set forth in Appendix C. Potential purchasers of the Notes should consult their own tax advisors in determining the federal, state or local tax consequences to them of the purchase, holding and disposition of the Notes.

In the opinion of Bond Counsel, interest on the Notes is not excluded from gross income for federal income tax purposes and so will be fully subject to federal income taxation. Purchasers other than those who purchase the Notes in the initial offering at their principal amounts will be subject to federal income tax accounting rules affecting the timing and/or characterization of payments received with respect to such Notes. In general, interest paid on the Notes and recovery of accrued market discount, if any, will be treated as ordinary income to a noteholder and, after adjustment for the foregoing, principal payments will be treated as a return of capital.

In all events, purchasers of the Notes should consult their own tax advisors regarding such matters.

*Market Discount.* Any owner who purchases a Note at a price which includes market discount in excess of a prescribed de minimis amount (i.e., at a purchase price that is less than its adjusted issue price in the hands of an original owner) will be required to recharacterize all or a portion of the gain as ordinary income upon receipt of each scheduled or unscheduled principal payment or upon other disposition. In particular, such owner will generally be required either (a) to allocate each such principal payment to accrued market discount not previously included in income and to recognize ordinary income to that extent and to treat any gain upon sale or other disposition of such a Note as ordinary income to the extent of any remaining accrued market discount (described under this caption) or (b) to elect to include such market discount in income currently as it accrues on all market discount instruments acquired by such owner on or after the first day of the taxable year to which such election applies.

The Code authorizes the Treasury Department to issue regulations providing for the method for accruing market discount on debt instruments the principal of which is payable in more than one installment. Until such time as regulations are issued by the Treasury Department, certain rules described in the legislative history of the Tax

Reform Act of 1986 will apply. Under those rules, market discount will be included in income either (a) on a constant interest basis or (b) in proportion to the accrual of stated interest.

An owner of a Note who acquires such Note at a market discount also may be required to defer, until the maturity date of such Note or the earlier disposition in a taxable transaction, the deduction of a portion of the amount of interest that the owner paid or accrued during the taxable year on indebtedness incurred or maintained to purchase or carry such Note in excess of the aggregate amount of interest includable in such owner's gross income for the taxable year with respect to such Note. The amount of such net interest expense deferred in a taxable year may not exceed the amount of market discount accrued on the Note for the days during the taxable year on which the owner held the Note and, in general, would be deductible when such market discount is includable in income. The amount of any remaining deferred deduction is to be taken into account in the taxable year in which the Note matures or is disposed of in a taxable transaction. In the case of a disposition in which gain or loss is not recognized in whole or in part, any remaining deferred deduction will be allowed to the extent gain is recognized on the disposition. This deferral rule does not apply if the Noteowner elects to include such market discount in income currently as described above.

*Sale or Redemption of Notes.* A noteowner's tax basis for a Note is the price such owner pays for the Note plus the amount of any market discount previously included in income and reduced on account of any payments received (other than payments of "qualified stated interest"). Gain or loss recognized on a sale, exchange or redemption of a Note, measured by the difference between the amount realized and the Note basis as so adjusted, will generally give rise to capital gain or loss if the Note is held as a capital asset (except as discussed above under "Market Discount"). The legal defeasance of the Notes may result in a deemed sale or exchange of such Notes under certain circumstances that would result in the owners recognizing taxable gain or loss. Owners of the Notes should consult their tax advisors as to the federal income tax consequences of such an event.

*Backup Withholding.* A noteowner may, under certain circumstances, be subject to "backup withholding" with respect to interest on the Notes. Currently, the rate is 28 percent (although the rate may change in the future). This withholding generally applies if the owner of a Note (a) fails to furnish the Trustee or other payor with its taxpayer identification number; (b) furnishes the Trustee or other payor an incorrect taxpayer identification number; (c) fails to report properly interest, dividends or other "reportable payments" as defined in the Code; or (d) under certain circumstances, fails to provide the Trustee or other payor with a certified statement, signed under penalty of perjury, that the taxpayer identification number provided is its correct number and that the holder is not subject to backup withholding. Backup withholding will not apply, however, with respect to certain payments made to noteowners, including payments to certain exempt recipients (such as certain exempt organizations) and to certain Non-U.S. Holders (as defined below). Owners of the Notes should consult their tax advisors as to their qualification for exemption from backup withholding and the procedure for obtaining the exemption.

*Non-U.S. Holders.* The following discussion addresses only "Non-U.S. Holders," that is, beneficial owners of Notes that are not U.S. Holders. For these purposes, "U.S. Holders" are beneficial owners of Notes that are, for U.S. federal income tax purposes: (1) individual citizens or residents of the United States, (2) corporations or other business entities organized under the laws of the United States, any state thereof, or the District of Columbia, (3) estates with income subject to United States federal income tax regardless of its source, or (4) trusts subject to primary supervision by a United States court and for which "United States persons" (within the meaning of the Code) control all substantial decisions, and certain other trusts that elect to be treated as United States persons.

*General.* Except for the possible application of U.S. federal withholding tax (as described above) and backup withholding (as described below), Non-U.S. Holders generally will not be subject to U.S. federal income tax on payments of principal of or interest on the Notes, or on any gain realized from (or accrued interest, if any, treated as received in connection with) the sale, redemption, retirement at maturity or other disposition of the Notes unless: (1) in the case of interest payments or disposition proceeds representing accrued interest, the Non-U.S. Holder cannot satisfy the requirements of the portfolio interest exception described above (and the Non-U.S. Holder's U.S. federal income tax liability has not otherwise been fully satisfied through the U.S. federal withholding tax, as described above), (2) in the case of gain, the Non-U.S. Holder is an individual who is present in the United States for 183 or more days during the taxable year of the disposition, such gain is derived from sources within the United States and certain other specific conditions are met (in which case, except as otherwise provided by an applicable income tax treaty, the gain, which may be offset by United States source capital losses, generally will be subject to a

flat 30 percent U.S. federal income tax, even though the disposing Non-U.S. Holder is not considered a resident alien under the Code), or (3) the interest or gain is effectively connected with the Non-U.S. Holder's conduct of a United States trade or business and, if required by an applicable income tax treaty, is attributable to a United States "permanent establishment" maintained by the Non-U.S. Holder (in which case (x) the interest or gain generally will be subject to U.S. federal income tax on a net basis at the regular graduated rates and in the manner applicable to a U.S. Holder and (y) a "branch profits tax" may be imposed at a 30 percent rate, or a lower rate under an applicable income tax treaty, on a non-U.S. corporation that has earnings and profits that are effectively connected with the conduct of a trade or business in the United States).

*Portfolio Interest.* A Non-U.S. Holder generally will not be subject to U.S. federal withholding tax on payments of principal or interest on a Note, under the "portfolio interest exception" of the Code provided that: (1) the Non-U.S. Holder is not a bank receiving interest described in section 881(c)(3)(A) of the Code, (2) such interest is not effectively connected with the Non-U.S. Holder's conduct of a trade or business in the United States, and (3) the Non-U.S. Holder provides a signed written statement, on an Internal Revenue Service Form W-8BEN (or other applicable form) which can reliably be related to the Non-U.S. Holder, certifying under penalties of perjury that such Non-U.S. Holder is not a United States person within the meaning of the Code and providing the Non-U.S. Holder's name and address to (x) the Commonwealth or the applicable paying agent or (y) a securities clearing organization, bank or other financial institution that holds customers' securities in the ordinary course of its trade or business and holds Notes on behalf of the Non-U.S. Holder and that certifies to the Commonwealth or the applicable paying agent under penalties of perjury that it, or the bank or financial institution between it and the Non-U.S. Holder, has received from the Non-U.S. Holder a signed, written statement and provides the Commonwealth or the applicable paying agent with a copy of this statement.

*Effectively Connected Income.* If a Non-U.S. Holder cannot satisfy the requirements of the portfolio interest exception, payments of interest made to such Non-U.S. Holder will be subject to 30 percent U.S. federal withholding tax unless the Non-U.S. Holder provides a properly executed (1) Internal Revenue Service Form W-8ECI (or other applicable form) stating that interest paid on the Notes is not subject to U.S. federal withholding tax because it is effectively connected with the Non-U.S. Holder's conduct of a trade or business in the United States, or (2) Internal Revenue Service Form W-8BEN (or other applicable form) claiming an exemption from or reduction in U.S. federal withholding tax under an applicable income tax treaty.

*Backup Withholding.* In addition, backup withholding may apply as explained above unless the Non-U.S. Holder of a Note provides to the applicable withholding agent its taxpayer identification number and certain other information or certification of foreign or other exempt status. Any amount withheld under the backup withholding rules is allowable as a credit against the Non-U.S. Holder's actual U.S. federal income tax liability or in some circumstances may be refunded to such Non-U.S. Holder.

*ERISA.* The Employees Retirement Income Security Act of 1974, as amended ("ERISA"), and the Code generally prohibit certain transactions between a qualified employee benefit plan under ERISA or tax qualified retirement plans and individual retirement accounts under the Code (collectively, the "Plans") and persons who, with respect to a Plan, are fiduciaries or other "parties in interest" within the meaning of ERISA or "disqualified persons" within the meaning of the Code. All fiduciaries of Plans, in consultation with their advisors, should carefully consider the impact of ERISA and the Code on an investment in any Notes.

The opinions of Bond Counsel are not intended or written by Bond Counsel to be used and cannot be used by an owner of the Notes for the purpose of avoiding penalties that may be imposed on the owner of the Notes. The opinions of Bond Counsel are provided to support the promotion or marketing of the Notes. In all events, all investors should consult their own tax advisors in determining the federal, state, local and other tax consequences to them of the purchase, ownership and disposition of the Notes.

*State Taxes.* For Massachusetts income tax purposes, Massachusetts gross income is federal gross income generally as described under the Code, with certain modifications. As a result, in general, federally taxable interest on obligations of the Commonwealth is also taxable for purposes of the Massachusetts personal income tax. However, as described above, the Commonwealth may issue all or a portion of the Notes as "Build America Bonds" under ARRA. Section 1531(d) of ARRA provides, in part, as follows:



“Except as otherwise provided by a State after the date of enactment of [ARRA], the interest on any build America bond (as defined in Section 54AA of [the Code], as added by this section) . . . shall be treated for purposes of the income tax laws of such State as being exempt from Federal income tax.”

To date, the Commonwealth has not taken any action with respect to the Massachusetts personal income tax status of interest on any Build America Bond and accordingly, Bond Counsel is further of the opinion that, under existing law, interest on the Notes is exempt from Massachusetts personal income taxes and the Notes are exempt from Massachusetts personal property taxes. Prospective purchasers of the Notes should be aware that the Notes are included in the measure of Massachusetts estate and inheritance taxes, and the Notes and the interest thereon is included in the measure of certain Massachusetts corporate excise and franchise taxes. Bond Counsel has not opined as to the taxability of the Notes or the income therefrom under the laws of any state other than Massachusetts.

## **RATINGS**

The Notes have been assigned ratings by Standard & Poor’s Ratings Group, Inc. (“S&P”), Moody’s Investors Service, Inc. (“Moody’s”) and Fitch Ratings, Inc. (“Fitch”). The ratings assigned by S&P are “AAA,” the ratings assigned by Moody’s are “Aa2” and the ratings assigned by Fitch are “AA+,” respectively, for the Notes.

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

## **CERTAIN LEGAL MATTERS**

The unqualified approving opinion as to the legality of the Notes will be rendered by Nixon Peabody LLP, Boston, Massachusetts, Bond Counsel to the State Treasurer. The proposed form of such opinion of Bond Counsel is attached to this Official Statement as Appendix C. Certain legal matters will be passed upon for the Underwriters by their counsel, Edwards Angell Palmer & Dodge LLP, Boston, Massachusetts.

## **UNDERWRITING**

The Notes are being purchased by the Underwriters, for whom Jefferies & Company, Inc. is acting as Representative. The Underwriters have agreed, subject to certain conditions, to purchase all of the Notes from the Commonwealth at a discount from the initial public offering prices set forth on the inside cover page hereof equal to approximately 0.551066% of the aggregate principal amount of the Notes. The Underwriters have agreed to reoffer such Notes at public offering prices not higher than or at yields not lower than those set forth on the inside cover page of this Official Statement. The Underwriters are obligated to purchase all such Notes, if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in the Purchase Contract, the approval of certain legal matters by counsel and certain other conditions. Such Notes may be offered and sold by the Underwriters to certain dealers (including dealers depositing such Notes in unit investment trusts or mutual funds, some of which may be managed by the Underwriters) and certain dealer banks and banks acting as agents at prices lower (or yields higher) than the public offering prices (or yields) set forth on the inside cover page of this Official Statement. Subsequent to such initial public offering, the Underwriters may change the public offering prices (or yields) as they may deem necessary in connection with the offering of such Notes.

*The following language has been provided by Citigroup Global Markets Inc. The Commonwealth takes no responsibility for the accuracy or completeness thereof.*

Citigroup Inc. and Morgan Stanley, the respective parent companies of Citigroup Global Markets Inc. and Morgan Stanley & Co. Incorporated, each an underwriter of the Notes, have entered into a retail brokerage joint venture. As part of the joint venture each of Citigroup Global Markets Inc. and Morgan Stanley & Co. Incorporated

will distribute municipal securities to retail investors through the financial advisor network of a new broker-dealer, Morgan Stanley Smith Barney LLC. This distribution arrangement became effective on June 1, 2009. As part of this arrangement, each of Citigroup Global Markets Inc. and Morgan Stanley & Co. Incorporated will compensate Morgan Stanley Smith Barney LLC for its selling efforts in connection with their respective allocations of Notes.

*The following language has been provided by J.P. Morgan Securities LLC (“JPMS”). The Commonwealth takes no responsibility for the accuracy or completeness thereof.*

JPMS, one of the Underwriters of the Notes, has entered into negotiated dealer agreements (each, a “Dealer Agreement”) with each of UBS Financial Services Inc. (“UBSFS”) and Charles Schwab & Co., Inc. (“CS&Co.”) for the retail distribution of certain securities offerings at the original issue prices. Pursuant to each Dealer Agreement, each of UBSFS and CS&Co. will purchase offered Notes from JPMS at the original issue price less a negotiated portion of the selling concession applicable to any offered Notes that such firm sells.

### **CONTINUING DISCLOSURE**

In order to assist the Underwriters in complying with paragraph (b)(5) of Rule 15c2-12 of the Securities and Exchange Commission, the Commonwealth will undertake in the Notes to publish annual reports and notices of certain events. This undertaking is set forth in Appendix D hereto.

The Commonwealth has not failed in the last five years to comply with its continuing disclosure undertakings pursuant to existing continuing disclosure agreements with respect to its Senior Federal Highway Notes, Special Obligation Bonds or general obligation debt.

### **MISCELLANEOUS**

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

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

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

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

Neither the Commonwealth’s independent auditors, nor any other independent accountants, have compiled, examined, or performed any procedures with respect to any 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, any prospective financial information.

#### **AVAILABILITY OF OTHER INFORMATION**

Questions regarding this Official Statement should be directed to Colin A. MacNaught, Assistant Treasurer, Office of the Treasurer and Receiver-General, One Ashburton Place, Twelfth Floor, Boston, Massachusetts 02108, telephone (617) 367-3900, or Karol D. Ostberg, Director of Capital Finance, Executive Office for Administration and Finance, State House, Room 373, Boston, Massachusetts 02133, telephone (617) 727-2040. Questions regarding legal matters relating to this Official Statement should be directed to Kenneth C. Lind, Nixon Peabody LLP, 437 Madison Avenue, New York, New York 10022, telephone (212) 940-3005.

#### **THE COMMONWEALTH OF MASSACHUSETTS**

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

By: /s/ Jay Gonzalez  
Jay Gonzalez  
*Secretary of Administration and Finance*

December 14, 2010

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## THE FEDERAL-AID HIGHWAY PROGRAM

A principal source of repayment and security for the Notes is payments received by the Commonwealth from the federal government under the Federal-Aid Highway Program, pursuant to which the federal government reimburses states for the federal share of approved highway projects. This Appendix A provides a summary of the Federal-Aid Highway Program, including the process by which states request and receive Federal Highway Reimbursements from the federal government. Terms used in this Appendix A and not defined herein are defined in Appendix B.

The Federal-Aid Highway Program is an “umbrella” term that encompasses most of the federal programs that provide highway funding to the states, including the Commonwealth. The major funding for the Federal-Aid Highway Program is made available in six core programs: the Interstate Maintenance Program, the Highway Bridge Replacement and Rehabilitation Program, the National Highway System Program, the Surface Transportation Program, the Congestion Mitigation and Air Quality Program and the Highway Safety Improvement Program.

Within the U.S. Department of Transportation, the Federal Highway Administration (“FHWA”) is the federal agency responsible for administering the Federal-Aid Highway Program. The Federal-Aid Highway Program is financed from the transportation user-related revenues deposited in the federal Highway Trust Fund (“HTF”). The primary source of revenues in the HTF is derived from the federal excise taxes on motor fuels. Other taxes include excise taxes on tires, trucks and trailers, and truck use taxes.

Certain Federal-Aid Highway Program features or requirements are explained or further defined where they appear below but are introduced here for reference:

- *The Federal Highway Trust Fund:* The HTF is a dedicated federal fund with dedicated revenues held in trust for reimbursement of expenditures by the states for costs of eligible transportation projects, including highway projects.
- *Authorization:* “Authorization” is the process by which Congress authorizes the expenditure of federal revenues on federal programs. For the Federal-Aid Highway Program, authorization historically has been provided on a multi-year basis. This, together with the availability of HTF revenues and future HTF collections permits states more certainty in planning long-term highway projects. The current multi-year authorization, the Safe, Accountable, Flexible, Efficient, Transportation Equity Act: A Legacy for Users (“SAFETEA-LU”), became law on August 10, 2005 and has been extended beyond its original expiration date of September 30, 2009 until December 31, 2010.
- *Apportionment:* For each federal fiscal year (“FFY”), the FHWA apportions the authorized funding among the states according to formulas that are established in authorizing statutes. The distribution of federal funds that do not have a statutory formula is called “allocation” rather than “apportionment.”
- *Obligation Authority (“OA”):* “Obligation” is the commitment of the federal government to pay, through reimbursements to a state, its share of the eligible expenditures on an approved project. The amount of such federal revenues that a state can obligate in a given FFY is called its “Obligation Authority.”
- *Advance Construction (“A/C”):* The A/C procedure allows states to commence eligible projects without first having to obligate the federal government’s share of expenditures. Thus, states may begin a project before amassing all of the OA needed to cover the federal government’s share.
- *Partial Conversion of A/C:* Under partial conversion of A/C, in a given year a state may convert A/C to OA and thus be eligible for reimbursement for a portion of the federal share of an A/C

project in that or in a subsequent FFY. This removes any requirement for the state to wait for reimbursements until the full amount of OA needed for the entire project is available.

These features of the Federal-Aid Highway Program work in a complementary fashion to provide a regular flow of federal reimbursements over the years to state highway projects. The participation of the Commonwealth in such reimbursements, and the role of such participation in providing payment and security for the Notes, is discussed in *Commonwealth Participation in the Federal-Aid Highway Program*.

It should be noted that the terms and conditions of participation in the Federal-Aid Highway Program as described herein are subject to change at the discretion of Congress, and there can be no assurance that the laws and regulations now governing the Federal-Aid Highway Program will not be changed in the future in a manner that may adversely affect the ability of the Commonwealth to receive adequate Federal Highway Reimbursements to pay the Notes and the Senior Federal Highway Notes. As described in this Official Statement, if there is a deficiency in Federal Highway Reimbursements, Net CTF Pledged Funds are available for debt service, subject to appropriation. See *Net CTF Pledged Funds*.

### Federal Highway Trust Fund

The HTF is the primary source of funding for most of the programs in the Federal-Aid Highway Program. The HTF is divided into two accounts, the Highway Account, which funds highway and intermodal programs, and the Mass Transit Account. Federal motor fuel taxes are the major source of income into the HTF. Other taxes include excise taxes on tires, trucks and trailers, and truck use taxes. The Highway Account receives approximately 84% of gasoline tax revenues and 88% of diesel fuel revenues, with the remaining share of each revenue source being deposited in the Mass Transit Account.

