SECURITIES AND EXCHANGE COMMISSION

FORM 485BPOS

Post-effective amendments [Rule 485(b)]

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FILER

TAX EXEMPT SECURITIES TRUST SERIES 294

CIK:**843246**| State of Incorp.:**NY** | Fiscal Year End: **1231**
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Business Address
1345 AVE OF THE AMERICAS
C/O SMITH BARNEY HARRIS
UPHAM & CO INC
NEW YORK NY 10105

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Registration No. 33-25798

S E C U R I T I E S A N D E X C H A N G E C O M M I S
S I O
N

Washington, D.C. 20549

POST-EFFECTIVE AMENDMENT NO. 5
to
F O R M S-6

FOR REGISTRATION UNDER THE SECURITIES ACT OF
1933
OF SECURITIES OF UNIT INVESTMENT TRUSTS
REGISTERED ON FORM N-8B-2

A. Exact Name of Trust:

TAX EXEMPT SECURITIES TRUST,
SERIES 294

B.
Names of Depositors:

SMITH BARNEY SHEARSON INCORPORATED
KIDDER, PEABODY & CO. INCORPORATED

<TABLE>
<S> <C>

C. Complete addresses of depositors' principal executive
offices:

SMITH BARNEY SHEARSON	KIDDER, PEABODY & CO.
SHEARSON INC.	INCORPORATED
1345 Avenue of the Americas	60 Broad Street
New York, New York 10105	New York, New York 10005

D. Names and complete addresses of agents for service:

STEPHEN J. TREADWAY	GILBERT R. OTT, JR.
Smith Barney	Kidder, Peabody & Co.
Shearson Inc.	Incorporated
1345 Avenue of the Americas	10 Hanover Square
New York, New York 10105	New York, New York 10005

</TABLE>

It is proposed that this filing will become effective February 28,
1994
pursuant to paragraph (b) of Rule 485.

TAX EXEMPT SECURITIES TRUST

CROSS-REFERENCE SHEET

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Pursuant to Regulation C
under the Securities Act of 1933

(Form N-8B-2 Items required by Instruction
as to the Prospectus in Form S-6)

<TABLE>

Form N-89B-2 Item Number — Form S-6 Heading in Prospectus

I. Organization and General Information

<C> <S> <C>

1. . . . . (a) Name of trust   Prospectus front cover
(b) Title of securities issued . .
2.Name and address of each depositor   Sponsors: Prospectus back cover
3. . . . Name and address of trustee   Trustee
4.Name and address of each principal underwriterSponsors: Prospectus back cover
5. . .State of organization of trust   Tax Exempt Securities Trust
6.Execution and termination of trust agreementTax Exempt Securities Trust - The Trust:
Amendment and Termination
of the Trust Agreement 7. . . . . Changes of name   *
8. . . . . Fiscal year   *
9. . . . . .Litigation   *

II. General Description of the Trust and
Securities of the Trust

10.(a) Registered or bearer securities Rights of Unit Holders
(b) Cumulative or distributive securities
(c) Redemption . . . .
(d) Conversion, transfer, etc. . .
(e) Periodic payment plan. . . . .   *
(f) Voting rights. . . . .
(g) Notice to certificate holders   Rights of Unit Holders -
Reports and Records:
Sponsors -
Responsibility: Trustee -
Resignation: Amendment
and Termination of the
Trust Agreement -
Amendment
(h) Consents required. . . . . . . Sponsors - Responsibility:
Amendment and Termination
of the Trust Agreement   (i) Other provisions . . . . Tax Exempt Securities Trust - Tax Status

11.Type of securities comprising units Prospectus front cover:
Tax Exempt Securities

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Trust - Portfolio
12.Certain information regarding periodic
payment certificates. . . . . . . *

13.. .(a) Load, fees, expenses, etc. Prospectus front cover:

Summary of Essential

Information; Public
Offering - Offering
Price; Public Offering -

Sponsors' and
Underwriters' Profits:

Tax Exempt Securities

Trust - Expenses and

Charges

Form N-89B-2 Form S-6
Item Number Heading in Prospectus

II. General Description of the Trust and
Securities of the Trust
<C> <S> <C>
(b) Certain information regarding periodic
payment certificates . . . . *
(c) Certain percentages. . . . . . Public Offering - Offering
Price
(d) Certain other fees, etc, payable by holders
Rights of Unit Holders - Certificates
(e) Certain profits receivable by depositors,
principal underwriters, trustee or
affiliated persons . . . . . . Public Offering - Sponsors'

and Underwriters' Profits:

Rights of Unit Holders -

Redemption of Units -
Purchase by the Sponsors of

Units Tendered for
Redemption
(f) Ratio of annual charges to income*

14.. .Issuance of trust's securities Tax Exempt Securities

Trust - The Trust: Rights

of Unit Holders -
Certificates
15.Receipt and handling of payments from purchasers*
16.Acquisition and disposition of underlying
securities . . . . Tax Exempt Securities Trust

- Portfolio: Sponsors -

Responsibility
17.. . . . .Withdrawal or redemption Rights of Unit Holders -

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Redemption of Units
18.(a) Receipt, custody and disposition of incomeRights of Units
Holders - Distribution of
Interest and Principal:
Rights of Unit Holders -
Reports and Records
(b) Reinvestment of distributions *
(c) Reserves or special funds. . . Rights of Unit Holders -

Distribution of Interest

and Principal: Tax Exempt

Securities Trust - Expenses

and Charges - Other Charges (d) Schedule of
distributions. . . *
19.. . Records, accounts and reports Rights of Unit Holders -

Reports and Records:

Rights of Unit Holders -

Distribution of Interest

and Principal
20.Certain miscellaneous provisions of trust agreementAmendment
and Termination of the Trust
(a) Amendment. . . . . Agreement: Trustee -
Resignation: Trustee -
(b) Termination . . . . Resignation: Trustee -
Limitations on Liability:
(c) and (d) Trustee, removal and successorSponsors -
Responsibility: Sponsors - Resignation
(e) and (f) Depositors, removal and successor
21.. . . . Loans to security holders *
22.. . . . .Limitations on liability Sponsors - Limitations on

Liability: Trustee -
Limitations on Liability:

Tax Exempt Securities

Trust - Portfolio
23.. . . . . . . .Bonding arrangements *
24.Other material provisions of trust agreement*

______
* Inapplicable, answer negative or not required.

Form N-89B-2 Item Number	Form S-6 Heading in Prospectus

III. Organization, Personnel and Affiliated Persons of Depositor

<C> <S> <C>

25.. . . .Organization of depositors	Sponsors
26.. . . Fees received by depositors	*
27.. . . . . . .Business of depositors	Sponsors
28.Certain information as to officials and affiliated persons of depositors	[Contents of Registration

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Statement]
29.. Voting securities of depositors *
30.. .Persons controlling depositors *
31.Payments by depositor for certain services
rendered to trust . . . . *
32.Payments by depositors for certain other services
rendered to trust . . . . *
33.Remuneration of employees of depositors for
certain services rendered to trust *
34.Remuneration of other persons for certain services
rendered to trust . . . . *

IV. General Description of the Trust and
Securities of the Trust

35.Distribution of trust's securities by statesPublic Offering - Distribution of Units
36.Suspension of sales of trust's securities*
37.Revocation of authority to distribute*
38.. . . .(a) Method of distribution Public Offering - Distribution of Units
(b) Underwriting agreements. . . .
(c) Selling agreements . . . . . .
39.(a) Organization of principal underwritersSponsors
(b) N.A.S.D. membership of principal underwriters
40.Certain fees received by principal underwriters*
41.(a) Business of principal underwritersSponsors
(b) Branch offices of principal underwriters*
(c) Salesmen of principal underwriters*
42.Ownership of trust's securities by certain persons*
43.Certain brokerage commissions received by principal
underwriters. . . . . *
44.. . . . . (a) Method of valuation Prospectus front cover:

Public Offering -
Offering Price: Public

Offering - Distribution

of Units
(b) Schedule as to offering price *
(c) Variation in offering price to certain personsPublic Offering - Distribution of Units
45.. Suspension of redemption rights *
46.. . . . .(a) Redemption Valuation Rights of Unit Holders -

Redemption of Units -

Computation of Redemption

Price per Unit
(b) Schedule as to redemption price *
47.Maintenance of position in underlying securities
Public Offering - Market for Units: Rights of Unit Holders - Redemption of Units - Purchase by the Sponsors of Units tendered for Redemption; Rights of Unit Holders - Redemption of Units - Computation of Redemption Price per Unit

______
* Inapplicable, answer negative or not required.

Form N-89B-2 Form S-6
Item Number Heading in Prospectus

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V. Information Concerning the Trustee or Custodian

<C> <S> <C>

48.Organization and regulation of trusteeTrustee

49.. . .Fees and expenses of trustee   Tax Exempt Securities Trust - Expenses and Charges

50.. . . . . .Trustee's lien   Tax Exempt Securities Trust - Expenses and Charges - Other Charges

VI. Information Concerning Insurance of Holders of Securities

51.Insurance of holders of trust's securities*

VI. Policy of Registrant

52. (a) Provisions of trust agreement with respect to selection or elimination of underlying securitiesProspectus front cover: Sponsors-Responsibility

(b) Transactions involving elimination of underlying securities . . . . .   *

(c) Policy regarding substitution or elimination of underlying securities. . . . Sponsors - Responsibility

(d) Fundamental policy not otherwise covered*

53. Tax status of trust . . . . . . Prospectus front cover: Tax Exempt Securities Trust - Tax Status

VIII. Financial and Statistical Information

54. Trust's securities during last ten years*

55. . . . .   *

56. Certain information regarding periodic payment securities . . . .   *

57. . . . .   *

58. . . . .   *

59. Financial statements (Instruction 1(c) to form S-6) Statement of Financial Condition of The Tax Exempt Securities Trust

______

* Inapplicable, answer negative or not required.

</TABLE>

NATIONAL TRUST 146
CALIFORNIA TRUST 90

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[S] [C]
In the opinion of counsel, under existing law interest income to the Trusts and, with certain exceptions, to Unit holders is exempt from all Federal income tax. In addition, in the opinion of counsel, the interest income of each State Trust is similarly exempt from state income taxes in the state for which such Trust is named. Capital gains, if any, are subject to tax. Investors should retain both parts of this Prospectus for future reference.

THE INITIAL PUBLIC OFFERING OF UNITS IN THE TRUSTS HAS BEEN COMPLETED. THE UNITS OFFERED HEREBY ARE ISSUED AND OUTSTANDING UNITS WHICH HAVE BEEN ACQUIRED BY THE SPONSORS EITHER BY PURCHASE FROM THE TRUSTEE OF UNITS TENDERED FOR REDEMPTION OR IN THE SECONDARY MARKET. SEE PART B, "RIGHTS OF UNIT HOLDERS--REDEMPTION OF UNITS--PURCHASE BY THE SPONSORS OF UNITS TENDERED FOR REDEMPTION" AND "MARKET FOR UNITS". THE PRICE AT WHICH THE UNITS OFFERED HEREBY WERE ACQUIRED WAS NOT LESS THAN THE REDEMPTION PRICE DETERMINED AS PROVIDED HEREIN. SEE PART B, "RIGHTS OF UNIT HOLDERS--REDEMPTION OF UNITS--COMPUTATION OF REDEMPTION PRICE PER UNIT".