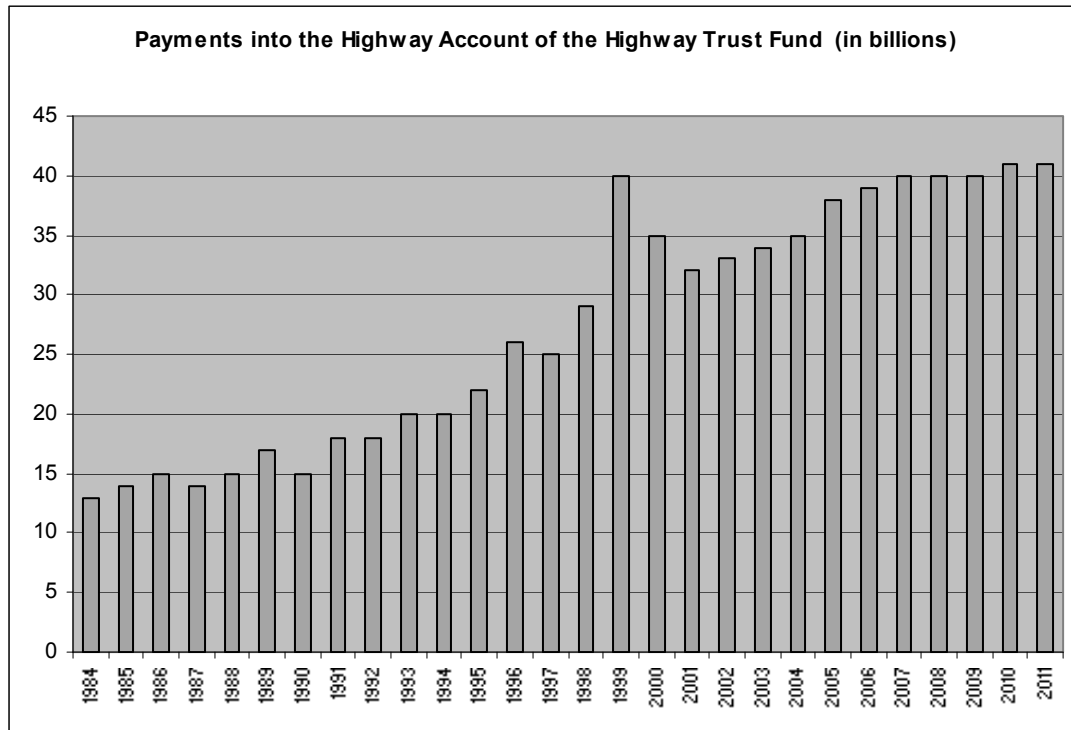
The table below shows the types of taxes deposited into the HTF and the current rates that are in effect.

<b>Motor Fuels Taxes</b>				
<b>Type of Tax</b>	<b>Tax Rate (Cents)</b>	<b>Distribution of Tax</b>		
		<b>Highway Account of the HTF</b>	<b>Mass Transit Account of the HTF</b>	<b>Leaking Underground Storage Tank Trust Fund</b>
Gasoline	18.4 per Gallon	83.90%	15.50%	0.50%
Diesel	24.4 per Gallon	87.90%	11.70%	0.40%
Gasohol	18.4 per Gallon	83.90%	15.50%	0.50%
Liquefied Petroleum Gas	18.3 per Gallon	88.40%	11.60%	0.00%
Liquefied Natural Gas	24.3 per Gallon	92.30%	7.70%	0.00%
M85 (From Natural Gas)	9.25 per Gallon	83.50%	15.50%	1.10%
Compressed Natural Gas	144.47 per Thousand Cubic Ft.	93.30%	6.70%	0.00%
<b>Other User Fees</b>				
Tires	9.45 cents for each 10 lbs. of the maximum rated load capacity over 3,500 lbs.			
Truck and Trailer Sales	12% of retailer's sales price for tractors and trucks over 33,000 lbs. gross vehicle weight ("GVW") and trailers over 26,000 lbs. GVW			
Heavy Use Vehicles	Annual tax for trucks 55,000 lbs. GVW and over equal to \$100 plus \$22 for each 1,000 lbs. (or fraction thereof) in excess of 55,000 lbs. Maximum tax of \$550.			

Source: United State Government Accountability Office.

Federal gasoline excise taxes are the largest revenue source for the HTF. The majority of these tax revenues, including fifteen and forty-four hundredths cents (15.44¢) per gallon out of the current eighteen and four-tenths cents (18.4¢) per gallon tax, go to the Highway Account.

The following table shows annual HTF collections in the Highway Account for the Federal Fiscal Years 1984 through 2011.



Sources: FFY 1984 through FFY 2008 are from Highway Statistics 2008 Office of Highway Policy Information, FHWA, Table FE-210. FFY 2009 actual, FFY 2010 and 2011 estimated are from President's FFY 2010 Budget.

The imposition of the taxes that are dedicated to the HTF, as well as the authority to place the taxes in the HTF and to expend moneys from the HTF, all have expiration dates, which must be extended periodically. The life of the HTF has been extended several times since its inception, most recently by SAFETEA-LU (as described below). SAFETEA-LU extended the imposition of taxes and the transfer of the taxes to the HTF through September 30, 2011 and authorized expenditures from the HTF through September 30, 2009. The HTF is required under current federal law to maintain a positive balance to ensure that prior commitments for distribution of federal revenues can be met.

As part of its annual budget forecast issued on January 24, 2007, the nonpartisan Congressional Budget Office ("CBO") reported that if Congress adhered to the highway and safety spending levels authorized in SAFETEA-LU, absent other measures, the Highway Account of the HTF would go into deficit early in FFY 2009, before SAFETEA-LU expired. The CBO baseline projected that if the SAFETEA-LU spending levels were maintained for FFY 2007-2009 there would be a deficit in the Highway Account at the end of FFY 2009 in the amount of \$3.616 billion. The President's budget proposal in February 2008 projected that the HTF would show a deficit of at least \$3.3 billion in FFY 2009.

In response to the projected shortfalls, Congress enacted two separate laws to maintain a positive balance in the HTF through the end of FFY 2009, demonstrating its commitment to funding highway needs nationwide. First, enacted on September 15, 2008, transferred \$8.017 billion from the General Fund to the HTF to cover the shortfall for FFY 2009. These funds restored revenues that had been shifted from the HTF to

the General Fund as a result of federal budget in 1998. The second, enacted on August 7, 2009, transferred an additional \$7 billion from the General Fund to the HTF to cover an additional shortfall through FFY 2009. The two actions allowed state departments of transportation to continue to meet their financial obligations and sustain hundreds of millions of dollars of construction projects.

The primary source of funds in the HTF is federal excise taxes on motor fuels, which are in part driven by total vehicle miles traveled (“VMT”) in the U.S. As shown in the table below, national VMT have increased from 1.75 trillion miles in 1985 to 2.99 trillion miles in 2010, growing at a compounded annual growth rate of 2.2%. During this time period, total VMT have increased each year except for 2008 and 2009, which saw decreases in VMT of 1.3% and 0.7%, respectively. However, total VMT increased by 0.4% in 2010 to 2.99 trillion miles. It cannot be determined whether the improvement in VMTs over the past several months will continue.

**Vehicle Miles Traveled ("VMT")**  
*(in Millions of Miles)*

<b>Year</b>	<b>Total<sup>1</sup></b>	<b>Annual Change</b>	<b>Year</b>	<b>Total<sup>1</sup></b>	<b>Annual Change</b>
1985	1,754,347		1998	2,594,407	2.1%
1986	1,813,371	3.4%	1999	2,653,665	2.3%
1987	1,894,389	4.5%	2000	2,742,583	3.4%
1988	1,993,556	5.2%	2001	2,773,718	1.1%
1989	2,084,172	4.5%	2002	2,838,687	2.3%
1990	2,143,440	2.8%	2003	2,870,128	1.1%
1991	2,158,934	0.7%	2004	2,943,950	2.6%
1992	2,217,543	2.7%	2005	2,989,522	1.5%
1993	2,280,121	2.8%	2006	2,999,680	0.3%
1994	2,331,760	2.3%	2007	3,033,471	1.1%
1995	2,411,226	3.4%	2008	2,993,536	-1.3%
1996	2,455,922	1.9%	2009	2,973,911	-0.7%
1997	2,540,227	3.4%	2010	2,986,898	0.4%

Source: FHWA (<http://www.fhwa.dot.gov/ohim/tvtw/10augvt/page2.cfm>)

<sup>1</sup> Represents the moving 12-month total, as of August 30 of each year.

Various proposals are being considered to address the HTF’s future funding, including an increase in fuel taxes, a variety of new taxes (including a tax on VMT) and other funding sources for the HTF. On March 18, 2010 President Obama signed into law the Hiring Incentives to Restore Employment (“HIRE”) Act, which increased funds available to states for infrastructure improvements. There can be no assurance that any other similar proposals will be enacted by Congress.

**History**

The modern Federal-Aid Highway Program originated in the Federal-Aid Highway Act of 1956. The Federal-Aid Highway Program initially was established as a pay-as-you-go system, meaning that costs of constructing and maintaining the system were to be borne primarily by its users, who would pay a federally-imposed tax on motor fuels. Federal user fees were to provide 90% of the cost of construction, with the remainder paid for by the states.

The Federal-Aid Highway Act of 1956 was the first of a long series of authorizing statutes for the Federal-Aid Highway Program. Extensions of the act were passed in 1958, 1959, 1960, 1961, 1962, 1964, 1966, 1968, 1970, 1973, 1974 and 1976; in each case the statute was known simply as the Federal-Aid Highway Act. The 1965 Highway Beautification Act made minor additions and changes to the program, as did the Highway Safety Act of



1973. The 1978 Surface Transportation Act and the Federal-Aid Highway Act of 1981 were also primarily extensions of existing authority. SAFETEA-LU, its immediate predecessor, the Transportation Equity Act for the 21<sup>st</sup> Century (“TEA 21”), and its immediate predecessor, the Intermodal Surface Transportation Efficiency Act of 1991 (“ISTEA”) are the most recent multi-year authorizing statutes.

The 1982 Surface Transportation Assistance Act (“STAA”) made notable changes to the Federal-Aid Highway Program, and began the modern multi-year (i.e. four or more years) authorizing process. STAA also guaranteed each state a minimum 85% return on the money paid in by highway users of the state. Such “equity provisions” have continued in all subsequent authorizing legislation to date, and operate to compensate so-called “donor states,” whose historic highway funding levels have been below their collections for the HTF.

In 1991, ISTEA broadened the focus of the Federal-Aid Highway Program, changed its structure significantly and created several new funding categories. ISTEA also gave state and local governments greater flexibility in determining their transportation infrastructure priorities, whether transit or highways, and for the first time allowed significant flexibility to redirect federal revenues among programs. ISTEA also authorized innovative approaches to federal-aid highway funding, including the use of private sector funding sources for transportation improvements. Innovative financing procedures were authorized and encouraged, and states were authorized to augment federal revenues with alternate sources of revenues.

The National Highway System Designation Act of 1995 (the “NHS Act”) designated the National Highway System to include the Interstate System as well as other roads important to the nation’s economy, defense, and mobility. The NHS Act made several changes affecting the financing of federal-aid highway projects, including A/C procedures. Under the NHS Act, to avoid delays in projects that are eligible for federal funding, the FHWA may approve A/C for a project if the state can provide 100% of the costs up-front. Prior to the NHS Act, only when a state had amassed sufficient OA to cover the federal share of a project’s total costs could it convert the project from A/C to OA and be reimbursed for the federal share. The NHS Act removed the requirement that states must amass OA equal to the full federal share before reimbursement could occur. Partial conversion now allows a state to be reimbursed for a portion of the federal share of the project’s total costs as OA becomes available each year and costs are expended.

*TEA 21.* TEA 21, which became law on June 9, 1998 and was amended on July 22, 1998, extended the authorization of the Federal-Aid Highway Program through FFY 2003. TEA 21 expired September 30, 2003, and was the subject of twelve interim reauthorization extensions until the enactment of SAFETEA-LU in August 2005. According to the FHWA, under TEA 21, average annual authorizations for highway aid to the states for FFY 1998 through FFY 2003 were approximately \$28.5 billion.

TEA 21 increased equity protections by assuring each state at least 90.5% of its proportional share of apportioned programs, based on its percentage contribution to HTF receipts, which were reauthorized through FFY 2005. TEA 21 also included a provision known as Revenue Aligned Budget Authority (“RABA”) which required that HTF revenues be spent on transportation-related improvements, rather than allowed to accumulate into large surpluses. To this end, TEA 21 set yearly minimum guaranteed funding levels for the authorization period, based on annual HTF revenues.

*SAFETEA-LU.* On August 10, 2005, SAFETEA-LU was signed into law, and authorized a total of \$286.4 billion for federal surface transportation programs in FFY 2005 through FFY 2009. This represented a 38% increase in authorization over TEA 21. According to the FHWA, under SAFETEA-LU, average annual apportionments for highway aid to the states for FFY 2005 through FFY 2009, after redistribution of minimum guarantee funds, and in accordance with RABA, which adjusts annual highway funding levels to reflect anticipated changes in HTF receipts, are approximately \$37.9 billion, as indicated in the table below (which shows figures by FFY and in billions of dollars):

2005	2006	2007	2008	2009	Average
\$34.4	\$36.0	\$38.2	\$39.6	\$41.2	\$37.9

Source: FHWA.

SAFETEA-LU retained the budgetary firewall and minimum guarantee provisions of TEA 21, increasing each state's minimum rate of return of HTF contributions from 90.5% in TEA 21 to 92% by 2008. All states were also guaranteed a total six-year average highway funding increase of at least 19%, when compared to the state's six-year TEA 21 funding total.

### **Reauthorization Risk**

On September 30, 2009 SAFETEA-LU expired without enactment of a new six-year reauthorization program. In order to avoid a halt in the Federal-Aid Highway Program, Congress has enacted six short-term interim authorizations: the first extended SAFETEA-LU's FFY 2009 funding levels through the end of October 2009, the second, enacted in late October 2009, extended FFY 2009 funding levels through December 18, 2009, the third extended FFY 2009 funding levels through December 23, 2009, the fourth extended FFY 2009 funding levels through February 28, 2010, the fifth extended FFY 2009 funding levels through March 28, 2010 and the sixth extended FFY 2009 funding levels through December 31, 2010, as extended by the HIRE Act. If SAFETEA-LU is not reauthorized at sufficient funding and spending levels to address the shortfalls, the HTF could continue to experience deficits. There are a number of reauthorization proposals in the United States Congress, none of which have yet been enacted. It is unknown whether reauthorizing legislation will be enacted by December 31, 2010.

### **Rescissions**

Through legislation, unused balances of previously authorized funds can be rescinded (canceled). In 1986 and 1990, a specified percentage of contract authority was sequestered (in effect, rescinded) when the overall federal spending exceeded certain budget targets, triggering automatic sequestration provisions. In 1996, the authorizations for the Federal-Aid Highway Program were reduced due to a budget compliance provision included in Section 1003(c) of ISTEA which placed a cap on the amount of funding that could be authorized out of the HTF in total between 1992 and 1996. This provision was triggered by the open-ended equity adjustment authorizations contained in ISTEA, which provided more funding to the States than was originally estimated at the time the act was passed. In more recent years, across-the-board cuts have been enacted during the appropriations process, typically in the last passed appropriations act for the fiscal year. These cuts are used to bring the total amount appropriated in all the appropriations acts for the fiscal year into line with the amount agreed to in the budget resolution or some other spending target. While the specifics of the cuts have varied, typically the cuts have applied government wide to all programs on the discretionary side of the budget, cutting appropriated budget authority, obligation limitations, and contract authority subject to obligation limitations. However, to date, most rescissions of transportation funding have been limited to unused contract authority and have not reduced obligation authority. Once funds are eliminated (by any mechanism) they cannot be obligated.

Since the passage of SAFETEA-LU, Congress has taken eight separate actions to reduce SAFETEA-LU's authorized spending levels by issuing rescissions: three actions for FFY 2006, two for FFY 2007, one for FFY 2008 and two for FFY 2009.

### **Operations**

The current Federal-Aid Highway Program continues to reimburse a large percentage of state expenditures for approved highway projects. The financial assurance provided by the Federal-Aid Highway Program is unusual among federal programs in that:

- The Federal-Aid Highway Program is based on dedicated revenues, from a user-tax source, deposited in a dedicated trust fund (the HTF);
- The budget and contract authority of the FHWA is established by a multi-year authorization act rather than annually through appropriation acts; and
- Except in cases of rescission as explained above, contract authority is not at risk during the annual appropriations process (as budget authority is in most other federal programs).

The process for reimbursing state expenditures may be summarized in three steps: authorization, obligation and program implementation. The authorization step is the most critical step in establishing overall spending authority for federal highway funding. Authorizing legislation extends the life of the Federal-Aid Highway Program and the collections that fund the HTF, sets Federal-Aid Highway Program objectives and provides formulas for determining the distribution or apportionment of available resources among the states. The second step, obligation, is the process through which states make use of, or “obligate,” the contract authority that has been apportioned or allocated to them in the authorization process. The third step, program implementation, leads to actual receipt of federal funds by states.

#### *Step 1: Authorization*

The first step is the multi-year (or under interim authorizations, multi-month) authorizing legislation. Such highway authorization acts:

- Establish the taxes that fund the HTF and extend their life (reauthorization);
- Establish the specific programs and procedures through which states receive federal financial assistance for their highway programs; and
- Set upper limits on funding for specific programs and for the overall Federal-Aid Highway Program.

*Multi-Year Authorization Acts.* As noted earlier, the Federal-Aid Highway Program since 1982 has been periodically reauthorized on a multi-year basis by authorization acts, through which Congress influences the level of federal involvement in state highway program activities. Annual appropriations acts then establish any limits on the amount of federal funds that the FHWA may obligate to states in a given year.

*Budget and Contract Authority.* All federal programs require budget and contract authority before revenues may be committed and spent. Normally this authority is provided through a two-step process, with authorizing legislation describing the purposes for a specific program and setting a proposed level of spending, and appropriations acts providing the budget authority or legal ability to spend federal revenues. Appropriations are often for a lower amount than that set by authorizations. The Federal-Aid Highway Program combines these two steps, with authorizing legislation providing the United States Secretary of Transportation with contract authority or the legal ability to enter into binding contracts with state transportation departments (“DOTs”) and other bodies specified in the Federal-Aid Highway Program, subject to annual obligation limitations.

Contract authority provides state DOTs with assurance about the level of future federal revenues that will be available. This, in turn, makes it easier and more cost-effective to plan and execute multi-year construction projects. As a result of contract authority and the collection of user taxes into the dedicated HTF, the formal appropriation by Congress of revenues on an annual basis generally has been non-controversial. Constraints arising from the annual appropriation process are described in Step 2.

*Lapsing of Authorization.* All federal programs must be authorized through enacted legislation that defines the programs and establishes maximum funding levels, and for most programs annual appropriations acts are necessary in order to create budget authority. Indeed, for most federal domestic discretionary programs, a lapsed authorization may have little or no effect on a program, so long as revenues are appropriated. For the Federal-Aid Highway Program, the consequences of lapsed authorization caused when Congress fails to enact reauthorization legislation are somewhat different. While Congress may pass interim legislation, the existence of contract authority and a dedicated revenue stream means that the FHWA usually can continue to provide OA by administrative action.