THE TAX EXEMPT SECURITIES TRUST, SERIES 294 consists of three underlying separate unit investment trusts (the "State Trusts") designated as National Trust 146, California Trust 90 and Minnesota Trust 85, each formed for the purpose of obtaining for its Unit holders tax-exempt interest income through investment in a fixed portfolio consisting primarily of long term municipal bonds rated at the time of deposit A or better by Standard & Poor's Corporation or Moody's Investors Service, with certain ratings being provisional or conditional. (See "Portfolio of Securities".) The National Trust is comprised of a fixed Portfolio of interest-bearing obligations issued on behalf of states, counties, territories, possessions and municipalities of the United States and authorities or political subdivisions thereof. Each State Trust is comprised of a fixed portfolio of interest bearing obligations issued primarily by or on behalf of the State for which such Trust is named and counties, municipalities, authorities and political subdivisions thereof. The interest on all bonds in each State Trust is, in the opinion of recognized bond counsel to the issuers of the obligations, (i) exempt under existing law (except in certain instances depending upon the Unit holders) from all Federal income tax, (ii) exempt from state income taxes in the State for which such Trust is named (see Part C, "Tax Exempt Securities Trust - Taxes") and (iii) subject to the alternative minimum tax under the Tax Reform Act of 1986 as respects the required inclusion in the alternative minimum tax base of one-half of adjusted net book income of corporate Unit holders. (See Part B, "Tax Exempt Securities Trust - Tax Status.)

THE PUBLIC OFFERING PRICE of the Units of each Trust is equal to the aggregate bid price of the underlying Securities in the Trust's portfolio divided by the number of Units outstanding in such Trust, plus a sales charge equal to 5% of the Public Offering Price (5.263% of the aggregate bid price of the Securities per Unit) for the National Trust and State Trusts, respectively. A proportional share of accrued and undistributed interest on the Securities at the date of delivery of the Units to the purchaser is also added to the Public Offering Price.

THE SPONSORS, although not obligated to do so, intend to maintain a market for the Units of the Trusts at prices based upon the aggregate bid price of the underlying Securities, as more fully described in Part B, "Market for Units". If such a market is not maintained, a Unit holder may be able to dispose of his Units only through redemption at prices based upon the aggregate bid price of the underlying Securities.

MONTHLY DISTRIBUTIONS of principal and interest received by the

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Trusts will be made on or shortly after the fifteenth day of each month to holders of record on the first day of that month. For further information regarding the distributions by the Trust, see the "Summary of Essential Information".

THESE SECURITIES HAVE NOT BEEN APPROVED OR
DISAPPROVED BY
THE SECURITIES AND EXCHANGE COMMISSION OR ANY
STATE SECURITIES COMMISSION,
NOR HAS THE SECURITIES AND EXCHANGE COMMISSION
OR ANY STATE SECURITIES
COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY
OF THIS PROSPECTUS.
ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL
OFFENSE.

Prospectus Part A dated February 28, 1994.
Note: Part A of this Prospectus may not be distributed unless accompanied by Part B.

<TABLE>
TAX EXEMPT SECURITIES TRUST, SERIES 294
SUMMARY OF ESSENTIAL INFORMATION AS OF JANUARY 3,
1994+
Sponsors: SMITH BARNEY SHEARSON INC. and
KIDDER, PEABODY & CO. INCORPORATED
Trustee: UNITED STATES TRUST COMPANY OF NEW YORK
Evaluator: KENNY S&P EVALUATION SERVICES

National
California
Minnesota
Trust 146
Trust 90
Trust 85
<S> <C> <C> <C>
Principal Amount of Securities in Trust
$11,815,000
$3,285,000
$2,550,000
Number of Units
14,980
3,922
2,678
Fractional Undivided Interest in Trust per Unit
1/14,980
1/3,922
1/2,678
Minimum Value of Trust:
Trust may be terminated if Principal Amount is less than
$7,000,000
$1,500,000
$1,500,000
Trust must be terminated if Principal Amount is less
than $3,500,000
$750,000
$750,000

Principal Amount of Securities in Trust per Unit
$ 788.71
$837.58
$ 952.20
Public Offering Price per Unit#*
$ 943.23 $999.60 $1,034.05

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Sales Charge (5% of Public Offering Price)#
47.16 49.98 51.70
Approximate Redemption and Sponsors' Repurchase Price per Unit
(per Unit Bid Price of Securities)#**
$ 896.07 $949.62 $982.35
Calculation of Estimated Net Annual Income per Unit:
Estimated Annual Income per Unit
$ 60.68 $65.50 $76.78
Less Estimated Annual Expenses per Unit
1.16 1.57 1.85
Estimated Net Annual Income per Unit
$ 59.52 $63.93 $74.93

Monthly Income Distribution per Unit
$ 4.96 $5.32 $6.24
Daily Rate (360-day basis) of Income Accrual per Unit
$ .1653 $.1775 $.2081
Estimated Current Return Based on Public Offering Price#
6.31% 6.39% 7.24%
Estimated Long-Term Return#
4.79% 4.75% 7.57%
<FN>
Subject to changes in the prices of the underlying securities. The aggregate bid price of the securities is determined on each business day as of the Evaluation Time.
* Plus $14.40, $13.43 and $13.77 per Unit, representing accrued interest and the net of cash on hand, accrued expenses and amounts distributable to Unit holders, attributable to the Units of National Trust, California Trust and Minnesota Trust, respectively, through the expected date of settlement (five business days after January 3, 1994).
** Plus $13.25, $12.19 and $12.31 per Unit, representing accrued interest and the net of cash on hand, accrued expenses and amounts distributable to Unit holders, attributable to the Units of National Trust, California Trust and Minnesota Trust, respectively, as of January 3, 1994 on a pro rata basis. (See "Redemption of Units-Computation of Redemption Price per Unit".)

</TABLE>TAX EXEMPT SECURITIES TRUST, SERIES 294

Record Dates: The 1st day of each month
Distribution Dates: The 15th day of each month
Evaluation Time: Close of trading on the New York Stock Exchange (currently 4:00 P.M. New York Time)
Date of Deposit and Trust Agreement: December 20, 1988
Mandatory Termination Date: January 1, 2038
Trustee's Annual Fee:$1.03 per $1,000 principal amount of bonds for the National Trust and $1.26 per $1,000 principal amount of bonds for each state Trust ($19,521 per year on the basis of bonds in the principal amount of $17,650,000) plus expenses.
Evaluator's Fee: $.30 per bond per evaluation

As of January 3, 1994, 12 (47%) of the Bonds in the National Trust were rated by Standard & Poor's Corporation (13% being rated

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AAA, 12% being rated AA, 13% being rated A and 9% being rated BBB) and 11 (53%) were rated by Moody's Investors Service (9% being rated Aaa, 27% being rated A and 17% being rated Baa); 9 (80%) of the Bonds in the California Trust were rated by Standard & Poor's (54% being rated AAA, 7% being rated A and 19% being rated BBB) and 3 (20%) were rated by Moody's (5% being rated Aaa, 7% being rated Aa and 8% being rated A); 5 (66%) of the Bonds in the Minnesota Trust were rated by Standard & Poor's (18% being rated AAA, 24% being rated A and 24% being rated CCC) and 3 (34%) were rated by Moody's (8% being rated Aa and 26% being rated A). Ratings assigned by rating services are subject to change from time to time.

Additional Considerations - Investment in any Trust should be made with an understanding that the value of the underlying Portfolio may decline with increases in interest rates. Approximately 4% of the Bonds in the National Trust consist of general obligation bonds. Approximately 37%, 41% and 11% of the Bonds in the National Trust, California Trust and Minnesota Trust, respectively, consist of hospital revenue bonds (including obligations of health care facilities). Approximately 8%, 10% and 49% of the Bonds in the National Trust, California Trust and Minnesota Trust, respectively, consist of obligations of municipal housing authorities. Approximately 10% of the Bonds in the California Trust consist of bonds which are subject to the Mortgage Subsidy Bond Tax Act of 1980. Approximately 34%, 41% and 33% of the Bonds in the National Trust, California Trust and Minnesota Trust, respectively, consist of bonds in the power facilities category. Approximately 13% of the Bonds in the National Trust consist of bonds issued for the financing of nuclear power plants. (See Part B "Tax Exempt Securities Trust-Portfolio" for a brief summary of additional considerations relating to certain of these issues.)

\+ The percentages referred to in this summary are each computed on the basis of the aggregate bid price of the Bonds as of January 3, 1994.

TAX EXEMPT SECURITIES TRUST, SERIES 294

<TABLE>

FINANCIAL AND STATISTICAL INFORMATION
Selected data for each Unit outstanding

<C> <S> <C> <C> <C> <C>

Income Principal
Units Net
Asset Distributions
Distributions
Period Ended Outstanding Value
Per Unit Per Unit Per
Unit

October 31, 1991 National Trust 15,569 $
1,039.48 $ 80.99 $ 2.32

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California Trust 4,000
1,071.37 76.22 3.75
Minnesota Trust 3,000
1,020.16 77.94 -

October 31, 1992 National Trust 15,569 $
1,005.84 $ 77.74 $ 37.90
California Trust 4,000
1,055.46 75.86 5.00
Minnesota Trust 2,789
978.67 77.80 -

October 31, 1993 National Trust 15,155 $
917.80 $ 72.10 $ 120.90
California Trust 3,922
969.80 68.77 137.33
Minnesota Trust 2,705
992.95 77.22 47.34

PAGE

TAX EXEMPT SECURITIES TRUST, SERIES 294
BALANCE SHEETS
October 31, 1993

ASSETS

National
California
Minnesota
Trust 146
Trust 90
Trust 85
<S> <C> <C> <C>
Investments in tax exempt bonds, at market value
(Cost $12,365,509, $3,255,291 and $2,585,348, respectively)
(Note 3 to Portfolio of Securities)
$13,642,072
$3,736,269
$2,636,985
Accrued interest
348,220
71,674
60,226
Total Assets
$13,990,292
$3,807,943
$2,697,211

LIABILITIES AND NET ASSETS

Overdraft payable
$79,489
$ 3,873
$ 10,856
Accrued expenses
1,493
502
405
Total Liabilities

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80,982
4,375
11,261

Net Assets (Units of fractional undivided interest outstanding - 15,155, 3,922 and 2,705, respectively):
Original cost to investors (Note 1)
16,673,828
4,186,787
3,136,340
Less initial underwriting commission (sales charge) (Note 1)
784,000
197,000
147,000
15,889,828 3,989,787 2,989,340
Cost of bonds sold or redeemed since date of deposit (December 20, 1988)
(3,524,319
)
(734,496)
(403,992)

Net unrealized market appreciation
1,276,563
480,978
51,637
13,642,072 3,736,269 2,636,985
Undistributed net investment income
279,350
67,295
48,955
Undistributed proceeds from bonds sold or redeemed
(12,112
)
4
10
Net Assets
13,909,310
3,803,568
2,685,950
Total Liabilities and Net Assets
$13,990,292
$3,807,943
$2,697,211

Net asset value per unit
$ 917.80 $ 969.80 $992.95

The accompanying Notes to Financial Statements are an integral part of these statements.