Though recent federal surface transportation legislation has authorized the Federal-Aid Highway Act for four to six years at a time, there occasionally have been periods in which the previous authorizing legislation had expired and the future legislation had yet to be enacted. In such circumstances, Congress and the FHWA have found ways to avoid disruptions to state highway programs and, more importantly, have been able to maintain the flow of federal revenues to states in each instance. Two mechanisms in particular have kept revenues flowing:

- Access to Unobligated Balances: The 1987 Surface Transportation and Uniform Relocation Assistance Act (“STURAA”) expired on September 30, 1991 and ISTEA was not enacted until December 18, 1991. The FHWA was able to act administratively to keep federal-aid funding flowing because states could use their unobligated balances to provide contract authority to use new OA.
- Short-Term Authorization: ISTEA expired on September 30, 1997 and until approval of TEA 21 on June 9, 1998, no new long-term authorization legislation was enacted. Despite the lack of long-term authorizing legislation, states were provided an upper limit on OA through passage of an appropriations act plus access to their unobligated balances. On November 13, 1997 Congress passed the Surface Transportation Extension Act of 1997 (“STEA”), which provided a six-month authorization for highway funding and established a limit on the amount of new OA states can use at funding levels equal to about a quarter of FFY 1997 authorization levels. Since most states have unobligated balances of at least half their normal annual OA levels and an authorization act need not be in place for the FHWA to give states new OA, states were able to spend down prior unfunded federal apportionments (contract authority) with newly allocated OA. The lack of an enacted authorization act during this period did not interrupt the flow of revenues, because dedicated highway user fees continued to flow into the HTF. (See Step 2: Obligation, below, for further explanation of OA and unobligated balances.) Similarly, TEA 21 expired on September 30, 2003, and Congress enacted twelve interim authorization measures until the enactment of SAFETEA-LU in 2005. As discussed herein, SAFETEA-LU has been extended six times since its expiration on September 30, 2009. Each of these extensions has provided additional apportionment consistent with SAFETEA-LU levels, eliminating the need to manage OA based upon unobligated balances.

Although these measures have been enacted by Congress or used by FHWA in the past, no assurance can be given that such measures would or could be enacted in the future to maintain the flow of federal-aid funding upon termination of an authorization period.

*Annual Distributions.* For most components of the Federal-Aid Highway Program, the authorization acts set the distribution of spending authority among states. The primary methods used to distribute authorized federal highway revenues are “apportionment” and “allocation”:

- Apportionments. The contract authority created by authorization acts such as SAFETEA-LU is distributed annually among the 50 states, the District of Columbia, and Puerto Rico using a process called apportionment of revenues. Apportionments indicate the maximum amount of contract authority that each state can expend for eligible projects in specific programs. For each FFY, the FHWA has responsibility for apportioning authorized funding for the various programs among the states according to formulas established in the authorizing statute. Annual apportionments are generally made on the first day of the FFY, which is October 1.
- Allocations. While most highway revenues are distributed to states through apportionments, some funding categories do not contain legislatively-mandated apportionment formulas. Distribution of revenues where there are no statutory formulas is called “allocation” or “discretionary allocation”. In most cases, allocated federal funding is divided among states using criteria determined administratively by the federal Department of Transportation or as provided in a statute, often through competitive grant procedures.

Apportionment formulas have been designed historically to ensure distribution of federal revenues among states according to program needs, but are also increasingly intended to provide states a share of total HTF expenditures relatively close to their payments into the HTF.

*Availability of Federal Highway Revenues.* Federal-aid highway apportionments and allocations are available to states for use for more than one year. Their availability does not terminate at the end of the FFY, as is the case with many other federal programs. Consequently, when new apportionments or allocations are made, the amounts are added to a state’s unused apportionments and allocations from the previous FFY. Should a state fail to

*obligate* (commit to spend) apportionments and allocations within the period of availability specified for a given program (typically four years for most highway programs), however, the amount of unused apportionment lapses—that is, it is no longer available except for a few programs which receive indefinite, or “no-year” OA.

*Matching Requirements.* With a few exceptions, the federal government does not pay for the entire cost of construction or improvement of federal-aid highways. Federal reimbursements are typically matched with state and local government revenues to account for the necessary dollars to complete the project. The maximum federal share is specified in the legislation authorizing the program. Most projects have an 80% federal share while Interstate Construction, Maintenance and Highway Safety projects typically have been funded with a 90% federal share.

### *Step 2: Obligation*

The second step of the federal-aid funding process occurs when revenues that have been authorized by legislation, and either apportioned or allocated to individual states, are obligated for a specific purpose. As noted in the previous section, Congress uses annual appropriations acts to control actual annual obligation of funds in the HTF. Appropriations acts limit the amount of federal money that actually will be obligated and thus ultimately spent, and these annual amounts typically are less than the authorized amount. This ceiling on the amount of contract authority that states may use is called the “annual obligation limit.”

*Obligation* is the commitment of the federal government to pay, through reimbursement to a state, the federal government’s share of an approved project’s eligible costs, which may, under certain circumstances, include debt service on obligations issued to finance a project. This process is important to the states because it allows states to award contracts with assurance that the federal government will reimburse its share of incurred costs. From the federal perspective, obligations made are the outlays the federal government has committed to make from the HTF in the future. Because of the close relationship between obligations and outlays, Congress and the FHWA play a strong role in determining how much federal funding can be obligated by individual states through two primary processes:

- Appropriations acts; and
- Distribution of OA.

*Appropriations Acts.* Congressional appropriations committees use the amount of federal-aid highway revenues that states can obligate in a given year, called “Obligation Authority”, as a means of balancing the annual level of highway spending with other federal budgetary priorities. This is accomplished through the establishment of an annual obligation limitation in the annual Department of Transportation and Related Agency Appropriations Act. The annual obligation limitation is usually less than the level of funding authorized for the same year.

*Distribution of OA.* The obligation limitation is the amount of authorized funding that Congress allows states collectively to obligate in an individual year. Under TEA 21, the annual obligation limitation included two elements — a large portion protected by firewalls and tied to projected HTF receipts through RABA (roughly 90% of total annual contract authority), and a smaller portion that competes with other discretionary budget priorities for funding (less than 10% of total annual contract authority). Beginning in FFY 2000, the level of OA protected by firewalls was established each year as the guaranteed obligation limitation in TEA 21, adjusted by the difference between HTF revenue estimates made for TEA 21 and Department of Treasury projections. The provisions related to OA in TEA 21 continued under SAFETEA-LU. Additional, discretionary OA is determined when annual appropriations bills are developed and is counted under Congress’ annual spending cap, which is the amount of federal dollars that can be spent on all domestic, non-entitlement programs in a given year. The combined total may still be below the authorized annual level, and serves as a limit on the total obligations in that particular year.

Once Congress establishes an overall obligation limitation, the FHWA distributes OA to states proportionately to each state’s share of apportioned and allocated revenues to include minimum guarantee allocations that bring donor states up to the minimum 92% funding level (by FFY 2008). The actual ratio of OA to apportionments and allocations may vary from state to state because some federal-aid programs are exempt from the obligation limitation. Once each state’s OA is set, states then submit requests to the FHWA to obligate revenues

representing the federal share of specific projects throughout the years. (A further description of this process is included in Step 3.) As a state obligates revenues, its balance of OA is commensurately reduced, although additional OA may be received (e.g., via redistribution from other states).

A state's OA (unlike its apportionments and allocations of authorized funding) must be committed before the end of the FFY for which it is made available; if not, it will be distributed to other states. The FHWA closely monitors each state's plans for use of OA. In mid-summer, the FHWA collects any OA from states that do not plan to obligate all of their available OA before the end of the FFY, and redistributes it to other states that can obligate the revenues. This reallocation of OA is known as the August redistribution.

*Unobligated Balances.* Because congressional authorization of federal-aid highway revenues represents a commitment to make all authorized revenues available to states for highway purposes, any shortfall between the limit on OA created through the annual appropriations process and the amount of contract authority apportioned and allocated to states does not disappear. Instead, the difference between obligation limitations and authorization levels creates what are known as "unobligated balances."

Although most federal-aid apportionments lapse after four years, this rarely happens with apportioned highway revenues because old apportionments are always spent before new apportionments. That is, when a state receives new apportionments and OA at the beginning of an FFY, obligations are first made against remaining prior year apportionments plus allocation until these are depleted. The net effect of this process, in conjunction with the year-to-year establishment of obligation limitations, has been that states have amassed considerable unobligated balances.

### *Step 3: Program Implementation*

The third and final step in the overall federal-aid highway funding process, program implementation, occurs after authorized revenues have been distributed to states, and after states have had the opportunity to obligate those revenues. Once federal-aid highway revenues have been authorized and obligated, states must have developed highway programs that describe, at a project-by-project level, exactly how federal reimbursements will be earned. The process of developing and implementing state highway programs has three broad stages:

- Budgeting;
- Planning and programming; and
- Fiscal management and reimbursement.

Each stage helps to ensure that states develop programs that match funding availability, and that the FHWA is able to distribute federal reimbursements to states in a timely manner.

*Budgeting.* Budgetary information about availability of funding is crucial to the development of state highway programs. Projected state and federal funding levels are used to budget transportation needs. Consequently, state transportation budget officials track the availability of funding and develop forecasts of future state and federal revenues. States must estimate the availability of short and long-term state and federal funding in order to plan their highway programs. They use this information as a guide during long-range planning, and as a strict constraint on short-term programming.

*Planning and Programming.* The budget process—particularly the identification of available funding—provides the context for transportation planning and programming. The long-range planning process provides a perspective of anticipated project needs regionally across the state. The State Transportation Improvement Programs ("STIP") follow on from regional long-range plans and provide a detailed outline of projects that are proposed for implementation in a time-frame of two to six years. At the federal level, state and local highway plans are reviewed by U.S. Environmental Protection Agency ("EPA") and the FHWA.

As a condition for receiving federal reimbursements for transportation programs, states must develop comprehensive transportation plans that are based on anticipated long-term state and federal funding levels for Federal-Aid Highway Program categories. States and urban areas must satisfy these federal requirements in order to remain eligible for federal reimbursements, and specific projects are not eligible unless they are either directly identified in a long-range plan or consistent with policies and objectives identified in long-range plans. Current federal law requires states to develop long-range transportation plans (“LRPs”) that identify long-range state policies, objectives and goals, while using realistic projections of available future state and federal funding.

Current federal law also requires that short-term planning and programming must be conducted at least every two years through the development of a TIP for each metropolitan area. Among other requirements, each TIP must include, for each project, the estimated project cost and amount of federal revenues proposed to be obligated during each year. The TIPs are then combined into the STIP, which also includes projects from regions outside a state’s metropolitan areas. The STIP lists all projects proposed for funding with federal revenues for a period of four years. The STIP is then submitted to the FHWA and FTA for approval.

*Fiscal Management and Federal Highway Reimbursements.* Once budgeting, planning and programming are complete, projects move into a fiscal management phase. This fiscal management process is the third element of the implementation step in the overall federal highway funding process. A state-led fiscal management system—conducted in accordance with FHWA requirements—is used to determine exactly how much federal funding will be received for each project, to obtain final FHWA authorization before projects are implemented, and to ensure timely federal reimbursement of state expenditures on contractor costs.

States must follow federal fiscal management procedures as they implement projects that have passed through the approval and programming processes. These fiscal management procedures ensure that the FHWA and states are able to manage the process efficiently, from project authorization to actual payment of Federal Highway Reimbursements to the state.

In the traditional approach, a state simply obligates the full federal share of available funding at the beginning of the project, concurrent with project authorization. The first step in the fiscal management process begins when a state requests authorization to use federal funding on a project. The project sponsor submits plans, specifications and estimates (“PS&Es”) for a project to the FHWA division office, and requests that the FHWA approve the use of federal funding for the appropriate federal share of the project. The project must be in the STIP and the PS&Es must identify the category of federal funding that will be used.

The FHWA evaluates the PS&Es to ensure that the project is eligible for federal funding and meets a variety of federal requirements (e.g., design standards). Provided that all requirements are satisfied, the FHWA authorizes federal participation in the project, and obligates the federal share of project costs. By obligating the revenues, the FHWA makes a commitment to reimburse the state for the federal share of eligible project costs. It sets aside the appropriate amount of that state’s OA, and also sets aside an equivalent amount of apportioned revenues by program (or programs). Accordingly, the state must have sufficient OA to cover the level of federal participation it is requesting.

Once authorization for a project has been obtained, the state advertises the project and receives bids. Based on actual costs identified in bids, the state awards the contract to the lowest qualified bidder and submits a request to the FHWA asking for any necessary adjustments to federal obligations for the project. If approved, the amounts agreed to are included in a project agreement which identifies the revenues that will be encumbered by the state (formally applied against the state’s resources), and the amount that will be reimbursed by the federal government.

Construction begins, and contractors submit bills to the state as work is completed. A state pays its contractor’s bills with cash from the state treasury; the state bills the FHWA electronically for the federal share of completed work for which payment has been made; and the FHWA makes payment to the state via electronic transfer. This FHWA reimbursement to the state liquidates its obligation for the federal share of the costs incurred to that point. As project work continues and state expenditures are reported to the FHWA, federal reimbursements are made, generally on a weekly basis.

Innovative variations on this fiscal management approach include A/C and partial conversion of A/C. These variations complement one another to provide a state with additional flexibility in managing its OA and cash.

The A/C approach for authorizing projects allows states to finance projects that are eligible for federal aid without obligating the federal share of costs at the outset of the project. This allows states to begin a project before amassing all of the OA needed to cover the federal share of that project. As with the traditional approach, the state submits PS&Es to the FHWA and requests project authorization. Under A/C, however, the FHWA is asked to authorize the project without obligating federal revenues. As a result, the state will cover the entire cost of the project and later may request the obligation of revenues, when sufficient OA is available and is desired by the state. Further, the state may then take credit for state expenditures, made from project approval to that date, as a basis for earning reimbursements.

Once the FHWA authorizes a project for federal assistance, the state follows the same procedure to advertise a project, to award the contract, and to reconcile the level of state and federal funding required. The state may request that the FHWA convert its A/C amount to an obligation at any time, provided the state has sufficient OA. This conversion of A/C to OA must occur in order for the state to be reimbursed for the federal share of the project. The state can convert A/C to OA long after state expenditures are made.

Under partial conversion of A/C, moreover, a state follows the steps to apply for A/C but converts, obligates, and receives reimbursement for only a portion of its funding of an A/C project in a given year. This removes any requirement to wait until the full amount of OA is available. The state can thus obligate varying amounts for the project's eligible cost in each year, depending on how much of the state's OA is available and desired by the state.

States are required to use a detailed accounting system to track project expenditures and reimbursements. In addition, a federal system tracks payments to states.



## SUMMARY OF CERTAIN PROVISIONS OF THE TRUST AGREEMENT

The Trust Agreement contains terms and conditions relating to the issuance and sale of Federal Highway Grant Anticipation Notes under it, including various covenants and security provisions, certain of which are summarized below. For purposes of this summary, all references to “Notes” shall refer to the Federal Highway Grant Anticipation Notes issued under the Trust Agreement. This summary does not purport to be comprehensive or definitive and is subject to all of the provisions of the Trust Agreement, to which reference is hereby made. Copies of the Trust Agreement are available from the Trustee.

### Definitions

The following is a summary of certain terms used in the Trust Agreement, in this Appendix A and otherwise used in this Official Statement.

“Accelerated Bridge Improvement Program” shall mean the accelerated structurally-deficient bridge improvement program referred to in Chapter 233 of the Acts of 2008, as amended from time to time.

“Accreted Value” shall mean with respect to any Notes that are Capital Appreciation Notes, an amount equal to the principal amount of such Capital Appreciation Notes (determined on the basis of the initial principal amount per \$5,000 at maturity thereof) plus the amount assuming compounding (as set forth in the Applicable Supplemental Trust Agreement) of earnings which would be produced on the investment of such initial amount, beginning on the dated date of such Capital Appreciation Notes and ending at the maturity date thereof, at a yield which, if produced until maturity, will produce \$5,000 at maturity. As of a Valuation Date, the Accreted Value of any Capital Appreciation Notes shall mean the amount set forth for such date in the Applicable Supplemental Trust Agreement and as of any date other than a Valuation Date, the sum of (i) the Accreted Value on the preceding Valuation Date and (ii) the product of (1) a fraction, the numerator of which is the number of days having elapsed from and including the preceding Valuation Date and the denominator of which is the number of days from and including such preceding Valuation Date to the next succeeding Valuation Date, and (2) the difference between the Accreted Values for such Valuation Dates.

“Act” shall mean the provisions of Sections 7 through 9 of Chapter 233 of the Acts of 2008 and Sections 20 and 2ZZZ of Chapter 29 of the Massachusetts General Laws, as amended from time to time, and any other provisions of Massachusetts law that permit the Commonwealth to fund Federal Highway Construction Program projects with the use of the Pledged Federal Highway Revenues, whether or not currently in effect or hereafter enacted.

“Additional Notes” shall mean additional Notes of the Commonwealth issued pursuant to the Trust Agreement.

“Additional Pledged Funds” shall mean any moneys or funds hereafter pledged by the Commonwealth for the purpose of further securing the payment of all Senior Trust Agreement Obligations.

“Adjusted Note Debt Service Requirement” shall mean, for any period of calculation, the aggregate Note Debt Service Requirement on Notes Outstanding during such period, taking into account the following adjustments:

- (i) with respect to Variable Rate Notes, the aggregate Note Debt Service Requirement thereon shall be determined based upon an interest rate equal to the average interest rate of the SIFMA Index over the five (5) years immediately prior to the date of calculation, as determined by the Commonwealth; provided, however, if the Commonwealth (1) enters into a Qualified Hedge Agreement with a Hedge Provider requiring the Commonwealth to pay a fixed interest rate or providing for a maximum interest rate on a notional amount, and (2) has made a determination that such Qualified Hedge Agreement

was entered into for the purpose of providing substitute interest payments or limiting the potential increase in the interest rate for a particular maturity of Notes in a principal amount equal to the notional amount of the Qualified Hedge Agreement, then during the term of such Qualified Hedge Agreement and so long as the Hedge Provider under such Qualified Hedge Agreement is not in default under such Qualified Hedge Agreement, the interest rate on such Notes shall be determined as if such Notes bore interest at the fixed interest rate or maximum interest rate, as the case may be, payable by the Commonwealth under such Qualified Hedge Agreement;

- (ii) with respect to Fixed Rate Notes, if the Commonwealth (1) enters into a Qualified Hedge Agreement with a Hedge Provider requiring the Commonwealth to pay a variable interest rate on a notional amount and (2) has made a determination that such Qualified Hedge Agreement was entered into for the purpose of providing substitute interest payments for a particular maturity of Notes in a principal amount equal to the notional amount of the Qualified Hedge Agreement, then during the term of such Qualified Hedge Agreement and so long as the Hedge Provider under such Qualified Hedge Agreement is not in default under such Qualified Hedge Agreement, the interest rate on such Notes shall be determined as if such Notes bore interest at the Assumed Hedge Rate;
- (iii) with respect to Tender Notes, the aggregate Note Debt Service Requirement thereon shall not include amounts payable upon mandatory or optional tender; as long as such Tender Notes are secured by a Liquidity Facility, the aggregate Note Debt Service Requirement shall be deemed to include all periodic Note Related Costs payable to the provider of any Liquidity Facility, but shall not be deemed to include any Reimbursement Obligation to such provider except to the extent provided in the Applicable Supplemental Trust Agreement;
- (iv) with respect to Notes that have Credit Enhancement, the aggregate Note Debt Service Requirements thereon shall be deemed to include all periodic Note Related Costs and other payments to the provider of the Credit Enhancement, but shall not be based upon the terms of any Reimbursement Obligation to such provider except to the extent and for periods during which Note Related Costs and other payments are required to be made pursuant to such Reimbursement Obligation due to such provider advancing funds;
- (v) the amount of any principal of any of the Refunded Notes paid or to be paid from an Escrow Account pursuant to any Supplemental Agreement shall be deducted from the Adjusted Note Debt Service Requirement for the applicable period; and
- (vi) with respect to Balloon Indebtedness, the aggregate Note Debt Service Requirement shall be calculated as if the Principal Installments with respect to such Notes amortized over a period of 25 years at an interest rate equal to The Bond Buyer's Revenue Bond Index (or, if such index is no longer published, such other substantially comparable index as may be selected by the Commonwealth) as of the most recent date for which such index was published prior to the date of calculation.