TAX EXEMPT SECURITIES TRUST, SERIES 294
NATIONAL TRUST 146
STATEMENTS OF OPERATIONS
For the years ended October 31, 1993, 1992 and 1991

1993 1992 1991
<S> <C> <C>
<C>
Investment Income-interest (Note 2) . . . . $ 1,135,623$
1,225,186 . . . . $ 1,287,179

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	1993	1992	1991
Less expenses:			
Trustee's fees and expenses	16,233	16,502	15,769
Evaluator's fees	2,230	2,855	2,018
Total expenses	18,463	19,357	17,787
Net investment income	1,117,160	1,205,829	1,269,392
Realized and unrealized gain (loss) on investments:			
Net realized loss on securities transactions (Note 5)	(150,498)	(53,652)	(17,637)
Net increase in unrealized market appreciation	663,474	124,459	548,414
Net gain on investments	512,976	70,807	530,777
Net increase in net assets resulting from operations	$1,630,136	$ 1,276,636	$ 1,800,169

STATEMENTS OF CHANGES IN NET ASSETS
For the years ended October 31, 1993, 1992 and 1991

	1993	1992	1991
Operations:			
Net investment income	$1,117,160	$ 1,205,829	$ 1,269,392
Net realized loss on securities transactions (Note 5)	(150,498)	(53,652)	(17,637)
Net increase in unrealized market appreciation	663,474	124,459	548,414
Net increase in net assets resulting from operations	1,630,136	1,276,636	1,800,169
Distributions to Unit Holders:			
Net investment income (Note 4)	(1,118,759)	(1,210,334)	(1,269,372)
Proceeds from securities sold or redeemed	(1,870,818)	(590,065)	(36,187)
Total Distributions	(2,989,577)	(1,800,399)	(1,305,559)
Unit Redemptions by Unit Holders (Note 3):			
Accrued interest at date of redemption	(6,982)	-	(8,278)
Value of Units at date of redemption	(384,221)	-	(433,353)
Total Redemptions	(391,203)	-	(441,631)
Increase (decrease) in net assets	(1,750,644)	(523,763)	52,979
Net Assets:			
Beginning of year	15,659,954	16,183,717	16,130,738

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End of year (including undistributed net
investment income of $279,350, $287,931
and $292,436, respectively). . . . . $13,909,310$
15,659,954. . . . . $ 16,183,717

The accompanying Notes to Financial Statements are an integral part
of these statements.

TAX EXEMPT SECURITIES TRUST, SERIES 294
CALIFORNIA TRUST 90
STATEMENTS OF OPERATIONS
For the years ended October 31, 1993, 1992 and 1991

1993

1992 1991

Investment Income-interest (Note 2) . . . . $ 273,210$
309,810 . . . . $ 311,085
Less expenses:
Trustee's fees and expenses. 5,4955,8494,943
Evaluator's fees 1,123
953 1,010
Total expenses. 6,618
6,802 5,953
Net investment income. 266,592
303,008 305,132
Realized and unrealized gain (loss) on investments:
Net realized gain (loss) on securities transactions
(Note 5) . . . .(26,001
) 675 257
Net increase (decrease) in unrealized market
appreciation 233,399
(43,885)
198,644
Net gain (loss) on investments 207,398
(43,210)
198,901
Net increase in net assets resulting from operations . . . . $473,990$259,798
$ 504,033

STATEMENTS OF CHANGES IN NET ASSETS
For the years ended October 31, 1993, 1992 and 1991

1993

1992 1991

Operations:
Net investment income. . . . . $266,592$303,008
$ 305,132
Net realized gain (loss) on securities transactions
(Note 5) . . . .(26,001
) 675 257
Net increase (decrease) in unrealized market
appreciation 233,399
(43,885)
198,644
Net increase in net assets resulting from operations 473,990
259,798 504,033
Distributions to Unit Holders:

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	1993	1992	1991
Net investment income (Note 4)	(270,699)	(303,440)	(304,880)
Proceeds from securities sold or redeemed	(538,608)	(20,000)	(15,000)
Total Distributions	(809,307)	(323,440)	(319,880)
Unit Redemptions by Unit Holders (Note 3):			
Accrued interest at date of redemption	(894)	-	-
Value of Units at date of redemption	(82,089)	-	-
Total Redemptions	(82,983)	-	-
Increase (decrease) in net assets	(418,300)	(63,642)	184,153
Net Assets:			
Beginning of year	4,221,868	4,285,510	4,101,357
End of year (including undistributed net investment income of $67,295, $72,296 and $72,728, respectively)	$3,803,568	$4,221,868	$4,285,510

The accompanying Notes to Financial Statements are an integral part of these statements.

TAX EXEMPT SECURITIES TRUST, SERIES 294
MINNESOTA TRUST 85
STATEMENTS OF OPERATIONS
For the years ended October 31, 1993, 1992 and 1991

	1993	1992	1991
Investment Income-interest (Note 2)	$ 217,202	$ 235,258	$ 239,222
Less expenses:			
Trustee's fees and expenses	4,543	4,782	4,165
Evaluator's fees	727	445	1,010
Total expenses	5,270	5,227	5,175
Net investment income	211,932	230,031	234,047
Realized and unrealized gain (loss) on investments:			
Net realized gain (loss) on securities transactions (Note 5)	26,396	(10,906)	-
Net increase (decrease) in unrealized market appreciation	143,719	(109,196)	10,716
Net gain (loss) on investments	170,115	(120,102)	10,716
Net increase in net assets resulting from operations	$382,047	$109,929	

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$ 244,763

STATEMENTS OF CHANGES IN NET ASSETS
For the years ended October 31, 1993, 1992 and 1991

	1993	1992	1991
Operations:			
Net investment income	$211,932	$230,031	$ 234,047
Net realized gain (loss) on securities transactions (Note 5)	26,396	(10,906)	-
Net increase (decrease) in unrealized market appreciation	143,719	(109,196)	10,716
Net increase in net assets resulting from operations	382,047	109,929	244,763
Distributions to Unit Holders:			
Net investment income (Note 4)	(212,623)	(229,937)	(233,820)
Proceeds from securiites sold or redeemed	(128,055)	-	-
Total Distributions	(340,678)	(229,937)	(233,820)
Unit Redemptions by Unit Holders (Note 3):			
Accrued interest at date of redemption	(1,250)	(3,230)	-
Value of Units at date of redemption	(83,683)	(207,734)	-
Total Redemptions	(84,933)	(210,964)	-
Increase (decrease) in net assets	(43,564)	(330,972)	10,943
Net Assets:			
Beginning of year	2,729,514	3,060,486	3,049,543
End of year (including undistributed net investment income of $48,955, $50,896 and $54,032, respectively)	$2,685,950	$ 2,729,514	$ 3,060,486

The accompanying Notes to Financial Statements are an integral part of these statements.

</TABLE>
TAX EXEMPT SECURITIES TRUST, SERIES 294
October 31, 1993

NOTES TO FINANCIAL STATEMENTS

(1) The original cost to the investors represents the aggregate initial

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public offering price as of the date of deposit (December 20, 1988), exclusive of accrued interest, computed on the basis of the aggregate offering price of the securities. The initial underwriting commission (sales charge) was 4.70% of the aggregate public offering price (4.932% of the aggregate offering price of the securities per Unit).

(2) Interest income represents interest earned on the Trust's portfolio and has been recorded on the accrual basis.

(3) 845 Units, 78 Units and 295 Units in the National Trust, California Trust and Minnesota Trust, respectively, were redeemed by the Trustee during the three years ended October 31, 1993 (414 Units, 78 Units and 84 Units in the National Trust, California Trust and Minnesota Trust, respectively, being redeemed in 1993. 211 Units in the Minnesota Trust being redeemed in 1992. 431 Units in the National Trust being redeemed in 1991).

(4) Interest received by the Trust is distributed to Unit holders on the fifteenth day of each month, after deducting applicable expenses.

(5) The gain (loss) from the sale or redemption of securities is computed on the basis of the average cost of the issue sold or redeemed.

(6) The Trustee has custody of and responsibility for all accounting and financial books, records, financial statements and related data of each Trust and is responsible for establishing and maintaining a system of internal control directly related to, and designed to provide reasonable assurance as to the integrity and reliability of, financial reporting of each Trust. The Trustee is also responsible for all estimates of expenses and accruals reflected in each Trust's financial statements. The Evaluator determines the price for each underlying Bond included in each Trust's Portfolio of Securities on the basis set forth in Part B, "Public Offering - Offering Price". Under the Securities Act of 1933, as amended (the "Act"), the Sponsors are deemed to be issuers of each Trust's Units. As such, the Sponsors have the responsibility of issuers under the Act with respect to financial statements of each Trust included in the Registration Statement.

INDEPENDENT AUDITORS' REPORT

To the Unit Holders, Sponsors and Trustee of
Tax Exempt Securities Trust, Series 294:

We have audited the accompanying balance sheets of Tax Exempt Securities Trust, Series 294 (comprising, respectively, National Trust 146, California Trust 90 and Minnesota Trust 85), including the portfolios of securities, as of October 31, 1993, and the related statements of operations and changes in net assets for each of the years in the three-year period ended October 31, 1993. These financial statements are the responsibility of the Trustee (see Note 6). Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of October 31, 1993 by correspondence with the Trustee. An audit also includes assessing the accounting principles used and significant estimates made by the Trustee, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of each of the respective Trusts constituting Tax Exempt Securities Trust, Series 294 as of October 31, 1993, and the results of their operations and changes in

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their net assets for each of the years in the three-year period ended
October 31, 1993, in conformity with generally accepted accounting
principles.

KPMG PEAT MARWICK
New York, New York
January 25, 1994

<TABLE>

TAX EXEMPT SECURITIES TRUST, SERIES 294
NATIONAL TRUST 146 - PORTFOLIO OF SECURITIES - October
31, 1993

Ratings Redemption
Principal
Market
Security Description (1)
Provisions (2) Amount
Value (3)
<S> <C> <C> <C>
<C>
Maricopa County, Arizona, Industrial
Development Authority, Hospital Systems
Revenue Refunding Bonds, Samaritan A* 12/1/95 @
102 $ 145,000$163,479
Health Services, 9.25% due 12/1/2015

Los Angeles, California, International
Airport, Regional Airports Improvement
Corporation, Facilities Sublease
Refunding Bonds, Western Air Lines, Baa2* 11/1/95 @
103 540,000624,402
Inc., 11.25% due 11/1/2025 S.F.
11/1/06 @ 100

City & County of Denver, Colorado, Airport Baa1* 8/1/94 @
102 450,000475,312
System Revenue Bonds, 9.25% due 8/1/2020 S.F. 8/1/16
@ 100

Charlotte County, Florida, Health Care
Facilities Revenue Bonds, St. Joseph
Life Enrichment Center, Inc. Project,
Bon Secours Health System, A+ 8/15/98 @
102 450,000537,682
8.25% due 8/15/2018 (p)

Palm Beach County, Florida, Solid Waste
Authority, Refunding and Improvement AAA 12/1/95 @
102 450,000516,866
Bonds, 10.00% due 12/1/2005 (p)

Development Authority of Burke County,
Georgia, Pollution Control Revenue
Bonds, Oglethorpe Power Corporation, AA- 1/1/94 @
102 985,0001,017,259
Vogtle Project, 10.50% due 1/1/2014 S.F. 1/1/01
@ 100

Burke County, Georgia, Development
Authority, Pollution Control Revenue

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Bonds, Georgia Power Company, AAA 11/1/94 @
102 140,000154,658
11.75% due 11/1/2014

Municipal Electric Authority of
Georgia, General Power Revenue Bonds, AA- 1/1/96 @
102 400,000442,080
7.875% due 1/1/2018 (p)

Illinois Health Facilities Authority
Revenue Bonds, Proctor Community A* 1/1/97 @
102 500,000528,590
Hospital, 7.00% due 1/1/2004 S.F. 1/1/01
@ 100

Chicago, Illinois, O'Hare International A+ 1/1/95 @
103 455,000501,956
Airport Revenue Bonds, 10.625% due 1/1/2015 S.F. 1/1/10
@ 100

Indiana Bond Bank, Special Loan A 2/1/98 @
102 100,000114,929
Program Bonds, 8.375% due 2/1/2018 S.F. 2/1/09
@ 100

Muscatine, Iowa, Electric Revenue AAA 1/1/96 @
100 500,000497,580
Refunding Bonds, 5.00% due 1/1/2007

Michigan State Hospital Finance
Authority Hospital Revenue Bonds,
The Detroit Medical Center Obligated A* 8/15/98 @
102 500,000571,800
Group, 8.00% due 8/15/2008

Ratings Redemption
Principal

Market
Security Description (1)
Provisions (2) Amount
Value (3)

New Jersey Health Care Facilities
Financing Authority Revenue Bonds,
Bayonne Hospital Issue, BBB 7/1/97 @
102 $ 1,000,000$1,127,180
9.125% due 7/1/2012 S.F. 7/1/96
@ 100

New Jersey Wastewater Treatment Trust,
Wastewater Treatment Insured Loan AAA 9/1/97 @
102 135,000161,070
Revenue Bonds, 9.00% due 9/1/2006

North Carolina Eastern Municipal Power

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Agency, Power System Revenue Refunding Aaa* 1/1/22 @
100 1,200,0001,082,952
Bonds, 4.50% due 1/1/2024 (p)

Mercer County, North Dakota, Pollution
Control Revenue Bonds, Basin Electric A 1/1/96 @
103 495,000544,134
Power Corporation, 7.70% due 1/1/2019

County of Cuyahoga, Ohio, Hospital
Improvement Revenue Refunding Bonds,
Brentwood Hospital Projects, Baa1* 11/1/95 @
102 310,000346,614
9.625% due 11/1/2014 S.F.
11/1/98 @ 100

Hamilton County, Ohio, Health System
Revenue Bonds, St. Francis - St. George Baa* 11/28/93
@ 106 400,000425,716
Hospital Issue, 9.375% due 7/1/2015 S.F. 7/1/99
@ 100

Grand River Dam, Oklahoma, Authority
Revenue Refunding Bonds, A* 6/1/97 @
100 1,175,0001,230,789
6.00% due 6/1/2011

The Metropolitan Nashville, Tennessee,
Airport Authority, Special Facility
Revenue Bonds, American Airlines Inc. Baa2* 10/1/95 @
102 250,000276,290
Project, 9.875% due 10/1/2005

Austin, Texas, Water, Sewer and
Electric Revenue Refunding Bonds, AAA 5/15/97 @
100 225,000278,784
11.00% due 11/15/2002 (p)

Wichita County - City of Wichita Falls,
Texas, Hospital Board Hospital Revenue
Refunding Bonds, Wichita General A* 9/1/97 @
102 1,000,0001,001,750
Hospital Project, 6.00% due 9/1/2013 S.F. 9/1/10
@ 100

West Virginia Housing Development
Fund, Housing Finance Bonds, AA+ 11/29/93
@ 101 1/2 1,000,000 1,020,200
6.40% due 11/1/2019 S.F.
11/1/00 @ 100

$12,805,000$13,642,072

The accompanying Notes are an integral part of this Portfolio.

TAX EXEMPT SECURITIES TRUST, SERIES 294
CALIFORNIA TRUST 90 - PORTFOLIO OF SECURITIES -
October 31,

Ratings
Redemption Principal

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Market
Security Description (1)
Provisions (2) Amount
Value (3)

Antelope Valley, California, Hospital
District Project, Refunding Certificates AAA 1/1/99 @
100 $ 250,000$284,990
of Participation, 7.25% due 1/1/2017 (p)

California Housing Finance Agency,
Home Mortgage Revenue Bonds, AAA 8/1/96 @
102 205,000215,705
6.90% due 8/1/2016 S.F. 2/1/03
@ 100

El Camino, California, Hospital District,
Hospital Revenue Certificates of AAA 9/1/97 @
102 350,000414,449
Participation, 8.50% due 9/1/2017 (p)

Irvine Ranch, California, Water District
Joint Powers Agency, Local Agency Pool BBB 8/15/98 @
100 500,000562,815
Revenue Bonds, 8.25% due 8/15/2023 S.F.
8/15/09 @ 100

Anaheim, California, Redevelopment
Agency, Local Government Finance
Joint Powers Authority Revenue Bonds, A* 9/1/98 @
102 250,000300,252
8.20% due 9/1/2015 (p)

Los Angeles County, California, Single
Family Mortgage Revenue Bonds, Aaa* -
- - 150,000168,092
7.60% due 8/1/2016 S.F. 8/1/06
@ 100

Los Angeles County, California,
Transportation Commission, Sales Tax
Revenue Refunding Bonds, AAA 7/1/97 @
102 250,000290,125
8.00% due 7/1/2016 (p)

Northern California Power Agency,
Hydroelectric Project Number One Revenue AAA 7/1/98 @
100 355,000414,800
Refunding Bonds, 8.00% due 7/1/2024 (p)

City of Riverside, California, Hospital
Revenue Bonds, Riverside Community BBB 11/1/97 @
102 155,000153,594
Hospital, 6.75% due 11/1/2015 S.F.
11/1/02 @ 100

San Diego, California, Industrial
Development Revenue Bonds, San Diego Gas Aa3* 9/1/95
@ 102 240,000268,104
& Electric Company, 9.25% due 9/1/2020

City of Torrance, California, Hospital
Revenue Bonds, Little Company of Mary AAA 12/1/05 @
100 335,000390,918

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Hospital, 7.10% due 12/1/2015 (p)

University of California Hospital
Revenue Bonds, UCLA Medical Center, A+ 12/1/96 @
102
250,000 272,425
6.90% due 12/1/2016 S.F.
12/1/07 @ 100

$3,290,000$3,736,269

The accompanying Notes are an integral part of this Portfolio.

TAX EXEMPT SECURITIES TRUST, SERIES 294
MINNESOTA TRUST 85 - PORTFOLIO OF SECURITIES -
October 31, 1993

Ratings Redemption
Principal
Market
Security Description (1)
Provisions (2)
Amount
Value (3)

City of Minneapolis, Minnesota,
Redevelopment Mortgage Revenue Bonds, Aa3* 1/1/97 @
103
$ 210,000$222,568
Riverplace Project, 7.10% due 1/1/2020

Minnesota Housing Finance Agency,
Housing Development Revenue Bonds, A+ 2/1/94 @
102
360,000370,033
6.25% due 2/1/2020 S.F. 2/1/98
@ 100

Minnesota Housing Finance Agency,
Multi-Family Housing Revenue Bonds, A+ 2/1/94 @
102
260,000264,719
6.375% due 2/1/2020 S.F. 2/1/98
@ 100

City of Owatonna, Minnesota, Hospital
Revenue Refunding Bonds, The Health
Central System Project, A* 10/1/95 @
103
260,000298,106
10.00% due 10/1/2014 S.F.
10/1/01 @ 100

Port Authority of The City of Saint
Paul and Housing and Redevelopment
Authority of The City of Saint Paul,
Minnesota, Rental Housing Revenue CCC 12/1/95 @
102
470,000413,600
Bonds, 9.50% due 12/1/2011 (Note 4) S.F.
12/1/01 @ 100

Port Authority of The City of Saint
Paul, Industrial Development CCC 9/1/97 @
102
215,000178,360
Revenue Bonds, 8.50% due 9/1/2011 (Note 4) S.F. 9/1/99
@ 100

Southern Minnesota Municipal Power

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Agency, Power Supply System Revenue AAA 1/1/96 @
102 445,000503,121
Bonds, 9.125% due 1/1/2013 (p)

Western Minnesota Municipal Power
Agency, Power Supply Revenue Refunding A* 1/1/97 @
102 355,000 386,478
Bonds, 6.875% due 1/1/2007
$2,575,000$2,636,985

The accompanying Notes are an integral part of this Portfolio.

At October 31, 1993 the net unrealized market appreciation of all tax exempt bonds was comprised of the following:

	National Trust 146	California Trust 90	Minnesota Trust 85
Gross unrealized market appreciation	$ 1,527,401	$ 480,978	$ 206,074
Gross unrealized market depreciation	(250,838)	-	(154,437)
Net unrealized market appreciation	$ 1,276,563	$ 480,978	$ 51,637

</TABLE>
TAX EXEMPT SECURITIES TRUST, SERIES 294
NOTES TO PORTFOLIO OF SECURITIES - October 31, 1993

(1) All Ratings are by Standard & Poor's Corporation, except those identified by an asterisk (*) which are by Moody's Investors Service. The meaning of the applicable rating symbols is set forth in Part B, "Ratings".
(2) There is shown under this heading the year in which each issue of bonds initially or currently is redeemable and the redemption price for that year; unless otherwise indicated, each issue continues to be redeemable at declining prices thereafter, but not below par. "S.F." indicates a sinking fund has been or will be established with respect to an issue of bonds. The prices at which bonds may be redeemed or called prior to maturity may or may not include a premium and, in certain cases, may be less than the cost of the bonds to the Trust. Certain bonds in the portfolio, including bonds not listed as being subject to redemption provisions, may be redeemed in whole or in part other than by operation of the stated redemption or sinking fund provisions under certain unusual or extraordinary circumstances specified in the instruments setting forth the terms and provisions of such bonds. For example, see discussion of obligations of municipal housing authorities under "Tax Exempt

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Securities Trust-Portfolio" in Part B.

(3) The market value of securities as of October 31, 1993 was determined by the Evaluator on the basis of bid prices for the securities at such date.

(4) The Financial Statement as of December 31, 1992 of the Port Authority of the City of Saint Paul contains the following note:

Based upon studies prepared by the Authority and independent financial advisers, the Authority has been able to determine with reasonable certainty, that barring a successful restructuring, a default in the payment of 876 bonds is likely to occur in the future.

During October 1992, the Authority appointed a trustee for the 876 bond program. To avoid a default in the payment of 876 bonds, the trustee submitted to the court a petition, based upon information available at that time, that proposed to restructure all outstanding 876 bonds maturing after December 31, 1999. The petition gave these bondholders the option of modifying future principal and/or interest payments. On November 30, 1992, the trustee, at the direction of the majority of the adversely affected bondholders, withdrew the petition. The Authority is continuing to develop a restructuring proposal that will be acceptable to a majority of the affected bondholders.