“Advance Refunded Municipal Bonds” shall mean any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state (i) which are not callable at the option of the obligor or otherwise prior to maturity or as to which irrevocable notice has been given by the obligor to call such bonds or obligations on the date specified in the notice, (ii) which are fully secured as to principal and interest and redemption premium, if any, by a fund consisting only of cash or Government Obligations which fund may be applied only to the payment of interest when due, principal of and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable notice, as appropriate, and (iii) as to which the principal of and interest on the Government Obligations which have been deposited in such fund along with any cash on deposit in such fund is sufficient to pay interest when due, principal of and redemption premium, if any, on the bonds or other obligations described in this definition on the maturity date or dates thereof or on the redemption date or dates, as appropriate.

“Agency Obligations” shall mean obligations issued or guaranteed by the Federal National Mortgage Association, Government National Mortgage Association, Federal Financing Bank, Federal Intermediate Credit Banks, Federal Farm Credit Bank, Banks for Cooperatives, Federal Land Banks, Federal Farm Credit Banks Funding Corporation, Farm Credit System Financial Assistance Corporation, Federal Home Loan Banks, Farmers Home Administration, Export-Import Bank of the United States, Resolution Funding Corporation, Student Loan Marketing Association, United States Postal Service, Tennessee Valley Authority, Federal Home Loan Mortgage Corporation or any other agency or corporation which has been or may hereafter be created pursuant to an act of Congress as an agency or instrumentality of the United States of America.

“Applicable Supplemental Trust Agreement” shall mean with respect to any Series of Notes, the Supplemental Trust Agreement authorizing such Series of Notes.

“Appreciated Value” shall mean with respect to Notes that are Deferred Income Notes until the Interest Commencement Date thereon, an amount equal to the principal amount of such Deferred Income Note (determined on the basis of the initial principal amount per \$5,000 at the Interest Commencement Date thereof) plus the amount, assuming compounding (as set forth in the Applicable Supplemental Trust Agreement) of earnings which would be produced on the investment of such initial amount, beginning on the dated date of such Deferred Income Note and ending on the Interest Commencement Date, at a yield which, if produced until the Interest Commencement Date, will produce \$5,000 at the Interest Commencement Date. As of any Valuation Date, the Appreciated Value of any Notes that are Deferred Income Notes shall mean the amount set forth for such date in the Applicable Supplemental Trust Agreement and as of any date other than a Valuation Date, the sum of (i) the Appreciated Value on the preceding Valuation Date and (ii) the product of (1) a fraction, the numerator of which is the number of days having elapsed from and including the preceding Valuation Date to the Valuation Date and the denominator of which is the number of days from and including such preceding Valuation Date to and including the next succeeding Valuation Date, and (2) the difference between the Appreciated Values for such Valuation Dates.

“Appropriated Amount” shall have the meaning set forth below under “Alternative Revenues Fund”.

“Assumed Hedge Rate” shall mean the average interest rate which will be payable for the next succeeding twelve consecutive months on the notional amount under any Qualified Hedge Agreement relating to any Fixed Rate Notes as reasonably determined by an Authorized Officer.

“Authorized Officer” shall mean the State Treasurer or any designee thereof and, when used in reference to an act or document, shall also mean any other person authorized by law to perform such act or sign such document.

“Bond Counsel” shall mean any lawyer or firm of lawyers nationally recognized in the field of municipal finance and selected by the State Treasurer.

“Balloon Indebtedness” shall mean (i) a Series of Notes with respect to which, upon the issuance thereof, 25% or more of the Principal Installments are due, whether by maturity, mandatory redemption or optional or mandatory tender (and in the case of any Tender Notes, such Notes are not secured by a Liquidity Facility) in the same Fiscal Year or (ii) any portion of a Series of Notes which is so designated by the Commonwealth in the Applicable Supplemental Trust Agreement by providing that such portion shall be deemed to constitute a separate issue of Balloon Indebtedness.

“Build America Bonds” shall have the meaning set forth in Section 54AA of the Code.

“Capital Appreciation Notes” shall mean any Notes as to which interest is payable only at the maturity or prior redemption thereof. For the purposes of (i) receiving payment of the redemption price, if any, of a Capital Appreciation Note that is redeemed prior to maturity, and (ii) computing the principal amount of Capital Appreciation Notes held by the Holder thereof in giving any notice, consent, request or demand pursuant to the Applicable Supplemental Trust Agreement for any purpose whatsoever, the principal amount of a Capital Appreciation Note as of a specific date shall be deemed to be its Accreted Value as of such date.

“Code” shall mean the Internal Revenue Code of 1986, as amended.

“Commissioner of Revenue” shall mean the Commissioner of Revenue of the Commonwealth or a Deputy Commissioner or designee acting in the Commissioner’s stead.

“Commonwealth” shall mean The Commonwealth of Massachusetts.

“Commonwealth Fiscal Year” shall mean the period beginning on July 1 of any calendar year and ending on June 30 of the succeeding calendar year or such other period of twelve consecutive calendar months as may be provided by law as the fiscal year of the Commonwealth.

“Commonwealth Transportation Fund” shall mean the Commonwealth Transportation Fund of the Commonwealth established by Section 2ZZZ of Chapter 29 of the Massachusetts General Laws, as amended, or any other fund or account of the Commonwealth or any agency thereof created in replacement thereof.

“Comptroller” shall mean the Comptroller of the Commonwealth or any deputy or designee acting in the Comptroller’s stead.

“Costs of Issuance” shall mean all items of expense directly or indirectly payable or reimbursable by or to the Commonwealth and related to the authorization, sale and issuance of Notes, including but not limited to printing costs, costs of preparation and reproduction of documents, filing and recording fees, initial fees and charges of the Fiduciaries, legal fees and charges, fees and disbursements of consultants and professionals, costs and expenses of refunding, fees, expenses and other amounts payable to any underwriters of the Notes, accrued interest payable upon the initial investment of the proceeds of Notes, fees and expenses payable in connection with any Credit Enhancement or Liquidity Facility, fees and expenses payable in connection with any remarketing agreements or interest rate indexing agreements payable in connection with the original issuance of the Notes and any other cost, charge or fee payable in connection with the original issuance of Notes.

“Credit Enhancement” shall mean any agreement, including, but not limited to a policy of bond insurance, surety bond, irrevocable letter of credit, credit agreement, credit facility or guaranty arrangement with a bank, trust company, insurance company, surety bonding company, pension fund or other financial institution that provides increased credit on or security for any Series (or portion thereof) of Notes.

“Debt Service Account” shall mean either the June 15 Debt Service Account or December 15 Debt Service Account or both, as the context requires.

“December 15 Debt Service Requirement” shall mean with respect to any period ending on December 15, the Note Debt Service Requirement with respect to all Notes then Outstanding on such December 15.

“Defeasance Obligations” shall mean Government Obligations, Agency Obligations and Advance Refunded Municipal Bonds.

“Direct Payment” shall mean the refundable tax credit paid to the Commonwealth by the federal government equal to a percentage of the taxable interest the Commonwealth pays on any Build America Bonds in accordance with Section 54AA of the Code or any Recovery Zone Economic Development Bonds in accordance with Section 1400U-2 of the Code. The actual percentage of the interest expected to be received by the Commonwealth shall be set forth in the Applicable Supplemental Trust Agreement.

“Federal Fiscal Year” shall mean the period beginning on October 1 of any calendar year and ending on September 30 of the succeeding calendar year or such other period of twelve consecutive calendar months as may be provided by law as the fiscal year of the United States.

“Federal Highway Construction Program” shall mean all federally-aided highway construction projects undertaken by the Commonwealth as part of the Commonwealth’s program of transportation development and improvements at any time prior to or after (so long as any Notes remain Outstanding) the date of execution of the Trust Agreement.

“Federal Highway Grant Anticipation Note Trust Fund” shall mean the Federal Highway Grant Anticipation Note Trust Fund established by Section 10 of Chapter 11 of the Acts of 1997, as amended by Chapter 121 of the Acts of 1988.

“Federal Highway Reimbursements” shall mean all federal highway construction reimbursements and any other federal highway assistance received from time to time by the Commonwealth with respect to the Federal Highway Construction Program under or in accordance with Title 23 of the United States Code or any successor program established under federal law.

“Fiduciary” shall mean the Trustee or any Paying Agent.

“Government Obligations” shall mean direct general obligations of, or obligations the timely payment of principal of and interest on which are unconditionally guaranteed by, the United States of America.

“Governor” shall mean the Governor of the Commonwealth or the Lieutenant Governor of the Commonwealth at any time that under the laws of Commonwealth the Lieutenant Governor is permitted to act in the Governor’s stead.

“Hedge Provider” shall mean the counterparty with whom the Commonwealth enters into a Qualified Hedge Agreement.

“Interest Commencement Date” shall mean with respect to any Deferred Income Notes, the date specified in the Applicable Supplemental Trust Agreement (which date must be prior to the maturity date for such Deferred Income Notes), after which interest accruing on such Deferred Income Notes shall be payable with the first such payment date being the applicable interest payment date immediately succeeding such Interest Commencement Date.

“June 15 Debt Service Account” shall mean the subaccount established within the Debt Service Fund for the purpose of holding funds to be applied to meet the June 15 Debt Service Requirement.

“June 15 Debt Service Requirement” shall mean with respect to any period ending on June 15, the Note Debt Service Requirement with respect to all Notes then Outstanding on such June 15.

“Liquidity Facility” shall mean any agreement with a bank, trust company, insurance company, surety bonding company, pension fund or financial institution under which it agrees to purchase Tender Notes.

“Motor Fuels Tax” shall mean the excise imposed on fuel (other than aviation fuel) by the provisions of Chapter 64A, 64E and 64F of the Massachusetts General Laws in effect as of the date of issuance of the initial Series of Notes.

“Net CTF Pledged Funds” shall mean and include the following revenues and moneys, after the application thereof in accordance with the provisions of the 1994 Trust Agreement, the Senior CTF Trust Agreement and the Senior Federal Highway Notes Trust Agreement:

- (i) all moneys received or to be received by the Commonwealth from the portion of the Motor Fuels Tax equal to fourteen and one thousand and eighty-five ten-thousandths cents (\$0.141085) per gallon with respect to the excise tax imposed on fuel (other than aviation fuel) by the provisions of Chapter 64A<sup>\*</sup>, equal to 0.21 per gallon with respect to the excise tax imposed on fuel (other than liquefied gas) by the provisions of Chapters 64E and 64F, and equal to 19.1 percent of the average price per gallon (computed to the nearest tenth of one percent) with respect to the excise tax imposed on liquefied gas;
- (ii) all Registry Fees;

- (iii) all other moneys received or to be received by the Senior CTF Trustee from the 1994 Trustee pursuant to the 1994 Trust Agreement;
- (iv) subject in all respects to the prior lien of the 1994 Trust Agreement, all moneys received or to be received by the Commonwealth from that portion of the Motor Fuels Tax imposed pursuant to Chapter 64A equal to six and eighty-six hundredths cents (\$0.0686) per gallon, together with any other amounts now constituting “Pledged Funds” within the meaning of the 1994 Trust Agreement;
- (v) to the extent permitted by law, Direct Payments received by the Commonwealth with respect to Build America Bonds and Recovery Zone Economic Development Bonds; and
- (vi) to the extent permitted in the Senior CTF Trust Agreement, such Additional Pledged Funds (as therein defined) as the Commonwealth may by a subsequent supplemental trust agreement pledge to the Senior CTF Trustee as security for the Senior CTF Bonds.

For purposes of the foregoing definition of “Net CTF Pledged Funds,” the Senior CTF Trust Agreement permits the Commonwealth to change the revenues and moneys constituting the CTF Pledged Funds, as defined in the Senior CTF Trust Agreement. To the extent that the revenues and moneys constituting CTF Pledged Funds are amended or revised in accordance with the Senior CTF Trust Agreement, the foregoing definition of “Net CTF Pledged Funds” shall be likewise amended or revised to reflect the new revenues and moneys constituting CTF Pledged Funds.

“Net Federal Highway Reimbursements” shall mean all Federal Highway Reimbursements less the amounts used or expected to be used to pay amounts due and owing under the Senior Federal Highway Notes Trust Agreement.

“Note Payment Date” shall mean with respect to Notes, other than Variable Rate Notes, each December 15 and June 15, and with respect to Variable Rate Notes, the first Business Day of each month commencing with the first month following the date of issuance of such Variable Rate Notes or otherwise as specified in the Applicable Supplemental Trust Agreement for such Variable Rate Notes.

“Note Debt Service Requirement” shall mean, for any period of calculation, the aggregate of the interest, principal amount, and Sinking Fund Payments due or to become due other than by reason of redemption at the option of the Commonwealth or the Registered Owner of any Notes on all Notes Outstanding during such period; provided, however, for purposes of this definition, the scheduled principal and interest portions of the Accreted Value of Capital Appreciation Notes and the Appreciated Value of Deferred Income Notes becoming due at maturity or by virtue of Sinking Fund Payments shall be included in the calculations in such manner and during such period of time as is specified in the Applicable Supplemental Trust Agreement authorizing such Capital Appreciation Notes or Deferred Income Notes.

“Note Related Costs” shall mean all costs, fees and expenses of the Commonwealth incurred or related to any Liquidity Facility, Credit Enhancement, any remarketing or other secondary market transactions, any fees of Bond Counsel, attorneys, financial advisors, Fiduciaries, remarketing agents, rebate consultants, accountants and other advisors, retained by the Commonwealth in connection with a Series, and any other fees, charges and expenses that may be lawfully incurred by the Commonwealth to a provider of any Credit Enhancement or Liquidity Facility, other than amounts paid as the Costs of Issuance for a Series, to repay or reimburse any amounts paid by such provider due to a payment under such Credit Enhancement or Liquidity Facility and any interest on such repayment obligation unless any such amount constitutes a Note Debt Service Requirement for such Series.

“Notice of Redemption or Defeasance” shall have the meaning set forth below under “Revenue Account”.

“Obligation Authority” shall mean the annual limitation on the amount of eligible costs under Title 23 of the United States Code that the Commonwealth may obligate with respect to the Federal Highway Construction Program during a given Federal Fiscal Year, as specified in annual Federal appropriations acts.

“Outstanding,” when used with reference to Notes, shall mean as of a particular date, all Notes theretofore and thereupon being authenticated and delivered except (i) any Note cancelled by the Commonwealth or a Fiduciary at or before said date, (ii) any Note in lieu of or in substitution for which another Note shall have been authenticated and delivered and (iii) Notes deemed to have been paid as described under “Defeasance”.

“Paying Agent” shall mean any paying agent or co-paying agent for Notes of any Series appointed pursuant to the Trust Agreement or an Applicable Supplemental Trust Agreement and its successor or successors and any other corporation which may at any time be substituted in its place pursuant to the Trust Agreement.

“Permitted Investments” shall mean and include any of the following, if and to the extent the same are at the time legal for investment of Commonwealth funds:

- (i) Government Obligations;
- (ii) Agency Obligations;
- (iii) Certificates or receipts representing direct ownership of future interest or principal payments on Government Obligations or any obligations of agencies or instrumentalities of the United States of America which are backed by the full faith and credit of the United States, which obligations are held by a custodian in safekeeping on behalf of the holders of such receipts;
- (iv) Direct obligations and fully guaranteed certificates of beneficial interest of the Export-Import Bank of the United States; senior debt obligations of the Federal Home Loan Banks; debentures of the Federal Housing Administration; guaranteed mortgage-backed bonds and guaranteed pass-through obligations of the Government National Mortgage Association; guaranteed Title XI financing of the U.S. Maritime Administration; mortgage-backed securities and senior debt obligations of the Federal National Mortgage Association; obligations of the Student Loan Marketing Association; obligations of the Federal Farm Credit Systems; obligations of the Resolution Trust Corporation and participation certificates and senior debt obligations of the Federal Home Loan Mortgage Corporation or any successor agency to each of the foregoing;
- (v) All other obligations issued or unconditionally guaranteed as to the timely payment of principal and interest by an agency or person controlled or supervised by and acting as an instrumentality of the United States of America pursuant to authority granted by Congress;
- (vi) (a) Interest-bearing time or demand deposits, certificates of deposit, or other similar banking arrangements with any government securities dealer, bank, trust company, savings and loan association, national banking association or other savings institution (including the Trustee), provided that such deposits, certificates, and other arrangements are fully insured by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation or (b) interest-bearing time or demand deposits or certificates of deposit with any bank, trust company, national banking association or other savings institution (including the Trustee), provided such deposits and certificates are in or with a bank, trust company, national banking association or other savings institution whose long-term unsecured debt is rated in one of the three highest long-term Rating Categories by each Rating Agency then maintaining a rating on any Notes, and provided further that with respect to (a) and (b), any such obligations are held by the Trustee or a bank, trust company or national banking association other than the issuer of such obligations, unless the issuer is the Trustee;
- (vii) Repurchase agreements collateralized by securities described in subparagraphs (i), (ii), (iii), (iv) or (v) above with any registered broker/dealer or with any commercial bank,

provided that (a) a specific written repurchase agreement governs the transaction, (b) the securities are held, free and clear of any lien, by the Trustee or an independent third party acting solely as agent for the Trustee, and such third party is (1) a Federal Reserve Bank, or (2) a bank which is a member of the Federal Deposit Insurance Corporation and which has combined capital, surplus and undivided profits of not less than \$25 million, and the Trustee shall have received written confirmation from such third party that it holds such securities, free and clear of any lien, as agent for the Trustee, (c) the repurchase agreement has a term of thirty days or less, or a third-party custodian will value the collateral securities no less frequently than monthly and will liquidate the collateral securities if any deficiency in the required collateral percentage is not restored within five business days of such valuation, and (d) the fair market value of the collateral securities in relation to the amount of the repurchase obligation, including principal and interest, is equal to at least one hundred and two percent (102%);

- (viii) Money market funds rated in the highest short-term Rating Category by each Rating Agency then maintaining a rating on any Notes;
- (ix) Commercial paper rated in the highest short-term Rating Category by each Rating Agency then maintaining a rating on any Notes;
- (x) Advanced-Refunded Municipal Bonds;
- (xi) Short-term or long-term obligations of any state of the United States of America that are rated in the three highest rating categories by each Rating Agency then maintaining a rating on any Notes Outstanding; and
- (xii) Investment contracts with banks or other financial institutions whose long-term unsecured debt or claims-paying ability is rated in one of the three highest Rating Categories by each Rating Agency then maintaining a rating on any of the Notes Outstanding, but in no event lower than the Rating Category designated by such Rating Agency for the Notes.

“Pledged Federal Highway Revenues” shall mean all Net Federal Highway Reimbursements hereafter received by the Commonwealth and, subject to the provisions of the Senior Federal Highway Notes Trust Agreement, any other moneys deposited to or held for the credit of the Federal Highway Grant Anticipation Note Trust Fund (other than in the Project Fund) so long as any Notes remain Outstanding.

“Pledged Funds” shall have the meaning set forth below under “Pledge”.

“Principal Installment” shall mean, as of any particular date of computation and with respect to Notes of a particular Series, an amount of money equal to the aggregate of (i) the principal amount of Outstanding Notes of said Series which mature on a single future date, reduced by the aggregate principal amount of such Outstanding Notes which would at or before said future date be retired by reason of the payment when due and application in accordance with the Trust Agreement of Sinking Fund Payments payable at or before said future date for the retirement of such Outstanding Notes, plus (ii) the amount of any Sinking Fund Payment payable on said future date for the retirement of any Outstanding Notes of said Series.

“Qualified Hedge Agreement” shall mean an interest rate exchange, cap, floor or collar agreement between the Commonwealth and a Hedge Provider based upon a notional amount, where (a) the Hedge Provider, or the person who guarantees the obligation of the Hedge Provider to make any payments due to the Commonwealth, has unsecured long-term obligations rated, or (b) the hedge agreement itself is rated, in each case as of the date the hedge agreement is entered into, by any Rating Agency then maintaining a rating on the Notes Outstanding in either (i) a Rating Category, with respect to each such Rating Agency, at least equal to “A,” but in no event lower than the Rating Category designated by such Rating Agency for the Notes Outstanding subject to such hedge agreement or (ii) a lower Rating Category which any such Rating Agency indicates in writing to the Commonwealth and the



Trustee will not, by itself, result in a reduction or withdrawal of its rating on Commonwealth general obligation bonds or will not, by itself, result in a reduction or withdrawal of its rating on the Notes Outstanding (without regard to Credit Enhancement) subject to such hedge agreement that is in effect prior to entering into such hedge agreement.