No assurances can be given that the Authority will be successful in implementing the plans to avoid default in the payment of 876 bonds in the future.

These bonds are part of the 876 bond program.

(p)
It is anticipated that these bonds will be redeemed prior to their scheduled maturity, pursuant to a pre-refunding, as reflected under the column "Redemption Provisions".

[TEXT]

Note: Part B of this Prospectus may not be distributed unless accompanied by Part A

TAX EXEMPT SECURITIES TRUST

Each State Trust is one of a series of similar but separate unit investment trusts created under the laws of the State of New York by a Trust Indenture and Agreement and related Reference Trust Agreement (collectively, the "Trust Agreement"), dated the Date of Deposit, among the sponsors, United States Trust Company of New York, as trustee (the "Trustee"), and Kenny Information Systems, Inc., as evaluator (the "Evaluator"). As of the date of this Prospectus, the sponsors include Smith Barney Shearson Inc. and Kidder, Peabody & Co. Incorporated (the "Sponsors" or "Co-Sponsors"). Each trust contains Bonds of a State for which such Trust is named herein (a "State Trust"). On the Date of Deposit the Sponsors deposited with the Trustee interest-bearing obligations (the "Bonds"), including contracts for the purchase of certain such obligations and, in the case of some State Trusts, Units of previously issued series of Tax Exempt Securities Trust, Multistate Series or Umbrella Series (the "Deposited Units") (such Bonds and Deposited Units being referred to herein collectively as the "Securities"). The Trustee thereafter delivered to the Sponsors registered certificates of

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beneficial interest (the "Certificates") representing the units (the "Units") comprising the entire ownership of each State Trust. The initial public offering of Units in each State Trust has been completed. The Units offered hereby are issued and outstanding Units which have been acquired by the Sponsors either by purchase from the Trustee of Units tendered for redemption or in the secondary market. References to multiple Trusts in Part B herein should be read as references to a single Trust if Part A indicates the creation of only one Trust. See

"Rights of Unit Holders -- Redemption of Units -- Purchase by the Sponsors of Units Tendered for Redemption" and "Public Offering -- Market for Units."

Objectives

The objectives of each State Trust are tax-exempt income and conservation of capital through an investment in a diversified portfolio of municipal bonds. There is, of course, no guarantee that a Multistate Trust's or Umbrella Series' objectives will be achieved since the payment of interest and the preservation of principal are dependent upon the continued ability of the issuers of the Bonds to meet such obligations.

Portfolio

The following factors, among others, were considered in selecting the Bonds for each State Trust: (1) all the Bonds deposited in a State Trust are obligations of the State for which such State Trust is named or of the counties or municipalities of such State, territories or possessions of the United States, and authorities or political subdivisions thereof, so that the interest on them will, in the opinion of recognized bond counsel to the issuing governmental authorities given on the date of the original delivery of the Bonds, be exempt from Federal income tax under existing law and from state income taxes in the state for which such Trust is named in each case to the extent indicated in "Tax Exempt Securities Trust - Tax Status", (2) the Bonds are diversified as to purpose of issue, and (3) in the opinion of the Sponsors, the Bonds are fairly valued relative to other bonds of comparable quality and maturity. The rating of each issue is also set forth in Part A, "Portfolio of Securities." For a description of the meaning of the applicable rating symbols as published by Standard & Poor's and Moody's, see "Ratings." It should be emphasized, however, that the ratings of Standard & Poor's and Moody's represent their opinions as to the quality of the Bonds which they undertake to rate, and that these ratings are general and are not absolute standards of quality.

The Bonds in the Portfolio of a State Trust were chosen in part on the basis of their respective maturity dates. The Bonds in each State Trust will have a dollar-weighted average portfolio maturity as designated in Part A. For the actual maturity date of each of the Bonds contained in a State Trust, which date may be earlier or later than the dollar-weighted average portfolio maturity of the State Trust. A sale or other disposition of a Bond by the Trust prior to the maturity of such Bond may be at a price which results in a loss to the State Trust. The inability of an issuer to pay the principal amount due upon the maturity of a Bond would result in a loss to the State Trust.

Additional Considerations Regarding the Trusts

The portfolio of a State Trust may contain Bonds that are

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general obligations of governmental entities and/or bonds that are guaranteed by governmental entities. (See Part A, the "Summary of Essential Information" of this Prospectus for information relating to the particular State Trust described therein.) General obligation bonds are general obligations of a state or local government, which are secured by the power of such issuer to levy taxes, and are backed by the pledge of such governmental entity. The ability of the issuer of a general obligation bond to meet its obligation depends largely upon its economic condition. Many issuers rely upon ad valorem real property taxes as a source of revenue. Proposals in the form of state legislative or voter initiatives to limit ad valorem real property taxes have been introduced in various states. It is not presently possible to predict the impact of these or future proposals, if adopted, on states, local governments or school districts or on their abilities to make future payments on their outstanding debt obligations. The remaining issues contained in a State Trust's portfolio are payable from the income of specific projects or authorities and are not supported by the issuer's power to levy taxes. The portfolio of a State Trust may also contain Bonds that are supported by the moral obligations of governmental entities. In the event of a deficiency in the debt service reserve funds of moral obligation bonds, the governmental entity having the moral commitment may (but is not legally obligated to) satisfy such deficiency. However, in the event of a deficiency in the debt service reserve funds of bonds not backed by such moral obligations, no such moral commitment exists.

The portfolio of a State Trust may also contain Deposited Units from preceding Series of the respective State Trust of Tax Exempt Securities Trust. The objectives of the various preceding Series which are represented by Deposited Units included in the portfolio of any Series of Tax Exempt Securities Trust offered hereby are similar to the objectives of the Series offered hereby, and the Sponsors, Trustee and Evaluator of the various previous Series represented by the Deposited Units have responsibilities and authority and receive fees substantially identical to those described in this Prospectus. On the respective dates of deposit of said preceding Series, the underlying debt obligations in their portfolios were rated in the category of A or better by Standard & Poor's Corporation or by Moody's Investors Service. While certain of such debt obligations included in the portfolios of said preceding Series may not presently meet such criteria, the Deposited Units of such previous Series did not represent more than 5% of the face amount of the total Securities in the Portfolio of any Series of Tax Exempt Securities Trust offered hereby as of the Date of Deposit. All of the underlying debt obligations of these Series have stated maturities in excess of 10 years from the Date of Deposit.

The portfolio of the State Trust may contain other Bonds which are "private activity bonds" (often called Industrial Revenue Bonds ("IRBs") if issued prior to 1987) which would be primarily of two activity types: (1) Bonds for a publicly owned facility which a private entity may have a right to use or manage to some degree, such as an airport, seaport facility or water system and (2) facilities deemed owned or beneficially owned by a private entity but which were financed with tax-exempt bonds of a public issuer, such as a manufacturing facility or a pollution control facility. In the case of the first type, bonds are generally payable from a designated source of revenues derived from the facility and may further receive the benefit of the legal or moral obligation of one or more political subdivisions or taxing jurisdictions. In most cases of project financing of the first type, issuers are obligated to pay the principal of, any premium then due, or interest on the private activity bonds only to the extent that funds are available from receipts or

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revenues of the issuer derived from the
project or the operator or from the unexpended proceeds of the bonds. Such revenues include user fees, service charges, rental and lease payments, and mortgage and other loan payments.

The second type of issue will generally finance projects which are owned by or for the benefit of, and are operated by, corporate entities. Ordinarily, such private activity bonds are not general obligations of governmental entities and are not backed by the taxing power of such entities, and are solely dependent upon the creditworthiness of the corporate user of the project or corporate guarantor.

The private activity bonds in the State Trust have generally been issued under bond resolutions, agreements or trust indentures pursuant to which the revenues and receipts payable under the issuer's arrangements with the users or the corporate operator of a particular project have been assigned and pledged to the holders of the private activity bonds. In certain cases a mortgage on the
underlying project has been assigned to the holders of the private activity bonds or a trustee as additional security. In addition, private activity bonds are frequently directly guaranteed by the corporate operator of the project or by another affiliated company. See "Description of Portfolio" in Part A for the amount of private activity bonds contained therein.

Most of the Bonds in the Portfolio of a State Trust are subject to redemption prior to their maturity date pursuant to sinking fund or call provisions. In general, a call or redemption provision is more likely to be exercised when the offering price valuation of a bond is higher than its call or redemption price, as it might be in periods of declining interest rates, than when such price valuation is less than the bond's call or redemption price. The Bonds may also be subject to other calls which may be permitted or required by events which cannot be predicted (such

as destruction, condemnation, termination of
a contract, or receipt of excess or unanticipated revenues). To the extent that a Bond was deposited in a State Trust a price higher than the price at which it is redeemable, redemption will result in a loss of capital when compared with the original public offering price of the units. Conversely, to the extent that a Bond was acquired at a price lower than the redemption price, redemption will result in an increase in capital when compared with the original public offering
price of the Units. Monthly distributions will generally be reduced by the amount of the income which would otherwise have been paid with respect to redeemed bonds. The Estimated Current Return and Estimated Long-Term Return of the Units may be affected by such redemptions. Each Portfolio of Securities in Part A contains a listing of the sinking fund and call provisions, if any, with respect to each of the Bonds in a State Trust. Because certain of the Bonds may from time to time under certain circumstances be sold or redeemed
or will mature in accordance with their terms and the proceeds from such events will be distributed to Unit holders and will not be reinvested, no assurance can be given that a Trust will retain for any length of time its present size and composition. Neither the Sponsors nor the Trustee shall be liable in any way for any Default, Failure or Defect in any Bond.

The Portfolio of a State Trust may consist of some Bonds whose current market values were below face value on the Date of Deposit. A primary reason for the market value of such Bonds being less than face value at maturity is that the interest coupons of such Bonds are at lower rates than the current market interest rate for comparably rated Bonds, even though at the time of the issuance of such Bonds the interest coupons thereon represented then prevailing

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interest rates on comparably rated Bonds then newly issued. Bonds selling at market discounts tend to increase in market value as they approach maturity when the principal amount is payable. A market discount tax-exempt Bond held to maturity will have a larger portion of its total return in the form of taxable ordinary income and less in the form of tax-exempt income than a comparable Bond bearing interest at current market rates. Under the provisions of the Internal Revenue Code in effect on the date of this Prospectus any ordinary income attributable to market discount will be taxable but will be realized until maturity, redemption or sale of the Bonds or Units. Gain on the disposition of a Bond purchased at a market discount generally will be treated as ordinary income rather than capital gain, to the extent of accrued market discount.

The Portfolio of a State Trust may contain Bonds in the hospital facilities category that are payable from revenues derived from hospitals and health care facilities which, generally, were constructed or are being constructed from the proceeds of such Bonds. The ability of the issuers of such bonds to meet their obligations is dependent, among other things, upon the revenues, costs and occupancy levels of the subject facilities. Revenues and expenses of hospitals and health care facilities will be affected by future events and conditions relating generally to, among other things, demand for health care services at the particular type of facility, increasing costs of medical technology, utilization practices of physicians, the ability of the facilities to provide the services required by patients, employee strikes and other adverse labor actions, economic developments in the service area, demographic changes, greater longevity and the higher medical expenses of treating the elderly, increased competition from other health care providers and rates that can be charged for the services provided. Additionally, a major portion of hospital revenues typically is derived from Federal or state programs such as Medicare and Medicaid and from Blue Cross and other insurers. The future solvency of the Medicare trust fund is periodically subject to question. Changes in the compensation and reimbursement formulas of these government programs or in the rates of insurers may reduce revenues available for the payment of principal of or interest on hospital revenue bonds. Governmental legislation or regulations and other factors, such as the inability to obtain sufficient malpractice insurance, may also adversely impact on the revenues or costs of hospitals. Future actions by the federal government with respect to Medicare and by the federal and state governments with respect to Medicaid, reducing the total amount of funds available for either or both of these programs or changing the reimbursement regulations or their interpretation, could adversely affect the amount of reimbursement available to hospital facilities. A number of additional legislative proposals concerning health care are typically under review by the United States Congress at any given time. These proposals span a wide range of topics, including cost controls, national health insurance, incentives for competition in the provision of health care services, tax incentives and penalties related to health care insurance premiums, and promotion of prepaid health care plans. The Sponsors are unable to predict the effect of any of these proposals, if enacted, on any of the Bonds in the Portfolio of a State Trust.

The Portfolio of a State Trust may contain Bonds of housing authorities that are payable from revenues derived by state housing finance agencies or municipal housing authorities from repayments on mortgage and home improvement loans made by such agencies. Since housing authority obligations, which are not general obligations of a

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particular state, are generally supported to a large extent by Federal housing subsidy programs, the failure of a housing authority to meet the qualifications required for coverage under the Federal programs, or any legal or administrative determination that the coverage of such Federal programs is not available to a housing authority, could result in a decrease or elimination of subsidies available for payment of principal and interest on such housing authority's

obligations. It is unclear whether legislation extending the authority to issue mortgage revenue bonds will continue to be enacted. If any portion of the Bonds proceeds are not committed for this purpose, Bonds in such amount could be subject to earlier mandatory redemption at par. Weaknesses in Federal housing subsidy programs and their administration may result in a decrease of subsidies available for payment of principal and interest on housing authority bonds. Repayment of housing loans and home improvement loans in a timely manner is dependent upon factors affecting the housing market generally and upon the underwriting and management ability of the individual agencies (i.e., the initial soundness of the loan and the effective use of available remedies should there be default in loan payments). Economic developments including fluctuations in interest rates and increasing construction and operating costs may also adversely impact upon revenues of housing authorities. In the case of some housing authorities, inability to obtain additional financing could also reduce revenues available to pay existing obligations.

The Portfolio of a State Trust may contain Bonds of housing authorities which require the issuer to retire such obligation at par from unused proceeds of the issue within a stated period. Moreover, housing authority obligations may contain provisions which require the issuer to redeem such obligations at par prior to any optional or mandatory redemption dates or maturity under certain unusual or extraordinary circumstances, including among others, if the project is condemned or sold or if the project is destroyed and insurance proceeds are used to redeem the bonds. In the case of certain of the obligations which were deposited in a State Trust at a price higher than their par value such a retirement at par would result in a loss of capital to a purchaser of Units at their original public offering price. Also, monthly distributions from a State Trust would be reduced by the amount of the income that would otherwise have been paid with respect to retired bonds. The Estimated Current Return and Estimated Long-Term Return of the Units might be adversely affected if the return on retired bonds is greater than the average return on the Bonds in the relevant State Trust. In recent periods of declining interest rates there have been increased redemptions of housing securities according to such redemption provisions for two reasons: (i) conventional mortgage loans have become available at interest rates equal to or less than the interest rates charged on the mortgage loans which back such housing securities and (ii) mortgage loans made with the housing securities may be prepaid earlier than their maturity dates. Therefore, issuers of such housing securities have experienced insufficient demand to complete mortgage loan originations for all of the money made available from such securities. The Sponsors are unable to predict at this time whether such redemptions will continue to be made at the same rate, or what effect, if any, such redemptions will have on the Bonds in the Portfolio of a State Trust. To the extent such obligations are evaluated at a price

higher than their value at the time a Unit holder purchases a Unit, such a retirement at par would result in a loss of capital to such a purchaser. Also, monthly distributions would be reduced by the amount of income that otherwise would have been paid with respect to retired bonds.

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The Portfolio of a State Trust may contain Bonds which are subject to the requirement of Section 103A of the Internal Revenue Code of 1954, as amended (the "1954 Code") or Section 143 of the Internal Revenue Code of 1986 (the "Code" or the "1986 Code"). Sections 103A and 143 provide that obligations issued to provide single family housing will be exempt from Federal income taxation if all of the proceeds of the issue (exclusive of issuance costs and a reasonable required reserve) are used to make or acquire loans which meet requirements including certain requirements which must be satisfied after issuance. If proceeds of the issue are not used to acquire such loans, the issuer may be required to redeem all or a portion of such issue from such uncommitted proceeds to maintain the issue's tax exemption. Bond counsel to each such issuer has issued an opinion that the interest on such Bonds was exempt from Federal income tax at the time the Bonds were issued. The failure of the issuers of such Bonds to meet certain ongoing compliance requirements imposed by Sections 103A or 143 could render the interest on such Bonds subject to Federal income taxation, possibly from the date of their issuance. If interest on such Bonds in a State Trust is deemed to be subject to Federal income taxation, the loss of tax-exempt status can be expected to adversely affect the market value of such Bonds. In this event and under the terms of the Trust Agreement the Sponsors may direct the sale of such Bonds. The sale of such Bonds in such circumstances is likely to result in a loss to such Trust.

The tax exemption for certain housing authority bonds depends on qualification under Section 103(b)(4)(A) of the 1954 Code or Section 142 of the 1986 Code and appropriate Treasury Regulations. Both Sections require that specified minimum percentages of the units in each rental housing project financed by the tax-exempt debt are to be continuously occupied by low or moderate income tenants for specified periods. Department of the Treasury regulations issued under Section 103(b)(4)(A) of the 1954 Code provide that in order to prevent possible retroactive Federal income taxation of interest on such Bonds certain conditions must be met. The regulations provide, however, that such retroactive taxation will not occur if the issuer corrects any non-compliance occurring after the issuance of the Bonds within a reasonable period after such non-compliance is first discovered or should have been discovered by the issuer. Similar rules are expected to be issued under 1986 Code Section 142. If the interest on any of the Bonds in a State Trust that are housing securities should ultimately be deemed to be taxable, the Sponsors may instruct the Trustee to sell such Bonds and, since they would be sold as taxable securities, it is expected that such Bonds would have to be sold at a substantial discount from the current market price of a comparable tax-exempt security.

The Portfolio of a State Trust may contain Bonds of issuers in the power facilities category which are generally payable from revenues derived from the sale of electricity generated and distributed by power agencies using hydroelectric, nuclear, fossil or other power sources. The ability of the issuers of such Bonds to make payments of principal of, or, interest on, such obligations is dependent, among other things, upon the continuing ability of such issuers to derive sufficient revenues from their operations to meet debt service requirements. General problems of the power and electric utility industry include difficulty in financing large construction projects during inflationary periods, restrictions on operations and increased costs and delays attributable to applicable environmental considerations, uncertain

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technical and cost factors relating to the construction and operation of nuclear power generating facilities, the difficulty of the capital markets in absorbing utility debt and equity securities, the availability of fuel for electric generation at reasonable prices, the steady rise in fuel costs and the costs associated with conversion to alternate fuel sources such as coal, the difficulty in obtaining natural gas for resale, and the effects of present or proposed energy or natural resource conservation programs. Current and future environmental legislation, regulations or other governmental actions may increase the cost of utility service. The Sponsor is unable to predict the ultimate form that any such future legislation, regulations or other governmental action may take or the resulting impact on the Securities.

The Portfolio of a State Trust may contain Bonds issued for the financing of nuclear power plants. Federal, state or municipal governmental authorities may from time to time impose additional regulations or take other governmental action which might cause delays in the licensing, construction or operation of nuclear power plants. Any delays in the licensing, construction or operation of nuclear power plants, or the suspension of operations of such plants which have been or are being financed by proceeds of such Bonds. Such delays, suspensions, or other action may affect the payment of interest on, or the repayment of the principal amount of, such Bonds. The Sponsors are unable to predict the ultimate form any such regulations or other governmental action may take or their impact on the Bonds in the Portfolio of a State Trust.

The Portfolio of a State Trust may contain Bonds of issuers which are in the water and sewer facilities category. Bonds in the water and sewer facilities category include securities issued to finance public water and sewer projects for water management and supply and sewer control and securities issued by public issuers on behalf of private corporations for such projects. These Bonds are payable from the income of specific facilities or from payments made by such private corporations to the state authorities issuing such Bonds. The income of such facilities is generated from the payment of user fees. The ability of state and local water and sewer authorities to meet their obligations may be affected by failure of municipalities to utilize fully the facilities constructed by these authorities, economic or population decline and resulting decline in revenue from user charges, rising construction and maintenance costs and delays in construction of facilities, impact of environmental requirements, the difficulty of obtaining or discovering new supplies of fresh water, the effect of conservation programs and the impact of "no growth" zoning ordinances.

The Portfolio of a State Trust may contain Bonds of issuers which are revenue obligations of universities and schools. The ability of universities and schools to meet their obligations is dependent upon various factors, including the revenues, costs and enrollment levels of the institutions. In addition, their ability may be affected by declines in enrollment and tuition revenue, the availability of Federal, state and alumni financial support, the method and validity, under state constitutions, of present systems of financing public education, fluctuations in interest rates and construction costs, increased maintenance and energy costs, failure or inability to raise tuition or room charges and adverse results of endowment fund investments. Studies undertaken by public and private groups differ with respect to statistics and projections for postsecondary enrollment at educational institutions during the 1990s.

The Portfolio of a State Trust may contain Bonds of issuers

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in the pollution control facilities category. Bonds in the pollution control facilities category include securities issued to finance public water, sewage or solid waste treatment facilities and securities issued by a public issuer on behalf of a private corporation to provide facilities for the treatment of air, water and solid waste pollution. These Bonds are payable from the income of specific facilities, state authorities or from payments made by such private corporations.

The Portfolio of a State Trust may contain Bonds which are in the capital improvement facilities category. Capital improvement bonds are bonds issued to provide funds to assist political subdivisions or agencies, of a state through acquisition of the underlying debt of a state or local political subdivision or agency which bonds are secured by the proceeds of the sale of the bonds, proceeds from investments and the indebtedness of a local political subdivision or agency. The risks of an investment in such bonds include the risk of possible prepayment or failure of payment of proceeds on and default of the underlying debt.