“Rating Agency” shall mean any of Moody’s Investors Service, Inc., Standard & Poor’s Ratings Group, a division of the McGraw-Hill Companies, and Fitch Ratings Inc. and their respective successors or assigns.

“Rating Categories” shall mean rating categories as published by a Rating Agency in its written compilations of ratings and any written supplement or amendment thereto and any such Rating Category shall be determined on the generic rating without regard to any modifiers and, unless otherwise specified herein or in an Applicable Supplemental Trust Agreement, shall be long term ratings.

“Rating Confirmation” means evidence that no Note rating then in effect from a Rating Agency will be withdrawn or reduced solely as a result of an action to be taken hereunder.

“Rebate Fund Requirement” shall mean, as of any date of calculation, an amount equal to the aggregate of the amounts, if any, calculated in accordance with each Applicable Supplemental Trust Agreement authorizing the issuance of a Series of Tax-Exempt Notes as the amount required to be maintained in the Rebate Fund with respect to such Notes.

“Recovery Zone Economic Development Bonds” shall have the meaning set forth in Section 1400U-2 of the Code.

“Redemption Price” shall mean, with respect to any Note, the principal amount thereof plus the premium, if any, payable upon redemption thereof.

“Refunding Notes” shall mean any of the Notes authorized for refunding purposes under the Trust Agreement.

“Registered Owner” shall mean the registered owner of a Note of a particular Series of Notes as shown on the register for such Series of Notes.

“Reimbursement Obligation” shall mean the amounts due to the provider of a Credit Enhancement or Liquidity Facility under the terms thereof as described below under “Credit Enhancement; Liquidity Facilities”.

“Secretaries” shall mean collectively the Secretary of Administration and Finance and the Secretary of Transportation.

“Secretary of Administration and Finance” shall mean the Secretary of the Executive Office for Administration and Finance of the Commonwealth or any designee acting in the Secretary’s stead.

“Secretary of Transportation” shall mean the Secretary of the Massachusetts Department of Transportation or any designee acting in the Secretary’s stead.

“Senior CTF Bonds” shall mean the bonds of the Commonwealth issued under and secured by the Senior CTF Trust Agreement, which bonds are secured by a lien on the Net CTF Pledged Funds, including the issuance of subordinate bonds in accordance with the terms thereof.

“Senior CTF Trust Agreement” shall mean the Trust Agreement, dated as of December 1, 2010, by and between the Commonwealth and the Senior CTF Trustee, as from time to time amended and supplemented.

“Senior CTF Trustee” shall mean the trustee appointed in accordance with the Senior CTF Trust Agreement, and its successors and assigns.

“Senior Federal Highway Notes” shall mean the notes of the Commonwealth issued under and secured by the Senior Federal Highway Notes Trust Agreement, which notes are secured by a senior lien on the Federal Highway Reimbursements and a subordinate lien, under the circumstances described in the Senior Federal Highway Notes Trust Agreement, on a certain portion of the Motor Fuels Tax.

“Senior Federal Highway Notes Trust Agreement” shall mean the Amended and Restated Trust Agreement, dated as of December 1, 2010, by and between the Commonwealth and the Senior Federal Highway Notes Trustee, as from time to time amended and supplemented.

“Senior Federal Highway Notes Trust Agreement Obligations” shall mean Trust Agreement Obligations as defined in Article I of the Senior Federal Highways Notes Trust Agreement.

“Senior Federal Highway Notes Trustee” shall mean U.S. Bank National Association, and its successors and assigns.

“Senior Obligations” shall mean the 1994 Trust Agreement Bonds, the Senior CTF Bonds and the Senior Federal Highway Notes, as from time to time outstanding under their respective trust agreements.

“Series” when used with respect to less than all of the Notes, shall mean such Notes designated as a Series of Notes pursuant to a Supplemental Trust Agreement.

“SIFMA Index” shall mean, on any day, the index currently known as the Securities Industry and Financial Markets Association (SIFMA) Municipal Swap Index as of the most recent date for which such index was published by Municipal Market Data, Inc., any successor to such index, or, if such index is no longer published by Municipal Market Data, Inc. or its successor, any other reasonably comparable index selected by the Commonwealth.

“Sinking Fund Payment” shall mean, as of any particular date of computation and with respect to Notes of a particular Series, the amount of money required by any Supplemental Trust Agreement to be paid by the Commonwealth on a single future date for the retirement of any Outstanding Notes of said Series which mature after said future date, but does not include any amount payable by the Commonwealth by reason of the redemption of Notes at the election of the Commonwealth.

“Statement of Available Revenues” shall have the meaning set forth below under “Revenue Account”.

“State Treasurer” shall mean the Treasurer and Receiver-General of the Commonwealth or any Deputy Treasurer of the Commonwealth acting on the State Treasurer’s behalf.

“Supplemental Trust Agreement” shall mean any Trust Agreement of the Commonwealth amending or supplementing the Trust Agreement adopted and becoming effective in accordance with the terms of Article IX.

“Tax Exempt Notes” shall mean any Notes accompanied by a Bond Counsel’s opinion upon the original issuance thereof that the interest on such Notes is not includable in the gross income of the Registered Owner thereof for Federal income tax purposes.

“Trustee” shall mean Deutsche Bank Trust Company Americas, and its successor or successors and any other corporation which may at any time be substituted in its place pursuant to the Trust Agreement.

“Valuation Date” shall mean (i) with respect to any Notes that are Capital Appreciation Notes, the date or dates set forth in the Applicable Supplemental Trust Agreement on which specific Accreted Values are assigned to such Notes and (ii) with respect to any Notes that are Deferred Income Notes, the date or dates prior to the Interest Commencement Date set forth in the Applicable Supplemental Trust Agreement on which specific Appreciated Values are assigned to such Notes.

“Variable Rate Ceiling” shall mean the maximum interest rate payable on Variable Rate Notes.

## **Pledge**

There are pledged for the payment of principal and Redemption Price of and interest on the Notes (i) the Pledged Federal Highway Revenues and all rights to receive the same, whether now existing or coming into existence and whether now held or hereafter acquired and including any proceeds thereof; (ii) subject to the terms and conditions set forth in the Trust Agreement, the Net CTF Pledged Funds, (iii) to the extent permitted by law, Direct Payments received by the Commonwealth with respect to Build America Bonds and Recovery Zone Economic Development Bonds, (iv) all moneys, securities and any investment earnings with respect thereto in all Funds and Accounts held pursuant to the Trust Agreement other than the Project Fund and the Rebate Fund, and (v) any amounts payable to the Commonwealth by a Hedge Provider pursuant to a Qualified Hedge Agreement (collectively, the “Pledged Funds”). The full faith and credit of the Commonwealth has not been pledged to the payment of the Notes.

The Commonwealth may in any Supplemental Trust Agreement pledge any Additional Pledged Funds or portions thereof which the Commonwealth may lawfully pledge to the payment of amounts due under the Trust Agreement. From and after the date of such Supplemental Trust Agreement such amounts shall be deemed part of the Pledged Funds under the Trust Agreement.

## **Trust Agreement to Constitute Contract**

The Trust Agreement constitutes a contract between the Commonwealth and the Registered Owners from time to time of the Notes, and the pledge made therein and the covenants and agreements therein set forth to be performed by or on behalf of the Commonwealth shall be for the equal benefit, protection and security of the Registered Owners of any and all of the Notes, all of which, regardless of the time or times of their issue or maturity, shall be of equal rank without preference, priority or distinction of any of the Notes over any other thereof, except as otherwise expressly provided in or permitted by the Trust Agreement.

## **Authorization of Notes**

The Commonwealth is authorized to issue one or more Series of Notes under the Trust Agreement, which Notes may be issued without limitation as to amount except as provided in the Trust Agreement with respect as limited by law. The Notes may be issued as Fixed Rate Notes, Variable Rate Notes, Tender Notes, Capital Appreciation Notes, Deferred Income Notes, Discount Notes, Build America Bonds or Recovery Zone Economic Development Bonds or any combination thereof.

The Commonwealth may issue Notes (“Fixed Rate Notes”) which bear a fixed rate or rates of interest during the term thereof. The Applicable Supplemental Trust Agreement shall specify the rate or rates of interest borne by such Notes and the interest payment dates thereof.

The Commonwealth may issue Notes (“Variable Rate Notes”) which provide for a variable, adjustable, convertible or other similar rates of interest, not fixed as to percentage at the date of issue for the term thereof. Any Variable Rate Notes shall bear a maximum interest rate, or Variable Rate Ceiling.

The Commonwealth may provide that any Series of Notes may include an option exercisable by the Registered Owners thereof to have such Notes (“Tender Notes”) either repurchased or redeemed prior to the maturity thereof. Any Tender Notes may be secured by a Liquidity Facility providing for the repurchase or payment of any tender price of Tender Notes which have not been remarketed upon tender of such Notes and any accrued and unpaid interest due on such Notes upon the tender date thereof. The provider of any such Liquidity Facility shall have a rating on its short term obligations within the highest Rating Category from any Rating Agency then maintaining a rating on the Notes Outstanding.

The Commonwealth may issue Notes (“Capital Appreciation Notes”) which provide for the addition of accrued and unpaid interest to the principal due thereon upon such terms with respect thereto determined by an Applicable Supplemental Trust Agreement. The Applicable Supplemental Trust Agreement shall specify interest rate or rates for such Notes and the Accreted Values of any such Notes.

The Commonwealth may issue Notes (“Discount Notes”) which either bear a zero stated rate of interest or bear a stated rate of interest such that such Notes are sold at a price less than the aggregate principal amount thereof in order to provide such yield thereon as deemed appropriate and desirable thereon by the Commonwealth. In the Applicable Supplemental Trust Agreement for any Discount Notes, the Commonwealth may provide for the determination of the “principal amount” and “interest” payable on such Notes.

The Commonwealth may issue Notes (“Deferred Income Notes”) which provide for the deferral of interest on such Notes until the Interest Commencement Date. The Applicable Supplemental Trust Agreement shall specify the interest rate or rates for such Notes and Interest Commencement Date for such Notes.

The Commonwealth may issue Notes as “Build America Bonds” or “Recovery Zone Economic Development Bonds” as specified by the Commonwealth at the time of issuance thereof that provide for a Direct Payment to be received by the Commonwealth from the federal government with respect to a portion of the interest payable on such Notes. The Applicable Supplemental Trust Agreement shall authorize the State Treasurer to make any elections, certifications, representations, agreements, modifications or amendments required with respect to any such Notes, including, without limitation, to the extent permitted or authorized by law, the allocation to the Revenue Account of any Direct Payment received by the Commonwealth from the federal government with respect to a portion of the interest payable on such Notes.

### **Additional Notes**

One or more Series of Additional Notes may be issued for the purpose of (i) paying costs of any Federal Highway Construction Program project to the extent then authorized by the laws of the Commonwealth, including the Accelerated Bridge Improvement Program, (ii) the making of deposits in the Debt Service Fund, (iii) the payment of the Costs of Issuance of such Notes, or (iv) any combination of the foregoing.

A Series of Additional Notes shall be executed by the State Treasurer and Governor and Comptroller and delivered to the Paying Agent for such Series of Notes and by it authenticated and delivered to or upon the order of an Authorized Officer, but only upon notification by the Trustee that it has received:

- (i) an opinion of Bond Counsel with respect to the validity of the Additional Notes and the enforceability of the pledge under the Trust Agreement;
- (ii) the documents and moneys, if any, required by the Applicable Supplemental Trust Agreement;
- (iii) a certificate of an Authorized Officer stating that, as of the delivery of such Additional Notes and application of their proceeds, no Event of Default will have happened and will then be continuing;
- (iv) the following certificates:
  - (a) A certificate or certificates of the Commissioner of Revenue or the Comptroller, or such other officer or official of the Commonwealth as shall be appropriate, setting forth the amount of (1) Federal Highway Reimbursements and (2) Net CTF Pledged Funds received by the Commonwealth for each month for the eighteen (18) month period ending with the last full month immediately preceding the date of issuance of the Additional Notes (or, if the information for such last full month is not then available, the last month for which such information is available), and
  - (b) A certificate of an Authorized Officer showing that the amount of Federal Highway Reimbursements received by the Commonwealth during any twelve (12) consecutive months out of such eighteen (18) month period referred to in clause (A) above was not less than one hundred fifty percent (150%) of the maximum amount due in the then current or any future Commonwealth Fiscal Year determined by adding (x) the Adjusted Note Debt Service Requirement (as defined in the Senior Federal Highway Notes Trust Agreement) with respect to

the Senior Federal Highway Notes outstanding under the Senior Federal Highway Notes Trust Agreement plus (y) the Adjusted Note Debt Service Requirement with respect to the Notes Outstanding including the proposed Additional Notes, and

(c) A certificate of an Authorized Officer showing that the amount of Net CTF Pledged Funds received by the Commonwealth during the same twelve (12) consecutive months referred to in clause (B) above was not less than two hundred fifty percent (250%) of the maximum annual aggregate Adjusted Note Debt Service Requirement in the then current or any future Commonwealth Fiscal Year on Notes Outstanding including the proposed Additional Notes;

(v) a certificate of an Authorized Officer substantially to the following effect:

(a) that the amount of Net Federal Highway Reimbursements expected to be received from the date of issuance of the Additional Notes to the end of the then current Federal Fiscal Year will be at least equal to one hundred twenty percent (120)% of the Trust Agreement Obligations to be due and payable with respect to the Additional Notes during the next succeeding Federal Fiscal Year, other than any portion of such Trust Agreement Obligations to be paid from proceeds of the Additional Notes or other available amounts deposited with the Trustee for such purpose; and

(b) that the Trustee shall have on deposit on the date of issuance of such Additional Notes, either from a portion of the proceeds of such Additional Notes or from other amounts available for such purpose, an amount sufficient to pay the Note Debt Service Requirement payable with respect to the Additional Notes during the remainder of the Federal Fiscal Year in which the Additional Notes are issued;

(vi) a certificate of an Authorized Officer to the effect that the aggregate amount of bonds and notes, including the Notes and the Senior CTF Bonds, issued under Sections 7 and 8 of Chapter 233 of the Acts of 2008, other than any Refunding Notes and refunding Senior CTF Bonds, does not exceed the limit imposed by law (which, at the time of issuance of the first Series of Notes, is \$2,984,000,000); and

(vii) if any such Additional Notes are to be issued as Tender Notes, a fully executed copy of the Liquidity Facility for such Notes, if any.

## **Refunding Notes**

One or more Series of Refunding Notes may be issued for the purpose of refunding all or any part of the Notes of one or more Series Outstanding upon delivery, among other items, of the following:

- (i) an opinion of Bond Counsel with respect to the validity of the Refunding Notes and the enforceability of the pledge under the Trust Agreement;
- (ii) a certificate of an Authorized Officer stating that, as of the delivery of such Refunding Notes and application of their proceeds, no Event of Default will have happened and will then be continuing;
- (iii) a certificate of an Authorized Officer setting forth the Adjusted Note Debt Service Requirement for each Commonwealth Fiscal Year in which Notes are or will be Outstanding (a) computed immediately prior to the delivery of such Refunding Notes and (b) computed immediately after the delivery of such Refunding Notes, and showing either that (x) the Adjusted Note Debt Service Requirement for each Commonwealth Fiscal Year in which Notes will be Outstanding as computed in (b) of this paragraph will not be greater than the Adjusted Note Debt Service Requirement in each such Commonwealth Fiscal Year as computed in (a) of this paragraph or (y) the net present value of the Adjusted Note Debt

Service Requirement as computed in paragraph (b) of this paragraph is less than the net present value of the Adjusted Note Debt Service Requirement as computed in paragraph (a) of this paragraph; provided that, in lieu of such certificate, the Comptroller or Commissioner of Revenue and an Authorized Officer may deliver to the Trustee certificates satisfying the conditions to the issuance of Additional Notes and in each case treating the Refunding Notes to be issued as Additional Notes thereunder; and

- (iv) an amount of money or Defeasance Obligations sufficient to effect payment at maturity or redemption of the Prior Notes to be refunded.

### **Creation of Liens; Other Indebtedness**

Except as otherwise expressly provided in the Trust Agreement, in the case of Senior Federal Highway Notes and in the case of obligations secured as provided in the Senior CTF Trust Agreement, the Commonwealth shall not issue any bonds, notes or other evidences of indebtedness, other than the Notes, secured by a pledge of or other lien on the Pledged Funds or any other moneys, securities and funds held or set aside by the Commonwealth or by the Fiduciaries under the Trust Agreement, and shall not otherwise create or cause to be created any lien or charge on such Pledged Funds, moneys, securities and funds. The Trust Agreement permits the issuance of other indebtedness secured by a subordinate lien on Pledged Funds.

### **Credit Enhancement; Liquidity Facilities**

The Commonwealth may obtain or cause to be obtained Credit Enhancement or a Liquidity Facility providing for payment of all or a portion of the principal, premium, or interest due or to become due on such Notes or providing for the purchase of such Notes or a portion thereof. In connection therewith the Commonwealth may agree with the issuer of such Credit Enhancement or Liquidity Facility to reimburse such issuer directly for amounts paid under the terms of such Credit Enhancement or Liquidity Facility, together with interest thereon ("Reimbursement Obligation"). Such Reimbursement Obligation may be subject to a lien on Pledged Funds on a parity with the lien created by the Trust Agreement in favor of the Notes.

### **Qualified Hedge Agreements**

The Commonwealth may from time to time enter into Qualified Hedge Agreements with a Hedge Provider with respect to all or a portion of the Notes of any Series Outstanding. The obligations of the Commonwealth thereunder may be secured by a pledge of the Pledged Funds; provided, however, that such security with respect to amounts due and owing thereunder other than regularly scheduled payments of principal and interest, such as termination payments, shall be expressly subordinate to the security for the Notes Outstanding.

Any amounts paid to the Commonwealth pursuant to a Qualified Hedge Agreement shall be deposited in the Revenue Account. Any amounts payable by the Commonwealth under a Qualified Hedge Agreement may be payable from any amounts lawfully available to the State Treasurer for such purpose. Upon the issuance of any Refunding Notes, an Authorized Officer shall deliver to the Trustee a certificate setting forth the interest rate (the "Assumed Hedge Rate") which such Authorized Officer reasonably determines will be the average interest rate which will be payable for the next succeeding twelve consecutive months on the notional amount under any Qualified Hedge Agreement relating to any Fixed Rate Notes which will remain Outstanding under which the Commonwealth is required to pay a variable interest rate on such notional amount.

### **Establishment of Funds and Accounts**

The following funds and accounts have been established and are currently held by the Trustee:

- (i) Redemption Fund;
- (ii) Debt Service Fund;

- (a) June 15 Debt Service Payment Account;
  - (b) December 15 Debt Service Payment Account;
  - (c) Holding Account; and
  - (d) Defeasance Account
- (iii) Note Related Costs Fund; and
  - (iv) Rebate Fund.

Such Funds, except the Rebate Fund, are subject to the pledge created by the Trust Agreement.

The State Treasurer will establish the Revenue Account to be maintained as part of the Federal Highway Grant Anticipation Note Trust Fund and held by the Trustee so long as Notes shall remain Outstanding, which Account shall be subject to the pledge created by the Trust Agreement. The State Treasurer will also establish the Project Fund to be maintained as part of the Federal Highway Grant Anticipation Note Trust Fund and held by the State Treasurer so long as Notes shall remain Outstanding, which Fund shall not be subject to the pledge created by the Trust Agreement.

### **Project Fund**

Except as otherwise provided in the Applicable Supplemental Trust Agreement, the State Treasurer shall deposit in the Project Fund the amounts, if any, provided in such Applicable Supplemental Trust Agreement as necessary to pay the Costs of Issuance of such Series and to pay costs of the Federal Highway Construction Program project to the extent then authorized by the laws of the Commonwealth, including the Accelerated Bridge Improvement Program financed by such Series. Such amounts shall be applied by the State Treasurer to the payment of the Costs of Issuance and to pay costs of the Federal Highway Construction Program project to the extent then authorized by the laws of the Commonwealth, including the Accelerated Bridge Improvement Program, for which such Notes have been issued. Investment earnings received by the State Treasurer on any proceeds of Notes shall be promptly transferred to the Trustee for deposit in the Revenue Account.