The Portfolio of a State Trust may contain Bonds in the resource recovery category. The issuers of such Bonds are municipalities or agencies or authorities thereof that have allocated the proceeds of the issue towards the construction and operation of a resource recovery facility operated by a corporate operator. Payments on the bonds are dependent upon the creditworthiness of the corporate operator of the particular project. The operation of such facilities typically depends upon the delivery thereto of specified quantities of solid waste from which refuse-derived fuel can be extracted and in turn converted into electricity or steam by the facility. The operation of the facility may be limited or totally curtailed from operating because of failure to comply with governmental regulations concerning the environment, failure to obtain necessary environmental permits, zoning permits and other municipal ordinances or inability to maintain or renew such permits because of an inability to comply with changes in government environmental regulations. If the resource recovery facility is unable to operate or cannot operate at full capacity, the corporate operator of such facility will be unable to generate revenues necessary to cover payments on the resource recovery bonds. Furthermore, the corporate operator's revenue is typically derived from the sale of the power generated by the facility to a power agency or company under a power purchase agreement. The continued flow and level of payments made by the corporate operator might therefore depend upon the financial condition of the purchaser under such a power agreement and the operator's continued ability to generate the minimum amount of power required to be delivered thereunder. Such purchaser may be subject to the various general problems and risks associated with the power industry and the regulatory environment in which it operates. A decline in price of the extracted materials or the electricity or steam created by the facility may also result in insufficient revenues generated by the corporate operator as will an increase in its operating costs. Finally, there may be technological risks that become apparent in the long run that are not presently apparent because of the relatively short history of these facilities, which risks may involve the successful construction or operation of such facilities.

The Portfolio of a State Trust may contain Bonds secured in whole or in part by governmental payments, pursuant to a lease agreement, service contract, installment sale or other agreement. A governmental entity that enters into such agreement can not obligate future governments to make payments thereunder, but generally has covenanted to take such action as is necessary to

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include all such payments due under such agreement in its annual budgets and to make the appropriations therefor. However, a budgetary imbalance in future fiscal years could effect the ability and willingness of the governing legislative body to appropriate, and the availability of monies to make, the payments provided for under such agreement. The failure of a governmental entity to meet its obligations under such an

agreement could result in an insufficient amount of funds to cover debt service on the Bonds.

The Portfolio of a State Trust may contain Bonds of issuers in the convention facilities category. Bonds in the convention facilities category include special limited obligation securities issued to finance convention and sports facilities payable from rental payments and annual governmental appropriations. The governmental agency is not obligated to make payments in any year in which the monies have not been appropriated to make such payments. In addition, these facilities are limited use facilities that may not be used for purposes other than as convention centers or sports facilities.

The Portfolio of a State Trust may contain Bonds of issuers located in the Commonwealth of Puerto Rico. (See Part A-"Portfolio of Securities.") The ability of the issuers of such Bonds to meet their obligations may be affected by the economic and social problems facing Puerto Rico. Unemployment in Puerto Rico remains high by United States standards. The island's personal income has been lower than in any state in the United States. Transfer payments from the United States government under various social welfare programs (such as food stamps, social security and veterans' benefits) contribute significantly to personal income.

The economy of Puerto Rico is closely integrated with that of the mainland United States, and is largely dependent for its development upon U.S. policies and programs that could be eliminated by the U.S. Congress. Aid for Puerto Rico's economy has traditionally depended heavily on federal programs which may not always be available. An adverse effect on the Puerto Rican economy could result from other U.S. policies, including a reduction of tax benefits for distilled products, further reduction in transfer payment programs such as food stamps, curtailment of military spending and policies which could lead to a stronger dollar. During fiscal 1991, approximately 87% of Puerto Rico's exports were to the United States mainland, which was also the source of 68% of Puerto Rico's imports.

The Puerto Rican economy consists principally of manufacturing (pharmaceuticals, scientific instruments, computers, microprocessors, medical products, textiles and petrochemicals), agriculture (largely sugar), tourism and the service sector (including finance, insurance, and real estate). Since Puerto Rico is an island and is heavily dependent upon imports and exports, maritime and air transportation are of basic importance to its economy. The manufacturing and service sectors generate the largest portion of gross product. Most of the island's manufacturing output is shipped to the mainland United States, which is also the chief source of semi-finished manufactured articles on which further manufacturing operations are performed in Puerto Rico. The finance, insurance and

real estate components of this sector have recently experienced the most growth. The level of tourism is affected by various factors, including the strength of the U.S. dollar. During periods when the dollar is strong, tourism in foreign countries becomes relatively more attractive.

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The government sector of the Commonwealth plays an important role in the economy of the island. Since World War II the economic importance of agriculture for Puerto Rico, particularly in the dominance of sugar production, has declined. Nevertheless, the Commonwealth-controlled sugar monopoly remains an important economic factor and is largely dependent upon Federal maintenance of sugar prices, the discontinuation of which could severely affect Puerto Rican sugar production.

The Puerto Rican economy is affected by a number of Commonwealth and Federal investment incentive programs. For example, Section 936 of the Internal Revenue Code generally provides deferral of Federal income taxes for U.S. companies operating on the island until profits are repatriated. No assessment can be made as to whether or not Section 936 and other incentive programs will be continued. It is expected that the elimination of Section 936, if it occurred, would have a strongly negative impact on Puerto Rico's economy.

For many years there have been two major viewpoints in Puerto Rico with respect to the Island's relationship to the United States, one essentially favoring the existing commonwealth status (but with modifications providing for greater local autonomy), and the other favoring statehood. A third viewpoint favors independence from the United States. The Sponsors cannot predict what effect, if any, a change in the relationship between Puerto Rico and the United States would have on the issuers' ability to meet their obligations.

Currently, growth in the Puerto Rico economy depends on several factors, including the state of the United States economy and the relative stability in the price of oil imports, the exchange value of the U.S. dollar and the cost of borrowing.

To the best knowledge of the Sponsors, and except as otherwise may be indicated in this Prospectus, there was no litigation pending as of the date of this Prospectus in respect of any Bonds which might have reasonably been expected to have a material adverse effect upon a State Trust. At any time after the date of this Prospectus, litigation may be initiated on a variety of grounds with respect to Bonds in a State Trust. Such litigation, as, for example, suits challenging the issuance of pollution control revenue bonds under recently enacted environmental protection statutes, may, if successful, affect the validity of such Bonds or the tax-free nature of the interest thereon. While the outcome of litigation of such nature can never be entirely predicted, the Multistate Trust or Umbrella Series has received opinions of bond counsel to the issuing authority of each Bond on the date of issuance to the effect that such Bonds have been validly issued and that interest thereof is exempt from Federal income tax. In addition, other factors may arise from time to time which potentially may impair the ability of issuers to meet obligations undertaken with respect to the Bonds. The Sponsors are unable to predict whether any such litigation may be instituted, or if instituted, whether it will have a material adverse effect on a State Trust.

Under the Federal Bankruptcy Code, political subdivisions, public agencies or other instrumentalities of any state (including municipalities) which are insolvent or unable to meet their debts as they mature may file a petition in Federal bankruptcy court. Generally, the filing of such a petition operates as a stay of any proceeding to enforce

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a claim against the debtor. The Federal Bankruptcy Code also requires the debtor to file a plan for the adjustment of its debt which may modify or alter the rights of creditors and would authorize the Federal bankruptcy court to permit the debtor to incur additional debt which could have priority over existing creditors and which could be secured. Any plan of reorganization confirmed by the court must be approved by the requisite number of creditors. Amendments made to the federal bankruptcy laws ease the requirements that must be met before a municipality may seek federal court protection to assist in reorganizing its debts. This easing of requirements may encourage financially troubled municipalities to seek court assistance in reorganizing their debts. If confirmed by the bankruptcy court, the plan would be binding upon all creditors affected by it. The Sponsors are unable to predict the effect these bankruptcy provisions may have on the Trust.

Moreover, the California Trust, the Connecticut Trust, the Florida Trust, the Maryland Trust, the Massachusetts Trust, the Minnesota Trust, the Missouri Trust, the New Jersey Trust, the New York Trust, the North Carolina Trust, the Ohio Trust, the Pennsylvania Trust and the Texas Trust are subject to certain additional state risk factors:

California Trust

California's economy is the largest among the 50 states. The State's January 1, 1992 population of 31 million represented approximately 12.0% of the total United States population. Total employment was about 14 million, the majority of which was in the service, trade and manufacturing sectors.

Since the start of the 1990-91 fiscal year, the State has faced the worst economic, fiscal and budget conditions since the 1930s. Construction, manufacturing (especially aerospace), and financial services, among others, have all been severely affected. Job losses have been the worst of any post-war recession. Employment levels are expected to stabilize by late 1993. However, pre-recession job levels are not expected to be reached for several more years. Unemployment reached 10% in November 1992 and is expected to remain above 9% through 1993 and 1994. According to the Department of Finance, recovery from the recession in California is not expected in meaningful terms until late 1993 or 19994, notwithstanding signs of recovery elsewhere in the nation.

After three years of recession, California's economy seems to be stabilizing, however, economic signals remain mixed. On the plus side, nonfarm employment in April was essentially unchanged from the December level. The unemployment rate seems to be moving down, although the large April drop, from 9.4% to 8.6%, probably exaggerates the improvement. Personal income growth is improving gradually, from gains of 2% or less in 1991 to slightly over 3% at the beginning of 1993, and taxable sales are stabilizing after a lengthy decline.

There are still ample signs of weakness. Manufacturing employment continues to decline, with deep losses in aerospace, reflecting defense cuts and weak commercial markets. Despite strong output and sales gains, electronics firms continue to cut payrolls. All manufacturing industries, with the exception of apparel and textiles, are posting employment losses. Housing, usually an engine of recovery, remains in a slump. Permit volume has averaged a 95,000 unit annual rate in recent months, actually somewhat

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below 1992's 98,000 total. Nonresidential construction continues to hit new recession lows, reflecting oversupplied commercial office, retail and hotel markets. Employment continues to decline in normally stable industries such as banking, the utilities and most segments of wholesale and retail trade. Food, department and apparel stores are shedding jobs and government employment is down 30,000 jobs over the past year.

The department of Finance, in its May 1993 Revision of the Governor's 1993-94 Budget, states that it expects this essentially flat pattern of economic activity to persist throughout 1993, with employment by year end only marginally higher than in April. Gains in service industries, mainly health care, temporary agencies (in business services), motion picture production and amusements are expected to continue. There should be modest increases in wholesale and retail trade. The finance and transportation and utilities groups will be stable to down slightly. Assuming a modest pickup in homebuilding, construction employment will also be flat this year.

Against these, manufacturing and government will continue to lose jobs. The largest losses in percentage terms will be in aerospace manufacturing and the Federal Department of Defense, reflecting cuts in the military budget. Budget constraints will also affect State and local government.

The recession has seriously affected State tax revenues, which basically mirror economic conditions. It has also caused increased expenditures for health and welfare programs. The State is also facing a structural imbalance in its budget with the largest programs supported by the General Fund--K-14 education (kindergarten through community college), health, welfare and corrections--growing at rates significantly higher than the growth rates for the principal revenue sources of the General Fund. As a result, the State entered a period of chronic budget imbalance, with expenditures exceeding revenues for four of the last five fiscal years. Revenues declined in 1990-91 over 1989-90, the first time since the 1930s. By June 30, 1993, the State's General Fund had an accumulated deficit, on a budget basis, of approximately $2.75 billion. Further consequence of the larger budget imbalances over the last three fiscal years has been that the State depleted its available cash resources and has had to use a series of external borrowings to meet its cash needs.