### **Revenue Account**

The State Treasurer shall deliver to the Trustee within two business days of receipt, Pledged Federal Highway Revenues collected by the Commonwealth. Immediately upon receipt thereof, the Trustee shall deposit in the Revenue Account all Pledged Federal Highway Revenues paid to the Commonwealth and any other moneys deposited with or paid to the Trustee for application in accordance with the Trust Agreement, including, without limitation, any Direct Payment.

On or before October 10 of each Federal Fiscal Year (or the next following Business Day), the State Treasurer, with the written concurrence of the Secretaries, shall deliver to the Trustee a statement of available revenues with respect to said Federal Fiscal Year (the "Statement of Available Revenues"), which shall be based upon such information as the State Treasurer shall deem relevant, including without limitation, information obtained from the Executive Office for Administration and Finance and the Massachusetts Department of Transportation. The Statement of Available Revenues shall set forth (i) the amount of Federal Highway Reimbursements expected to be received by the Commonwealth for the then current Federal Fiscal Year, (ii) any deficiency in any Funds and Accounts with respect to Trust Agreement Obligations due and payable in the then current Federal Fiscal Year, (iii) the amount of Federal Highway Reimbursements expected to be used to pay Senior Federal Highway Notes Trust Agreement Obligations during the following Federal Fiscal Year, and (iv) the Trust Agreement Obligations then expected to be due and payable during the following Federal Fiscal Year. The statement of Trust Agreement Obligations shall set forth separate amounts for the Note Debt Service Requirement, the aggregate Note Related Costs expected to be due and payable during such period and deposits, if any, to the Rebate Fund. The State Treasurer, with the written concurrence of the Secretaries, shall from time to time promptly deliver to the Trustee a

revised Statement of Available Revenues upon receipt of notice or knowledge of any changed circumstance that would, in the judgment of the State Treasurer, materially change the prior Statement of Available Revenues.

Notwithstanding any other provision of the Trust Agreement to the contrary, if the Statement of Available Revenues includes any deficiency in any Fund or Account with respect to Trust Agreement Obligations due and payable in the then current Federal Fiscal Year, all Net Federal Highway Reimbursements received from and after the date of such Statement of Available Revenues shall be applied first to satisfy any such deficiency. For purposes of the Trust Agreement, the amount of Net Federal Highway Reimbursements expected to be received by the Commonwealth for any Federal Fiscal Year shall be net of the amount of any deficiency (whether or not such deficiency has been satisfied) set forth in a Statement of Available Revenues.

If the Statement of Available Revenues projects that the amount of Federal Highway Reimbursements expected to be received by the Commonwealth during the current Federal Fiscal Year shall be equal to or greater than one hundred twenty percent (120%) of the sum of (i) Senior Federal Highway Notes Trust Agreement Obligations plus (ii) Trust Agreement Obligations due during the following Federal Fiscal Year, then the Trustee shall, at the written direction of the State Treasurer, transfer to the State Treasurer, Federal Highway Reimbursements received by it during the period beginning on the later of October 10 and the date of delivery of the Statement of Available Revenues and ending on the earlier of December 15 and the date on which the difference between the amount of Federal Highway Reimbursements expected to be received by the Commonwealth during the then current Federal Fiscal Year, as set forth in the most recent Statement of Available Revenues delivered to the Trustee, minus the amount of Federal Highway Reimbursements received by the Commonwealth to date in such Federal Fiscal Year shall equal one hundred twenty percent (120%) of the sum of (i) Senior Federal Highway Notes Trust Agreement Obligations plus (ii) Trust Agreement Obligations due during the following Federal Fiscal Year, as set forth in the most recent Statement of Available Revenues delivered to the Trustee, in the amounts and at the times specified, for application as permitted by law, free and clear of the lien of the Trust Agreement.

If the certification described in the immediately preceding paragraph has been given, commencing on the earlier of (i) the December 15 following delivery of such certification and (ii) the date on which the difference between the amount of Federal Highway Reimbursements expected to be received by the Commonwealth during the then current Federal Fiscal Year, as set forth in the most recent Statement of Available Revenues delivered to the Trustee, minus the amount of Federal Highway Reimbursements received by the Commonwealth to date in such Federal Fiscal Year shall equal one hundred twenty percent (120%) of the sum of (i) Senior Federal Highway Notes Trust Agreement Obligations plus (ii) Trust Agreement Obligations due in the following Federal Fiscal Year, as set forth in the most recent Statement of Available Revenues delivered to the Trustee, the Trustee shall then, after receiving notice from the Senior Federal Highway Notes Trust Agreement that all deposits required from Federal Highway Reimbursements under the Senior Federal Highway Notes Trust Agreement have been satisfied, transfer all Net Federal Highway Reimbursements received by it from the Revenue Account first to the December 15 Debt Service Account until the amount therein shall equal the December 15 Debt Service Requirement in such following Federal Fiscal Year and, second, in the following order, to the Note Related Costs Fund and the Rebate Fund, until the date on which all Trust Agreement Obligations to be due and payable on or prior to December 15 in the following Federal Fiscal Year, as set forth in the most recent Statement of Available Revenues delivered to the Trustee, shall have been provided for. From such date until the earlier of the following June 14 of such Federal Fiscal Year and the date on which the difference between the Federal Highway Reimbursements expected to be received by the Commonwealth during the then current Federal Fiscal Year, as set forth in the most recent Statement of Available Revenues delivered to the Trustee, minus the amount of Federal Highway Reimbursements received by the Commonwealth to date in such Federal Fiscal Year, shall equal one hundred twenty percent (120%) of the sum of (i) Senior Federal Highway Notes Trust Agreement Obligations plus (ii) Trust Agreement Obligations payable after December 15 of the next succeeding Federal Fiscal Year, as set forth in the most recent Statement of Available Revenues delivered to the Trustee, the Trustee shall, at the written direction of the State Treasurer, transfer Federal Highway Reimbursements received by it during such period to the State Treasurer, in the amounts and at the times specified, for application as permitted by law, free and clear of the lien of the Trust Agreement. Commencing on the earlier of the June 15 following delivery of such certification and the date on which the difference between the Federal Highway Reimbursements expected to be received by the Commonwealth during the then current Federal Fiscal Year, as set forth in the most recent Statement of Available Revenues delivered to the Trustee, minus the amount of Federal Highway Reimbursements received by the Commonwealth to date in such Federal Fiscal Year, shall equal one hundred twenty percent (120%) of the sum of (i) Senior Federal Highway Notes Trust Agreement



Obligations plus (ii) Trust Agreement Obligations payable after December 15 of the next succeeding Federal Fiscal Year, as set forth in the most recent Statement of Available Revenues delivered to the Trustee, the Trustee shall then, after receiving notice from the Senior Federal Highway Notes Trustee that all deposits required from Federal Highway Reimbursements under the Senior Federal Highway Notes Trust Agreement have been satisfied, transfer all Net Federal Highway Reimbursements received by it from the Revenue Account first to the June 15 Debt Service Account until the amount therein shall equal the June 15 Debt Service Requirement in such following Federal Fiscal Year and second, in the following order, to the Note Related Costs Fund and the Rebate Fund, until the date on which all Trust Agreement Obligations to be due and payable in the following Federal Fiscal Year shall have been provided for. From and after such date until the following September 30, the Trustee shall, at the written direction of the State Treasurer, transfer Federal Highway Reimbursements received by it during such period to the State Treasurer, in the amounts and at the times specified, for application as permitted by law, free and clear of the lien of the Trust Agreement.

If the Statement of Available Revenues projects that the amount of Net Federal Highway Reimbursements expected to be received by the Commonwealth during the current Federal Fiscal Year shall be less than one hundred twenty percent (120%) of the Trust Agreement Obligations due during the following Federal Fiscal Year, then the Trustee shall transfer all Net Federal Highway Reimbursements received by it thereafter from the Revenue Account first to the December 15 Debt Service Account until the amount therein shall equal the December 15 Debt Service Requirement, second, to the June 15 Debt Service Account until the amount therein shall equal the June 15 Debt Service Requirement and third, in the following order, to the Note Related Costs Fund and the Rebate Fund, until the date on which all Trust Agreement Obligations to be due and payable in the following Federal Fiscal Year, as set forth in the most recent Statement of Available Revenues delivered to the Trustee, shall have been provided for.

Notwithstanding the foregoing, if on October 1 of any Federal Fiscal Year and so long as the Trustee shall not have received any certification with respect to such Federal Fiscal Year, the Trustee shall retain all Net Federal Highway Reimbursements until such time as such certification is delivered, at which time the Trustee may transfer amounts then held by it in accordance with such certification as if such certification had been delivered on October 1 of such Federal Fiscal Year or otherwise at the required time. In addition, during the continuance of an Event of Default, the Trustee shall not transfer any Pledged Funds to the Commonwealth until such time as the Event of Default is cured or waived, at which time the Trustee may transfer amounts then held by it as permitted by the Trust Agreement as if such Event of Default had not occurred.

Notwithstanding anything in the Trust Agreement to the contrary, if on any December 15 or June 15 the Trustee holds funds in the Revenue Account and the amount then held in the December 15 Debt Service Account or the June 15 Debt Service Account, as applicable, is less than the December 15 Debt Service Requirement or the June 15 Debt Service Requirement, as applicable, the Trustee shall immediately transfer all or any portion of the balance then held first, in the Revenue Account and second, in the other Debt Service Account, to the applicable Debt Service Account in order to cause the balance therein to equal the December 15 Debt Service Requirement or June 15 Debt Service Requirement, as applicable.

At any time the State Treasurer, with the written concurrence of the Secretaries, but subject also to any covenants and agreements made by the Commonwealth in connection with the issuance of Senior Obligations, may direct the Trustee in writing to transfer an amount of Net Federal Highway Reimbursements and any other available funds then on deposit in the Revenue Account and otherwise available to be transferred to the State Treasurer free and clear of the lien of the Trust Agreement, to the Redemption Fund or the Defeasance Account for the purpose of redeeming or defeasing the principal amount of Notes Outstanding as set forth in said certificate, provided, however, that, except to the extent necessary to pay Trust Agreement Obligations due and payable in any Commonwealth Fiscal Year, no more than fifty percent (50%), or such other percentage as may be permitted by law, of the amount apportioned by law to the Commonwealth in any Federal Fiscal Year with respect to the Federal Highway Construction Program shall be applied in the Commonwealth Fiscal Year ending on June 30 of such Federal Fiscal Year or in the Commonwealth's Fiscal Year, commencing on July of such Federal Fiscal Year to the payment of Trust Agreement Obligations, including without limitation, the payment or defeasance prior to maturity of the principal of and interest on Notes Outstanding. Any transfer of Net Federal Highway Reimbursements to either the Redemption Fund or Defeasance Account shall be revocable by the State Treasurer until the later of (i) June 20 of the Commonwealth Fiscal Year in which such transfer was made and (ii) the date on which the State Treasurer shall deliver to the Trustee a notice of redemption or defeasance specifying the principal amount of Notes to be redeemed

or defeased and, if applicable, the redemption date of such Notes (the “Notice of Redemption or Defeasance”), at which time such transfer shall be irrevocable.

The Trustee is authorized to accept at any time from the State Treasurer, in addition to Pledged Funds, any other moneys certified by the State Treasurer to be lawfully available for carrying out or satisfying any purpose under the Trust Agreement. The Trustee shall deposit such moneys in the Fund or Account, as the State Treasurer may direct in writing, and, provided no Event of Default shall then be occurring under the Trust Agreement and the amounts then held in the Debt Service Accounts, the Rebate Fund and the Note Related Costs Fund are at least equal to the applicable amounts then specified in the Trust Agreement, the Trustee shall transfer such amount as the State Treasurer may direct in writing, but not in excess of the amount received from the State Treasurer, to the State Treasurer, for application as permitted by law, free and clear of the lien of the Trust Agreement.

### **Debt Service Fund**

The Trustee shall pay out of the applicable Debt Service Account in the Debt Service Fund to the respective Paying Agents for any Notes (i) on or before each interest payment date of Notes the amount required for the interest and Principal Installments payable on such date and (ii) on or before each redemption date for the Notes, other than a redemption date on account of Sinking Fund Payments, the amount required for the payment of interest and Redemption Price on the Notes then to be redeemed; provided that in each case the State Treasurer may direct the Trustee to make such payments to the Paying Agents on such date prior to the due date as the State Treasurer determines to the extent amounts are available therefor in such Fund. If the amount accumulated in the applicable Debt Service Account in the Debt Service Fund is insufficient to make the payment due from such Account for either of the purposes specified above, the Trustee shall transfer any available amount in the other Debt Service Account to the extent necessary to make up the deficiency. Amounts accumulated in the applicable Debt Service Account in the Debt Service Fund with respect to any Sinking Fund Payment (together with amounts accumulated therein with respect to interest on the Notes for which such Sinking Fund Payment was established) may, and if so directed in writing by an Authorized Officer shall, be applied by the Trustee prior to the forty-fifth (45th) day preceding the due date of such Sinking Fund Payment, to (i) the purchase of Notes of the Series and maturity for which such Sinking Fund Payment was established, at prices not exceeding the applicable sinking fund Redemption Price plus interest on such Notes to the first date on which such Notes could be redeemed (or in the case of a Sinking Fund Payment due on the maturity date, the principal amount thereof plus interest to such date), such purchases to be made in such manner as the State Treasurer shall arrange, or (ii) the redemption of such Notes then redeemable by their terms. The applicable Redemption Price or principal amount (in the case of maturing Notes) of any Notes so purchased or redeemed shall be deemed to constitute part of the applicable Debt Service Account in the Debt Service Fund until such Sinking Fund Payment date for the purpose of calculating the amount of such Account.

In satisfaction, in whole or in part, of any amount required to be paid into the Debt Service Fund which is attributable to a Sinking Fund Payment, there may be delivered on behalf of the Commonwealth to the Trustee Notes of the Series and maturity entitled to such payment. All Notes so delivered to the Trustee in satisfaction of a Sinking Fund Payment shall reduce the amount thereof by the amount of the aggregate of the sinking fund Redemption Prices of such Notes.

### **Redemption Fund**

The Commonwealth may deposit in the Redemption Fund any moneys, including Pledged Funds, not otherwise required by the Trust Agreement to be otherwise deposited or applied. If at any time the amount on deposit and available therefor in the Debt Service Fund is insufficient to pay the principal or Redemption Price of and interest on the Notes then due, the Trustee shall withdraw from the Redemption Fund and deposit in the applicable Debt Service Account in the Debt Service Fund the amount necessary to meet the deficiency (other than amounts held therein for the redemption of Notes for which a notice of redemption shall have been given). Subject to the foregoing, amounts in the Redemption Fund may be applied by the Commonwealth to the redemption of Notes at prices not exceeding the applicable Redemption Prices (plus accrued interest) had such Notes been redeemed (or, if not then subject to redemption, at the applicable Redemption Prices when next subject to redemption), such purchases to be paid for by the Trustee at such times and in such manner as arranged and directed by an Authorized Officer.

## **Net CTF Pledged Funds**

Not later than December 15 of each year, the State Treasurer, after consultation with the Secretaries, shall notify the Governor, the Speaker of the House, the President of the Senate and the Trustee if the Statement of Available Revenues shows that projected Net Federal Highway Reimbursements are not expected to be sufficient to pay projected Trust Agreement Obligations during the following Commonwealth Fiscal Year. Upon delivery to the Governor of such a notice, the Governor shall include in the operating budget to be submitted to the General Court in accordance with Section 7H of Chapter 29 of the Massachusetts General Laws a recommendation to appropriate from Net CTF Pledged Funds an amount equal to the Trust Agreement Obligations to be due in said Commonwealth Fiscal Year, less the sum of (x) the amount of any available funds on deposit in the Federal Highway Grant Anticipation Note Trust Fund, the Debt Service Fund and the Note Related Costs Fund as of the date of the certification of the State Treasurer, minus (y) the portion of such amounts expected to be expended prior to the beginning of said Commonwealth Fiscal Year on Trust Agreement Obligations due in the current Commonwealth Fiscal Year, plus (z) any amount of Net Federal Highway Reimbursements expected to be received prior to the beginning of said Commonwealth Fiscal Year that will not be expended prior to the beginning of said Commonwealth Fiscal Year.

At any time prior to the enactment of the General Appropriation Act, the State Treasurer shall, if necessary, after consultation with the Secretaries, supplement the notification referenced above to reflect any changed circumstances known to the State Treasurer with respect to the amount of Net Federal Highway Reimbursements expected to be available to pay Trust Agreement Obligations in the applicable Commonwealth Fiscal Year. Such certification shall be made promptly after the State Treasurer becomes aware of any changed circumstances that are material to such amount.

If the notifications specified above were given and indicated a need for an appropriation of funds by the General Court, then (i) commencing in the January following delivery of such certification the Net CTF Pledged Funds received by the Commonwealth shall be deposited with the Trustee in the Holding Account promptly upon receipt by the Commonwealth until the amount therein shall equal the sum of (A) the December 15 Debt Service Requirement in the following Commonwealth Fiscal Year (less any amount available for such purpose on deposit in the December 15 Debt Service Account) and (B) all Trust Agreement Obligations to be due and payable prior to December 15 in the following Commonwealth Fiscal Year (less any amounts available for such purpose on deposit in the Note Related Costs Fund and the Rebate Fund) and (ii) commencing with the July following delivery of such certification the Net CTF Pledged Funds received by the Commonwealth shall be deposited with the Trustee in the Holding Account promptly upon receipt by the Commonwealth and applied thereafter as further provided in the Trust Agreement; provided that notwithstanding any provision of the Trust Agreement to the contrary, in the event the Trustee holds an amount under the Trust Agreement during any Commonwealth Fiscal Year at least equal to the Trust Agreement Obligations due and payable during such Commonwealth Fiscal Year, which amount is available for paying such Trust Agreement Obligations without any further appropriation or other legislative approval, the State Treasurer shall no longer be required to pay Net CTF Pledged Funds to the Trustee during the remainder of such Commonwealth Fiscal Year, except as otherwise provided in the Trust Agreement. For purposes of the Act, and so long as the Act shall require that the expenditure of amounts in the Commonwealth Transportation Fund are subject to appropriation for the purposes described in the Trust Agreement, the Holding Account shall be deemed to be an account within the Commonwealth Transportation Fund and the Trustee is hereby authorized to receive Net CTF Pledged Funds from the Senior CTF Trustee for the purposes set forth in the Trust Agreement.

Notwithstanding the foregoing provisions to the contrary, in the event an appropriation is enacted into law with respect to any Commonwealth Fiscal Year from any available funds of an amount sufficient, together with other available funds in the Federal Highway Grant Anticipation Note Trust Fund as of the end of the immediately preceding Commonwealth Fiscal Year to pay the Trust Agreement Obligations due and payable during said Commonwealth Fiscal Year, the State Treasurer may deposit the amount of such appropriation with the Trustee and direct the Trustee to transfer all or any portion of the Net CTF Pledged Funds then on deposit in the Debt Service Fund to the State Treasurer for credit to the Commonwealth Transportation Fund to be applied as provided by law; provided that no such transfer shall be made unless and until the amount then held by the Trustee under the Trust Agreement is sufficient to pay all Trust Agreement Obligations due and payable during said Commonwealth Fiscal Year.

## Application of Net CTF Pledged Funds

If Net CTF Pledged Funds are required to be deposited with the Trustee, and so long as the Act or other applicable law shall require that the expenditure of Net CTF Pledged Funds is subject to appropriation for the purposes described below, at the beginning of each Commonwealth Fiscal Year after the adoption of the operating budget for the Commonwealth for such Commonwealth Fiscal Year, the Secretary of Administration and Finance and the State Treasurer shall certify to the Trustee the amount appropriated for such Fiscal Year for payment of the following amounts:

- (i) the Note Debt Service Requirement for such Fiscal Year;
- (ii) the Note Related Costs, if any, for such Fiscal Year; and
- (iii) the Rebate Fund Requirement, if any, for such Fiscal Year.

If amounts are appropriated for such purposes as an aggregate sum, such sum shall be allocated in the order set forth above for the amounts set forth above and such certificate shall set forth such allocation. To the extent additional amounts are appropriated during a Commonwealth Fiscal Year for any such purpose, the Secretary of Administration and Finance and the State Treasurer shall also certify to the Trustee the amount of any such supplemental appropriation. The aggregate amounts appropriated for each such purpose as provided herein shall be referred to as an "Appropriated Amount" for such purpose.

After Net CTF Pledged Funds have been deposited with the Trustee into the Holding Account, the Secretary of Administration and Finance and the State Treasurer shall, on the first Business Day of each month beginning in July of the new Commonwealth Fiscal Year, deliver a certificate to the Senior CTF Trustee and the Trustee setting forth the following:

- (i) the amount then on deposit in the December 15 Debt Service Payment Account and/or the June 15 Debt Service Payment Account relating to the Notes that are payable in the following Federal Fiscal Year covered by the applicable Statement of Available Revenues;
- (ii) the amount by which the December 15 Debt Service Requirement and/or June 15 Debt Service Requirement, as the case may be, is greater than the sum of the amount(s) set forth in subparagraph (i) above plus any amounts in the Holding Account (the "Debt Service Requirement Difference");
- (iii) the amounts then on deposit in the Note Related Costs Fund and the Rebate Fund available to pay Trust Agreement Obligations other than the Note Debt Service Requirement;
- (iv) the amount by which the Trust Agreement Obligations other than the Note Debt Service for the period covered by the Statement of Available Revenues exceeds the sum of the amount(s) set forth in subparagraph (iii) above plus any amounts in the Holding Account that are not being applied to the Debt Service Requirement Difference (the "Trust Agreement Obligations Difference"); and
- (v) a direction to the Senior CTF Trustee to transfer to the Trustee, to the extent available under the Senior CTF Trust Agreement and subject to the limitation that any such transfer shall not exceed the Appropriated Amount, Net CTF Pledged Funds in an amount sufficient to fully fund the next December 15 Debt Service Requirement Difference or June 15 Debt Service Requirement Difference and the Trust Agreement Requirement Difference for the next Note Payment Date between the date of the certificate and the applicable Note Payment Date in substantially equal installments, determined by the number of months remaining between the date of the certificate and the month prior to the Note Payment Date.

Upon deposit of the amounts described above and so long as there shall be Appropriated Amounts sufficient to pay the amounts set forth in subparagraphs (ii) and (iv) above (if such appropriations shall be required by the Act or other provisions of law), the balance on deposit in the Holding Account (less any amounts required to be deposited under subparagraphs (ii) and (iv) above for which there are not sufficient Appropriated Amounts) shall

be transferred by the Trustee on the last business day of each month to the State Treasurer free and clear of the lien hereof and may be thereupon applied to any purpose permitted by law.

Notwithstanding any provision in the Trust Agreement to the contrary, in no event shall Net CTF Pledged Funds be applied in any Commonwealth Fiscal Year to any purpose in excess of the Appropriated Amount for such purpose during such Fiscal Year, unless the State Treasurer shall certify in writing to the Trustee that any such application shall not be subject to appropriation.

### **Note Related Costs Fund**

The amount on deposit and available in the Note Related Costs Fund shall be applied by the Trustee to the payment of Note Related Costs at the times and in the amounts as directed from time to time by an Authorized Officer.

If at any time the amount on deposit and available therefor in the Debt Service Fund is insufficient to pay the principal or Redemption Price of and interest on the Notes then due, the Trustee shall withdraw from the Note Related Costs Fund, after withdrawal of amounts from the Redemption Fund described above, and deposit in the applicable Debt Service Account in the Debt Service Fund the amount necessary to meet such deficiency; provided, however, that the aggregate of such amount deposited therein from Net CTF Pledged Funds shall not in any Commonwealth Fiscal Year, together with all other amounts deposited therein during such Commonwealth Fiscal Year, exceed the Appropriated Amount for the purpose of paying the principal and Redemption Price of and interest due on the Notes Outstanding during such Commonwealth Fiscal Year.

Upon the certification of an Authorized Officer and all Fiduciaries that all Note Related Costs have been paid, any balance in the Note Related Costs Fund shall be paid by the Trustee to the State Treasurer free and clear of the lien of the Trust Agreement and such amounts shall be applied to any purposes permitted by law.

### **Investments**

Except as otherwise described below under “Defeasance,” money held for the credit of any Fund or Account under the Trust Agreement shall, to the fullest extent practicable, be invested in Permitted Investments which shall mature or be redeemable at the option of the Registered Owner thereof, on such dates and in such amounts as may be necessary to provide moneys to meet the payments required to be made from such Funds and Accounts. Amounts on deposit in the Debt Service Fund, the Debt Service Liquidity Account or the Reserve Account may be invested only in Permitted Investments of the type described in subparagraphs (i), (ii), (iii), (iv), (vi), (vii), (ix) or (xi) of the definition of Permitted Investments. Any income from Permitted Investments may be transferred to the Rebate Fund to the extent required by an applicable Supplemental Trust Agreement.

In computing the amount in any Fund or Account for any purpose, Permitted Investments shall be valued at amortized cost. Unless otherwise provided in the Trust Agreement, Permitted Investments in any Fund or Account shall be valued at least once in each Commonwealth Fiscal Year on the last day thereof.

### **Powers as to Notes and Pledge**

The Commonwealth represents in the Trust Agreement that it is duly authorized under the Act and all applicable laws to create and issue Notes thereunder and to enter into the Trust Agreement and to pledge the Pledged Funds in the manner and to the extent provided in the Trust Agreement. Except for the senior pledge and lien on certain of the Pledged Funds in favor of the Registered Owners of the Senior Obligations, the Commonwealth covenants that the Pledged Funds are and will be free and clear of any pledge, lien, charge or encumbrance thereon with respect thereto prior to, or of equal rank with, the pledge created by the Trust Agreement. The Commonwealth agrees that at all times, to the extent permitted by law, it will defend, preserve and protect the pledge of the Pledged Funds under the Trust Agreement and all the rights of the Registered Owners under the Trust Agreement against all claims and demands of all persons whomsoever.

## **Covenants as to Pledged Funds**

The Commonwealth covenants and agrees that it will not change the rate of the Registry Fees or the Motor Fuels Tax credited to the Commonwealth Transportation Fund, or both, in any respect, except as provided in the Senior CTF Trust Agreement.

The Commonwealth covenants and agrees that Federal Highway Reimbursements shall not be diverted from the purposes identified in the Trust Agreement except as provided therein or in any Credit Enhancement, nor shall the trusts created thereby be broken, and the pledge and dedication in trust of these funds shall continue unimpaired and unabrogated.

The Commonwealth covenants and agrees that (i) no Net CTF Pledged Funds shall be diverted from the Commonwealth Trust Fund; and (ii) in any Commonwealth Fiscal Year and until an appropriation has been made which is sufficient to pay the principal, including Sinking Fund Payments, of and interest on all Notes and to provide for or maintain all other Trust Agreement Obligations, reserves, additional security, insurance or other forms of Credit Enhancement required or provided for in the Trust Agreement, none of the Net CTF Pledged Funds to the extent necessary to fund the remaining Trust Agreement Obligations not funded with Pledged Federal Highway Revenues shall be applied to any other use.

## **Tax Covenants; Rebate Fund**

The Commonwealth shall take, or require to be taken, such action as may from time to time be required to assure the continued exclusion of interest on any Series of Tax Exempt Notes from the federal gross income of Registered Owners of any such Series of Tax Exempt Notes. The Commonwealth shall not permit the investment or application of the proceeds of any Series of Tax Exempt Notes, including any funds considered proceeds within the meaning of section 148 of the Code, to be used to acquire any investment property the acquisition of which would cause such indebtedness to be "arbitrage bonds" within the meaning of said section 148. The Commonwealth shall establish within the Rebate Fund a separate account within the Rebate Fund for such Series and may provide in the Applicable Supplemental Trust Agreement for the deposits of amounts therein to pay "rebate" on the investment of amounts in accordance with Section 148(1) of the Code. Funds on deposit in the Rebate Fund shall be applied as set forth in the Applicable Supplemental Trust Agreement. Unless otherwise specified in the Applicable Supplemental Trust Agreement, interest or other income derived from the investment or deposit of moneys in the Rebate Fund shall be held therein. The Rebate Fund and the amounts on deposit therein shall not be deemed Pledged Funds thereunder.

## **Limitations on Covenants**

Notwithstanding any provision of the Trust Agreement to the contrary, any provisions of the Act creating covenants with Registered Owners shall be deemed a covenant with the Registered Owners only to the extent expressly provided in and as limited by the Trust Agreement

## **Events of Default**

One or more of the following events shall constitute an Event of Default under the Trust Agreement:

- (i) If default shall be made in the payment of the principal or Redemption Price of any Note when due, whether at maturity or by call for mandatory redemption or redemption or purchase at the option of the Commonwealth or any Registered Owner, or otherwise, or in the payment of any Sinking Fund Payment when due; or
- (ii) If default shall be made in the payment of any installment of interest on any Note when due; or
- (iii) If default shall be made by the Commonwealth in the performance or observance of the covenants, agreements and conditions on its part described under the first paragraph of

“Covenants as to Pledged Funds and Federal Highway Grant Anticipation Note Trust Fund” above; or

- (iv) If default shall be made by the Commonwealth in the performance or observance of any other of the covenants, agreements or conditions on its part provided in the Trust Agreement or in the Notes and such default shall continue for a period of thirty (30) days after written notice thereof shall be given to the Commonwealth by the Trustee or to the Commonwealth and the Trustee by the Registered Owners of a majority in principal amount of the Notes Outstanding; provided that if such default cannot be remedied within such thirty-day period, it shall not constitute an Event of Default if corrective action is instituted by the Commonwealth within such period and diligently pursued until the default is remedied.

### **Application of Revenues and Other Moneys After Default**

During the continuance of an Event of Default, the Trustee shall apply the moneys, securities and funds held by the Trustee and such Pledged Funds and the income therefrom, to the fullest extent permitted by law, as follows and in the following order:

- (i) to the payment of the reasonable and proper charges and expenses of the Fiduciaries and of any counsel selected by a Fiduciary;
- (ii) to the payment of the interest and principal amount or Redemption Price then due on the Notes, as follows:
  - (a) unless the principal amount of all of the Notes shall have become due and payable,
    - First: To the payment to the persons entitled thereto of all installments of interest then due in the order in which such installments came due, and, if the amount available shall not be sufficient to pay in full all installments that came due at the same time, then to the payment thereof ratably, according to the amounts due thereon, to the persons entitled thereto, without any discrimination or preference; and
    - Second: To the payment to the persons entitled thereto of the unpaid principal amount or Redemption Price of any Notes which shall become due, whether at maturity or by call for redemption, in the order of their due dates, and, if the amount available shall not be sufficient to pay in full all the Notes due on any date, then to the payment thereof ratably, according to the amounts of principal or Redemption Price due on such date, to the persons entitled thereto, without any discrimination or preference; and
  - (b) if the principal of all of the Notes shall have become due and payable, to the payment of the principal amount and interest then due and unpaid upon the Notes without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Note over any other Note, ratably, according to the amounts due respectively for principal amount and interest, to the persons entitled thereto, without any discrimination or preference; and
- (iii) to the payment of any person entitled to the payment of any Note Related Cost ratably in accordance with the amount of such Note Related Costs,

provided that any payment by the Trustee of Net CTF Pledged Funds shall not exceed the Appropriated Amount for such purpose during the then current Commonwealth Fiscal Year, unless the State Treasurer shall certify to the Trustee that payment of such amount shall not then be subject to appropriation.

### **Proceedings Brought by Trustee**

If an Event of Default shall happen and shall not have been remedied, then and in every such case, the Trustee may proceed to protect and enforce its rights and the rights of the Registered Owners of the Notes under the

Trust Agreement by a suit or suits in equity or at law. The Registered Owners of a majority in principal amount of the Notes Outstanding may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee, provided that the Trustee shall have the right to decline to follow any such direction if the Trustee in good faith shall determine that the action or proceeding so directed would involve the Trustee in personal liability or be unjustly prejudicial to the Registered Owners not parties to such direction.

Regardless of the happening of an Event of Default, the Trustee shall have power to, but unless requested in writing by the registered owners of a majority in principal amount of the Notes then Outstanding and furnished with reasonable security and indemnity, shall be under no obligation to, institute and maintain such suits and proceedings as it may deem necessary or expedient to prevent any impairment of the security under the Trust Agreement by any acts which may be unlawful or in violation of the Trust Agreement, or necessary or expedient to preserve or protect its interests and the interests of the Registered Owners.

Nothing contained in the Trust Agreement is intended to preclude the Trustee upon the occurrence of an Event of Default from asserting any and all remedies it may have at law or equity with respect to the Pledged Funds and other amounts held as security under the Trust Agreement, including asserting any rights it may have as Trustee under the Trust Agreement as a secured party with respect to all security granted thereunder notwithstanding any requirements contained in the Trust Agreement with respect to Appropriated Amounts.

### **Restrictions on Registered Owners' Action**

No Registered Owner of any Note shall have any right to institute any suit, action or proceeding at law or in equity for the enforcement of any provision of the Trust Agreement or for any remedy under the Trust Agreement, unless such Registered Owner shall have previously given to the Trustee written notice of the happening of any Event of Default and the Registered Owners of at least twenty-five percent (25%) in principal amount of Notes then Outstanding shall have filed a written request with the Trustee, and shall have offered it reasonable opportunity, to exercise the powers granted in the Trust Agreement in its own name, and unless such Registered Owners shall have offered to the Trustee adequate security and indemnity against the costs, expenses and liabilities to be incurred thereby, and the Trustee shall have refused to comply with such request within a reasonable time.

### **No Right of Acceleration**

Neither the Registered Owners nor the Trustee shall have any right to accelerate the payment of principal or interest due on any Notes Outstanding upon the occurrence of any Event of Default.

### **Responsibility of Fiduciaries**

The duties and obligations of the Fiduciaries shall be determined by the express provisions of the Trust Agreement and the Fiduciaries shall not be liable except for their performance of such duties and obligations as are specifically set forth in the Trust Agreement. No Fiduciary shall be under any responsibility or duty with respect to the issuance of the Notes for value or the application of the proceeds thereof or the application of any moneys paid to the Commonwealth or any other Fiduciary. No Fiduciary shall be under any obligation or duty to perform any act which would involve it in expense or liability or to institute or defend any suit in respect thereof, or to advance any of its own moneys, unless properly indemnified. No Fiduciary shall be liable in connection with the performance of its duties under the Trust Agreement except for its own negligence or bad faith nor shall any Fiduciary be liable for any action taken or omitted by it in good faith and believed by it to be authorized or within the discretion or rights or powers conferred upon it by the Trust Agreement.

### **Compensation**

The Commonwealth shall pay to each Fiduciary from time to time reasonable compensation for all services rendered under the Trust Agreement, and also all reasonable expenses, charges, counsel fees and other disbursements, including those of its attorneys, agents, and employees incurred in and about the performance of their powers and duties under the Trust Agreement. To the extent permitted by law, the Commonwealth shall indemnify



and save each Fiduciary harmless against any liabilities which it may incur in the exercise and performance of its powers and duties under the Trust Agreement, and which are not due to its negligence or bad faith.

### **Resignation of Trustee**

The Trustee may at any time resign and be discharged of the duties and obligations created by the Trust Agreement by giving not less than sixty (60) days' written notice to the State Treasurer and giving not less than thirty (30) days' written notice to each Registered Owner and Paying Agent specifying the date when such resignation shall take effect, and such resignation shall take effect upon the day specified in such notice provided a successor shall have been appointed, unless previously a successor shall have been appointed by the State Treasurer or the Registered Owners, in which event such resignation shall take effect immediately on the appointment of such successor.

### **Removal of Trustee**

The Trustee may be removed at any time by an instrument or concurrent instruments in writing, filed with the Trustee, and signed by the Registered Owners of a majority in principal amount of the Notes then outstanding or their attorneys-in-fact duly authorized, excluding any Notes held by or for the account of the Commonwealth. Except during the existence of an Event of Default, the State Treasurer may remove the Trustee at any time for cause or upon not less than ninety (90) days' prior written notice to the Trustee for such other reason as shall be determined in the sole discretion of the State Treasurer.

### **Appointment of Successor Trustee**

In case at any time the Trustee shall resign or shall be removed or shall become incapable of acting, or shall be adjudged bankrupt or insolvent, or if a receiver, liquidator or conservator of the Trustee, or of its property, shall be appointed, or if any public officer shall take charge or control of the Trustee, or of its property or affairs, a successor may be appointed by the Registered Owners of a majority in principal amount of the Notes then Outstanding, excluding any Notes held by or on account of the Commonwealth, by an instrument or concurrent instruments in writing signed and acknowledged by such Registered Owners or by their attorneys-in-fact duly authorized and delivered to such successor Trustee; notification thereof being given to the State Treasurer and the predecessor Trustee. Pending such appointment, the State Treasurer by a written instrument signed by an Authorized Officer and delivered to the predecessor Trustee shall forthwith appoint a Trustee to fill such vacancy until a successor Trustee shall be appointed by the Registered Owners. Any Trustee appointed in succession to the Trustee shall be a bank or trust company organized under the laws of any state, or a national banking association, having a capital and surplus aggregating at least fifty million dollars (\$50,000,000), if there be such a bank or trust company or national banking association willing and able to accept the office on reasonable and customary terms and authorized by law to perform all duties imposed upon it by the Trust Agreement.

### **Supplemental Trust Agreement Effective Upon Filing**

The State Treasurer, with the written concurrence of the Secretaries, and the Trustee may at any time and from time to time enter into supplements or amendments to the Trust Agreement for any one or more of the following purposes:

- (i) to cure any ambiguity, inconsistency or formal defect or omission in the Trust Agreement that shall not have a material adverse effect on the Registered Owners of the Notes;
- (ii) to close the Trust Agreement against, or provide limitations and restrictions contained in the Trust Agreement on, the original issuance of Notes;
- (iii) to add to the covenants and agreements of the Commonwealth contained in the Trust Agreement other covenants and agreements thereafter to be observed for the purpose of further securing the Notes;

- (iv) to surrender any right, power or privilege reserved to or conferred upon the Commonwealth by the Trust Agreement;
- (v) to authorize Notes of a Series and, in connection therewith, specify and determine any matters and things relative to such Notes not contrary to or inconsistent with the Trust Agreement;
- (vi) to authorize any Credit Enhancement, Liquidity Facility or Reserve Credit Facility;
- (vii) to exercise any provision in the Trust Agreement or to make such determinations under the Trust Agreement as expressly provided therein to be exercised or determined in a Supplemental Trust Agreement;
- (viii) to confirm, as further assurance, any pledge under and the subjection to any lien or pledge created or to be created by the Trust Agreement of the Pledged Funds;
- (ix) in connection with any change in the Commonwealth Fiscal Year or Federal Fiscal Year, to amend or supplement the appropriate provisions of the Trust Agreement to reflect such change in a manner consistent, as nearly as practicable, with the original provisions of the Trust Agreement, as amended to the date of the Supplemental Trust Agreement implementing the amendment or supplement;
- (x) to authorize the funding of additional Federal Highway Construction Program projects with the issuance of Notes as authorized from time to time by the Legislature of the Commonwealth; and
- (xi) for any other purpose, provided that such Supplemental Trust Agreement does not prejudice in any material respect the right of the registered owner of any Note Outstanding at the date such Supplemental Trust Agreement becomes effective.

#### **Powers of Amendment**

Any modification or amendment of the Notes or of the Trust Agreement may be made by a Supplemental Trust Agreement, with the written consent (i) of the Registered Owners of at least a majority in the principal amount of all Notes Outstanding at the time such consent is given, or (ii) in case less than all of the several Series of Notes then Outstanding are affected by the modification or amendment, of the Registered Owners of at least a majority in principal amount of the Notes of each Series so affected and Outstanding at the time such consent is given, and (iii) in case the modification or amendment changes the amount or date of any Sinking Fund Payment, of the Registered Owners of the Notes of the particular Series and maturity entitled to such Sinking Fund Payment Outstanding at the time such consent is given; provided, however, that, if such modification or amendment will, by its terms, not take effect so long as any Notes of any specified like Series and maturity remain Outstanding, the vote or consent of the Registered Owners of such Notes shall not be required and such Notes shall not be deemed to be Outstanding for the purpose of any calculation of outstanding Notes under this Section; and provided, further, that no such modification or amendment shall permit a change in the terms of redemption or maturity of the principal amount of any Outstanding Note or of any installment of interest thereon or a reduction in the principal amount or the Redemption Price thereof or the rate of interest thereon or the method for determining such rate or terms of any Credit Enhancement or Liquidity Facility relating to a Note without the consent of the Registered Owner of such Note, or shall change or modify any of the rights or obligations of any Fiduciary without its written assent thereto, or shall reduce the percentages of the principal amount of Notes the consent of which is required to effect any such modification or amendment.

#### **Defeasance**

If the Commonwealth shall pay or cause to be paid, or there shall otherwise be paid, to the Registered Owners of the Notes then Outstanding, the principal amount and interest and Redemption Price, if any, to become due thereon, at the times and in the manner stipulated therein and in the Trust Agreement and if no Note Related

Costs then due and payable remain unpaid or payment of any such Costs has been provided for, then the pledge of the Pledged Funds and any other moneys and securities pledged by the Trust Agreement and all other rights granted by the Trust Agreement shall be discharged and satisfied. In such event, the Trustee shall, upon request of the Commonwealth, execute and deliver to the Commonwealth all such instruments as may be desirable to evidence such release and discharge and the Fiduciaries shall pay over or deliver to the Commonwealth all moneys or securities held by them pursuant to the Trust Agreement which are not required for the payment or redemption of Notes not theretofore surrendered for such payment or redemption or for the payment of any Note Related Costs or for deposit to any Rebate Account with respect to any Series of Tax Exempt Notes.

Notes or interest installments for the payment or redemption of which moneys shall be held by the Fiduciaries (through deposit by the Commonwealth of funds for such payment or redemption or otherwise), whether at or prior to the maturity or the redemption date of such Notes, shall be deemed to have been paid within the meaning and with the effect expressed in the Trust Agreement. All Outstanding Notes of any Series or any part of a Series shall prior to the maturity or redemption date thereof be deemed to have been paid within the meaning and with the effect expressed in the Trust Agreement if (i) in case any of said Notes are to be redeemed on any date prior to their maturity, an Authorized Officer shall have given to the Trustee, in form satisfactory to it, irrevocable instructions to provide notice of redemption on said date of such Notes, (ii) there shall have been deposited with the Trustee in the Defeasance Account either moneys in an amount which shall be sufficient, or Defeasance Obligations not subject to redemption or otherwise called for redemption for which amounts have been placed in escrow, in each case the principal of and interest on which when due will provide moneys which, together with the moneys, if any, deposited with the Trustee at the time of deposit of such Defeasance Obligations, shall be sufficient, as certified by a firm of independent public accountants, to pay when due the principal amount or Redemption Price, if applicable, and interest due and to become due on said Notes on and prior to the redemption date or maturity date thereof, as the case may be. Any cash received from the principal or interest payments on such Defeasance Obligations deposited with the Trustees if not then needed for such purpose, may, to the extent practicable be reinvested in Defeasance Obligations or, in lieu of such direction at the time of receipt, an Authorized Officer may authorize and direct the Trustee to enter into one or more forward purchase agreements providing for the purchase of Defeasance Obligations at future dates as provided in the Trust Agreement.

For purposes of determining whether Variable Rate Notes shall be deemed to have been paid prior to the maturity or redemption date thereof, as the case may be, by the deposit of moneys, or Defeasance Obligations and moneys, if any, the interest to come due on such Variable Rate Notes on or prior to the maturity date or redemption date thereof, as the case may be, shall be calculated at the Variable Rate Ceiling if in effect with respect to such Notes.

Tender Notes shall be deemed to have been paid only if, in addition to satisfying the requirements thereof, there shall have been deposited with the Trustee moneys in an amount which shall be sufficient to pay when due the maximum amount of principal of and premium, if any, and interest on such Notes which could become payable to the Registered Owners of such Notes upon the exercise of any options provided to the Registered Owners of such Notes; provided, however, that if, at the time a deposit is made with the Trustee pursuant to the provisions described above, the options originally exercisable by the Registered Owner of Tender Notes are no longer exercisable, such Notes shall not be considered Tender Notes.

### **Unclaimed Funds**

Any moneys held by the Fiduciary in trust for the payment and discharge of any Notes which remain unclaimed for the applicable escheat period after the date when such Notes have become due and payable, either at their stated maturity dates or by call for earlier redemption, if such moneys were held by the Fiduciary at such date, or for the applicable escheat period after the date of deposit of such moneys if deposited with the Fiduciary after the said date when such Notes become due and payable, shall be paid to the Commonwealth as its absolute property and free from trust, and the Fiduciary shall thereupon be released and discharged with respect thereto and the Registered Owners shall look only to the Commonwealth for the payment of such Notes.

**No Recourse on the Notes**

No recourse shall be had for the payment of the principal or Redemption Price of or the interest on the Notes or for any claim based thereon or on the Trust Agreement against any official, agent, representative or employee of the Commonwealth or any person executing the Notes. No official, agent, representative or employee of the Commonwealth shall be held personally liable to any purchaser or holder of any Note under or upon such Note, or under or upon the Trust Agreement or any Supplemental Trust Agreement relating to Notes, or, to the extent permitted by law, because of the sale or issuance or attempted sale or issuance of Notes, or because of any act or omission in connection with the investment or management of the Pledged Funds, funds or moneys of the Commonwealth, or otherwise in connection with the management of its affairs, excepting solely for things willfully done or omitted to be done with an intent to defraud.

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PROPOSED FORM OF OPINION OF BOND COUNSEL

December \_\_, 2010

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

\$100,000,000  
The Commonwealth of Massachusetts  
Federal Highway Grant Anticipation Notes  
(Accelerated Bridge Program)  
2010 Series A

Ladies and Gentlemen:

We have acted as Bond Counsel to The Commonwealth of Massachusetts (the “Commonwealth”) and, in that capacity, have examined a record of proceedings relating to the issuance by the Commonwealth of \$100,000,000 aggregate principal amount of its Federal Highway Grant Anticipation Notes (Accelerated Bridge Program), 2010 Series A, dated December \_\_, 2010 (the “2010 Series A Notes”).

The 2010 Series A Notes are being issued pursuant to Sections 7 through 9 of Chapter 233 of the Massachusetts Acts of 2008 (the “Accelerated Bridge Program Act”), Section 20 of Chapter 29 of the Massachusetts General Laws, as amended (the “Special Obligations Act”), and Section 2ZZZ of Chapter 29 of the Massachusetts General Laws, as amended (the “Commonwealth Transportation Fund Act”), and under and pursuant to a Trust Agreement, dated as of December 1, 2010 (the “Original Trust Agreement”), as supplemented by a First Supplemental Trust Agreement, dated as of December 1, 2010 (the “First Supplemental Trust Agreement” and, collectively with the Original Trust Agreement, the “Trust Agreement”), each by and between the Commonwealth and Deutsche Bank Trust Company Americas, as trustee (the “Trustee”). Capitalized terms not otherwise defined herein shall have the meanings set forth in the Trust Agreement.

We have reviewed the Trust Agreement, the Accelerated Bridge Program Act, the Special Obligations Act, the Commonwealth Transportation Fund Act, certificates of the Commonwealth and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein. We have also reviewed one of said 2010 Series A Notes as executed and, in our opinion, the form of said 2010 Series A Notes and their execution are regular and proper.

Based on and subject to the foregoing, we are of the opinion that:

1. The Commonwealth has the right and power under the Act to enter into the Original Trust Agreement and the First Supplemental Trust Agreement, and each of the Original Trust Agreement and the First Supplemental Trust Agreement has been duly authorized, executed and delivered on behalf of the Commonwealth by the Treasurer and Receiver-General of the Commonwealth with the concurrence of the Secretary of Administration and Finance of the Commonwealth and the Secretary of Transportation of the Commonwealth, is in full force and effect and constitutes the legal, valid and binding obligation of the Commonwealth enforceable in accordance with its terms.

2. The Trust Agreement creates a valid lien on the Pledged Funds for the security of the 2010 Series A Notes that it purports to create. The Accelerated Bridge Program Act provides that such pledge shall be perfected by filing the Trust Agreement in the records of the Treasurer and Receiver-General of the Commonwealth; the Trust Agreement has been so filed and the lien of such pledge shall be valid and binding as against all persons or entities of any kind having claims of any kind in tort, contract or otherwise, irrespective of whether such persons or entities have notice thereof.

3. The 2010 Series A Notes have been duly authorized, executed and delivered and are valid and binding special obligations of the Commonwealth payable solely from the Pledged Funds. The 2010 Series A Notes are not general obligations of the Commonwealth and the full faith and credit of the Commonwealth are not pledged to the payment thereof. The Commonwealth is not obligated to make any payments with respect to the 2010 Series A Notes, except as specified therein and in the Trust Agreement; and the Commonwealth is not obligated to impose any taxes to satisfy the obligations thereunder.

4. Under the Accelerated Bridge Program Act and the Trust Agreement, the deposit of Pledged Federal Highway Revenues to and expenditure of Pledged Federal Highway Revenues (and investment earnings thereon) from the Federal Highway Grant Anticipation Note Trust Fund to pay the principal of and premium (if any) and interest on 2010 Series A Notes issued under the Trust Agreement, as provided in the Accelerated Bridge Program Act and the Trust Agreement, is not subject to legislative appropriation by the Commonwealth. The deposit of Net CTF Pledged Funds with the Trustee to be held under the Trust Agreement is not subject to appropriation, but the expenditure of Net CTF Pledged Funds (and investment earnings thereon) to pay the principal of and premium (if any) and interest on 2010 Series A Notes is subject to legislative appropriation by the Commonwealth. Pursuant to the provisions of the Trust Agreement, under certain circumstances specified therein, all Net CTF Pledged Funds (and investment earnings thereon) shall be held on deposit with the Trustee, subject to the lien of the Trust Agreement, until such time as a legislative appropriation shall be in effect to pay the principal of and premium (if any) and interest on 2010 Series A Notes due in the then current fiscal year.

5. Interest on the 2010 Series A Notes is not excluded from gross income for federal income tax purposes and so will be fully subject to federal income taxation; this opinion is not intended or provided by Bond Counsel to be used and cannot be used by an owner of the 2010 Series A Notes for the purpose of avoiding penalties that may be imposed on the owner of such 2010 Series A Notes. The opinion set forth in this paragraph is provided to support the promotion or marketing of the 2010 Series A Notes. Each owner of the 2010 Series A Notes should seek advice based on its particular circumstances from an independent tax advisor.

6. Under existing law, interest on the 2010 Series A Notes is exempt from Massachusetts personal income taxes and the 2010 Series A Notes are exempt from Massachusetts personal property taxes. We express no opinion regarding any other Massachusetts tax consequences arising with respect to the 2010 Series A Notes or any tax consequences arising with respect to the 2010 Series A Notes under the laws of any state other than Massachusetts.

The opinions expressed in paragraphs 1 and 3 above are subject to applicable bankruptcy, insolvency, reorganization, moratorium and other laws heretofore or hereafter enacted affecting creditors' rights and are subject to the application of principles of equity relating to or affecting the enforcement of contractual obligations, whether such enforcement is considered in a proceeding in equity or at law.

Except as stated in paragraphs 5 and 6, we express no opinion as to any other Federal, state, local or foreign tax consequences of the ownership or disposition of the 2010 Series A Notes. Furthermore, we express no opinion as to any Federal, state, local or foreign tax law consequences with respect to the 2010 Series A Notes, or the interest thereon, if any action is taken with respect to the 2010 Series A Notes or the proceeds thereof upon the advice or approval of other counsel.

This opinion is rendered solely with regard to the matters expressly opined on above and does not consider or extend to any documents, agreements, representations or other material of any kind not specifically opined on above. No other opinions are intended nor should they be inferred. This opinion is issued under existing laws as of the date hereof, and we assume no obligation to update, revise or supplement this opinion to reflect any future actions, facts or circumstances that may hereafter come to our attention, or any changes in law, or in interpretations thereof, that may hereafter occur, or for any reason whatsoever.

Very truly yours,

**APPENDIX D**

Commonwealth of Massachusetts

Federal Highway Grant Anticipation Notes  
(Accelerated Bridge Program)  
2010 Series A

Continuing Disclosure Undertaking

On behalf of the Commonwealth, the Treasurer and Receiver-General of the Commonwealth hereby undertakes for the benefit of the owners of the Federal Highway Grant Anticipation Notes (Accelerated Bridge Program), 2010 Series A (the “Notes”) to provide the Municipal Securities Rulemaking Board (the “MSRB”) through its Electronic Municipal Market Access (“EMMA”) system pursuant to the requirements of Rule 15c2-12 of the Securities and Exchange Commission (the “Rule”), no later than 270 days after the end of each fiscal year of the Commonwealth, (i) the annual financial information described below relating to such fiscal year, together with audited financial statements of the Commonwealth for such fiscal year if audited financial statements are then available, provided, however, that if audited financial statements of the Commonwealth are not then available, such audited financial statements shall be delivered to EMMA when they become available (but in no event later than 350 days after the end of such fiscal year) or (ii) notice of the Commonwealth’s failure, if any, to provide any such information. The annual financial information to be provided as aforesaid shall include financial information and operating data, in each case updated through the last day of such fiscal year unless otherwise noted, relating to the following information contained in the Commonwealth’s Official Statement dated December 14, 2010 (the “Official Statement”) relating to the Notes, and in each case substantially in the same level of detail as is found in the referenced section of the Official Statement:

Financial Information and Operating Data Category	Reference to Official Statement for Level of Detail
1. Actual CTF Pledged Funds and Net CTF Pledged Funds as of end of prior Commonwealth Fiscal Year	THE NET CTF PLEDGED FUNDS
2. Aggregate annual fiscal year debt service requirements for the Notes and Senior Federal Highway Notes issued under the Trust Agreement and Senior Federal Highway Notes Trust Agreement, respectively, beginning with the current Commonwealth Fiscal Year.	DEBT SERVICE REQUIREMENTS
3. Summary presentation of Obligation Authority made available to the Commonwealth and the amount of Obligation Authority actually obligation by the Commonwealth on a ten-year comparative basis, concluding with the prior Federal Fiscal Year.	COMMONWEALTH PARTICIPATION IN THE FEDERAL-AID HIGHWAY PROGRAM – Funding History
4. Summary presentation of apportionments received by the Commonwealth on a six-year comparative basis, concluding with the prior Federal Fiscal Year.	COMMONWEALTH PARTICIPATION IN THE FEDERAL-AID HIGHWAY PROGRAM – Funding History

Any or all of the items listed above may be included by reference to other documents, including official statements pertaining to debt issued by the Commonwealth, which have been submitted to the MSRB. The Commonwealth’s annual financial statements for each fiscal year shall consist of (i) combined financial statements prepared in accordance with a basis of accounting that demonstrates compliance with the Massachusetts General Laws and other applicable state finance laws, if any, in effect from time to time including separately stated information with respect

to the Federal Highway Grant Anticipation Note Trust Fund and (ii) general purpose financial statements prepared in accordance with generally accepted accounting principles in effect from time to time. Such financial statements shall be audited by a firm of certified public accountants appointed by the Commonwealth.

On behalf of the Commonwealth, the Treasurer and Receiver-General of the Commonwealth hereby further undertakes for the benefit of the owners of the Notes to provide in a timely manner to the MSRB notice of any of the following events with respect to the Notes:

- (i) principal and interest payment delinquencies;
- (ii) non-payment related defaults, if material;
- (iii) unscheduled draws on the debt service reserves reflecting financial difficulties;
- (iv) unscheduled draws on the credit enhancements reflecting financial difficulties;
- (v) substitution of the credit or liquidity providers or their failure to perform;
- (vi) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determination of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Notes, or other material events affecting the tax status of the Notes;
- (vii) modifications to rights of Noteholders, if material;
- (viii) optional, contingent or unscheduled calls of Notes, if material;
- (ix) defeasances;
- (x) release, substitution or sale of property securing repayment of the Notes, if material;
- (xi) rating changes;
- (xii) bankruptcy, insolvency, receivership or similar event of the Commonwealth<sup>\*</sup>;
- (xiii) the consummation of a merger, consolidation, or acquisition involving the Commonwealth or the sale of all or substantially all of the assets of the Commonwealth, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material;
- (xiv) appointment of a successor or additional trustee or the change of name of a trustee, if material;

Whenever the Commonwealth obtains knowledge of the occurrence of an event described in clauses (ii), (vi), (vii), (viii), (x), (xiii) or (xiv), the Commonwealth shall as soon as possible determine if such event is material under applicable federal securities laws.

Upon the occurrence of an event described in clauses (i), (iii), (iv), (v), (vi), (ix), (xi) or (xii), and in the event the Commonwealth determines that the occurrence of an event described in clauses (ii), (vi), (vii), (viii), (x), (xiii) or (xiv) is material under applicable federal securities laws, the Commonwealth shall, in a timely manner not in excess of ten (10) business days after the occurrence of the event, file a notice of such occurrence with the MSRB.

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

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<sup>\*</sup> As noted in the Rule, this event is considered to occur when any of the following occur: (i) the appointment of a receiver, fiscal agent or similar officer for the Commonwealth in a proceeding under the U.S. Bankruptcy Code or in any proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Commonwealth, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or (ii) the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Commonwealth.



To the extent permitted by law, the foregoing provisions of this Note related to the above-described undertakings to provide information shall be enforceable against the Commonwealth in accordance with the terms thereof by any owner of a Note, including any beneficial owner acting as a third-party beneficiary (upon proof of its status as a beneficial owner reasonably satisfactory to the Treasurer and Receiver-General). To the extent permitted by law, any such owner shall have the right, for the equal benefit and protection of all owners of Notes, by mandamus or other suit or proceeding at law or in equity, to enforce its rights against the Commonwealth and to compel the Commonwealth and any of its officers, agents or employees to perform and carry out their duties under the foregoing provisions as aforesaid. The failure to comply with the above-described undertakings shall not constitute an Event of Default under the Trust Agreement, and the sole remedy in connection with such undertakings shall be limited to an action to compel specific performance of the obligations of the Commonwealth in connection with such undertakings and shall not include any rights to monetary damages. The Commonwealth's obligations in respect of such undertaking shall terminate if no Notes remain Outstanding or if the provisions of the Rule concerning continuing disclosure are no longer effective, whichever occurs first. The provisions of this Note relating to such undertakings may be amended by the Treasurer and Receiver-General of the Commonwealth, without the consent of, or notice to, any owners of the Notes, (a) to comply with or conform to the provisions of the Rule or any amendments thereto or authoritative interpretations thereof by the Securities and Exchange Commission or its staff (whether required or optional), (b) to add a dissemination agent for the information required to be provided by such undertakings and to make any necessary or desirable provisions with respect thereto, (c) to add to the covenants of the Commonwealth for the benefit of the owners of Notes, (d) to modify the contents, presentation and format of the annual financial information from time to time as a result of a change in circumstances that arises from a change in legal requirements, or (e) to otherwise modify the undertakings in a manner consistent with the provisions of state legislation establishing the SID or otherwise responding to the requirements of the Rule concerning continuing disclosure; provided, however, that in the case of any amendment pursuant to clause (d) or (e), (i) the undertaking, as amended, would have complied with the requirements of the Rule at the time of the offering of the Notes, after taking into account any amendments or authoritative interpretations of the Rule, as well as any changes in circumstances, and (ii) the amendment does not materially impair the interests of the owners of the Notes, as determined either by a party unaffiliated with the Commonwealth (such as Commonwealth disclosure counsel or Commonwealth bond counsel) or by the vote or consent of owners of a majority in outstanding principal amount of the Notes affected thereby at or prior to the time of such amendment.

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