The 1992-93 Governor's Budget proposed expenditures of $56.3 billion in General and Special Funds for the 1992-93 fiscal year, a 1.6% increase over corresponding figures for the 1991-92 fiscal year. General Fund expenditures were projected at $43.8 billion, an increase of 0.2% over the 1992-93 Revised Governor's Budget. The Budget estimated $45.7 billion of revenues and transfers for the General Fund (a 4.7% increase over 1991-92) and $12.4 billion for Special Funds (a 9.6% increase over 1991-92). To balance the proposed budget, program reductions totaling $4.365 billion and revenue and transfer increases of $872 million were proposed for the 1991-92 and 1992-93 fiscal years. By the time of the Governor's May Revision issued on May 20, 1992, the Administration estimated that the 1992-93 Budget needed to address a gap of about $7.9 billion, much of which was needed to repay the accumulated budget deficits of the previous two years.

The severity of the budget actions needed led to a long delay in adopting the budget. With the failure to adopt a budget by July 1, 1992, which would have allowed the State to carry out its normal annual cash flow borrowing, the Controller was forced to issue registered warrants to pay a variety of obligations representing prior year's or continuing appropriations, and mandates from court orders. Available

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funds were used to make constitutionally-mandated payments, such as debt service on bonds and revenue anticipations warrants. After that date, all remaining outstanding registered warrants (about $2.9 billion) were called for redemption from proceeds of the issuance of 1992 Interim Notes after the budget was adopted.

The 1992-93 Budget Act provided for expenditures of $57.4 billion, consisting of General Fund expenditures of $40.8 billion and Special Fund and Bond Fund expenditures of $16.6 billion. The Department of Finance estimates there will be a balance in the Special Fund for Economic Uncertainties of $28 million on June 30, 1993.

The $7.9 billion budget gap was closed through a combination of increased revenues and transfers and expenditure cuts such as:

1. General fund savings in health and welfare programs totaling $1.6 billion.

2. General fund reductions of $1.9 billion for K-12 schools and community colleges.

3. General fund savings of $1.3 billion by revising the State aid program to local governments originally enacted after Proposition 13.

4. Program cuts for higher education totaling $415 million.

5. A total of $1.6 billion of transfers and accelerated collections of State revenues.

6. Approximately $1.0 billion from various additional program reductions.

Shortly after the 1992-93 Budget Act was enacted, it became evident the economic conditions in the State were not beginning to improve in the second half of 1992, as assumed by the Department of Finance's May 1992 economic estimates. This was exacerbated by enactment of an initiative measure in November 1992 repealing a sales tax for certain candy, snack foods and bottled water, reducing revenues by about $300 million for a full fiscal year ($200 million in 1992-93). The Governor's Budget proposal for 1993-94, released on January 8, 1993 (the "January Governor's Budget"), confirmed the earlier forecasts about the State's economy and the 1992-93 Budget Act. The January Governor's Budget projected that the economy would not start meaningful recovery from the recession until late 1993 or 1994. With the economy continuing in recession throughout the 1992-93 fiscal year, revenues were projected about $2.5 billion lower than anticipated when the 1992-93 Budget Act was signed, leading to a projected $2.1 billion budget deficit at June 30, 1993 (compared to the Budget Act projection of a $28 million balance). That deficit amount was projected if, by March 1993, the Legislature adopted several actions proposed by the Governor to save about $475 million in the 1992-93 fiscal year. The Legislature did not adopt any of the Governor's proposals.

On May 20. 1993, the Department of Finance released its May Revision to the January Governor's Budget (the "May Revision"), updating revenue and expenditure projections and proposals for the

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1992-93 and 1993-94 fiscal years. The May Revision projected that the General Fund will end the fiscal year on June 30, 1993 with an accumulated budget deficit of about $2.8 billion, and a negative fund balance of about $2.2 billion (the difference being certain reserves for encumbrances and school funding costs). The Governor projected revenues for 1992-93 of $41.0 billion, $1.0 billion less than in the 1991-92 fiscal year. On the expenditure side, the continued recession increased health and welfare costs above the original Budget Act projections. Also, property tax receipts at the local level were less than projected, so that the State will not get the full $1.3 billion benefit from the property tax shift enacted in the 1992-93 Budget Act. Overall, the May Revision projected total General Fund expenditures of $1.1 billion for the 1992-93 fiscal year, about $300 million higher than the Budget Act and $2.2 billion less than fiscal year 1991-92.

The January Governor's Budget had projected that, because of severely reduced revenues, the State would face a cash flow shortfall in May 1993, necessitating additional external borrowing. The State met this cash flow need by issuing $3.0 billion of revenue anticipation notes on April 26, 1993, which matured on June 24, 1993. The State also issued the 1993 Revenue Participation Warrants in the principal amount of $2.0 billion to meet cash flow requirements for the end of the 1992-93 fiscal year and the start of the 1993-94 fiscal year.

The 1993-94 fiscal year represents the third consecutive year the Governor and the Legislature were faced with a very difficult budget environment, requiring revenue actions and expenditure cuts totalling multiple billions of dollars to produce a balanced budget.

The Governor's budget introduced on January 8, 1993 proposed General Fund Expenditures of $37.33 billion, with projected revenues of $39.87 billion. It also proposed Special Fund expenditures of $12.35 billion and Special Fund Revenues of $12.10 billion. To balance the budget in the face of declining revenues, the Governor proposed a series of revenue shifts from local government, reliance on increased federal aid and reductions in State spending.

The May Revision of the Governor's Budget, released on May 20, 1993, indicated that the revenue projections of the January Budget Proposal were tracking well, with full year 1992-93 about $80 million higher than the January projection. Personal Income tax revenue was higher than projected, sales tax was close to target, and bank and corporation taxes were lagging behind projections. The May Revision projected the State would have about $2.7 billion accumulated deficit by June 30, 1993. The Governor proposed to repay this deficit over an 18-month period. He also agreed to retain the 0.5% sales tax scheduled to expire June 30 for a six-month period, dedicated to local public safety purposes, with a November election to determine a permanent extension. Unlike previous years, the Governor's Budget and May Revision did not calculate a "gap" to be closed, but rather set forth revenue and expenditure forecasts and proposals designed to produce a balanced budget.

The 1993-94 Budget Act, signed by the Governor on June 30, 1993, is predicated on revenue and transfer estimates of $40.6 billion, about $700 million higher than the January Governor's Budget, but still about $400 million below 1992-93 (and the second consecutive year of actual decline). The principal reasons for this decline are the continued weak economy and the expiration (or repeal) of three fiscal steps taken in 1991-a half cent temporary sales tax (which generates about $1.5

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billion annually), a deferral of operating loss carry forwards ($440 million), and repeal by initiative of a sales tax on candy and snack foods ($300 million). The Governor also proposes a number of fiscal steps (tax credits and the like) to stimulate job growth, which could result in short-term revenue costs. The 1993-94 Budget Act assumes Special Fund revenues of $11.8 billion, an increase of 5.0% over 1992-93.

The 1993-94 Budget Act includes General Fund expenditures of $38.5 billion (a 6.5% reduction from projected 1992-93 expenditures of $41.2 billion), in order to keep a balanced budget within the available revenues. The Budget also includes Special Fund expenditures of $12.1 billion, a 4.2% increase. The Budget Act reflects the following major adjustments:

1. Changes in local government financing to shift about $2.6 billion in property taxes from cities, counties, special districts and redevelopment agencies to school and community districts.

2. The Budget keeps K-12 Proposition 98 funding on a cash basis at the same per-pupil level as 1992-93 by providing schools a loan payable from future years' Proposition 98 funds.

3. Receipt in 1993-94 of about $550 million in aid from the federal government to offset health and welfare costs associated with foreign immigrants living in the State, which would reduce a like amount of General Fund expenditures.

4. Reductions of $0.3 billion in health and welfare programs.

5. Reductions of $400 million in support for higher education.

6. A 2 year suspension of the renters' tax credit ($390 million expenditure reduction in 1993-94).

7. Various miscellaneous cuts (totalling approximately $150 million) in Sate government services in many agencies, up to 15%.

8. Miscellaneous one-time items, including deferral of payment to the Public Employees Retirement Fund and a change in accounting for debt service from accrual to cash basis, saving $107 million.

A key feature of the 1993-94 Budget Act is a plan to retire the projected $2.8 billion accumulated deficit over an 18 month period by the use of external borrowing. The Budget Act estimates that about $1.6 billion of the deficit elimination loan would be repaid by December 23, 1993 from the proceeds of the $2.0 billion Revenue Anticipation Warrants issued on June 23, 1993.

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The 1993-94 Budget Act continues to predict that population growth in the 1990's will keep upward pressure on major State programs, such as K-14 education, health, welfare and corrections, outstripping projected revenue growth in an economy only very slowly emerging from a deep recession. The Governor's health, welfare and local government reductions continue his efforts to keep expenditures in line with resources in the long term. The Budget Act also proposes significant restructuring of State government, with elimination and consolidation of several agencies and numerous smaller boards, and change to a "performance budgeting" concept which would be more efficient and cost-effective (with a pilot project to be implemented in 1994-95). The Governor also proposes initiatives in the fields of information technology to increase governmental productivity.

On June 2, 1993, the Commission on State Finance ("COSF") issued its Quarterly General Fund Forecast, which assessed the Governor's May Revision. The COSF report projected stagnant

economic conditions through 1994, and agreed generally with the Governor's economic projections, although the COSF showed slightly lower growth than the Governor in some California economic factors. The COSF projects lower revenues and higher expenditures in 1993-94 than the May Revision, and notes that the May Revision continues the uses of off-bookloans to schools and has no built-in protection against downside risk.

The COSF projects about $700 million lower revenues in 1993-94 than the May Revision, principally because COSF believes most of the increase in personal income taxes seen late in 1992-93 came from a one-time income, shift, rather than reflecting a permanent base of greater tax revenues. COSF also knows other major taxes (and local property taxes) a little weaker than the May Revision, with a resulting increase in expenditures to make up the property tax shortfall for school financing. Altogether, COSF projects in its "primary forecast" that the fund balance at June 30,1994 would be over $800 million more negative than the May Revision forecast, and the negative difference would grow to $1.9 billion by June 30, 1995.

The COSF report includes two alternative forecasts based on either continued recession, or stronger recovery. The pessimistic forecast is $3.8 billion worse at June 30, 1995 than the Primary Forecast, and the optimistic forecast is about $3.8 billion better. The COSF also expressed concern that the proposed $2.6 billion shift of property taxes could materially impact local government's fiscal stability.

THE FOREGOING DISCUSSION OF THE 1993-94 FISCAL YEAR BUDGET IS BASED IN LARGE PART ON STATEMENTS MADE IN A RECENT "PRELIMINARY OFFICIAL STATEMENT" DISTRIBUTED BY THE STATE OF CALIFORNIA. IN THAT DOCUMENT, THE STATE INDICATED THAT ITS DISCUSSION OF THE 1993-94 FISCAL YEAR BUDGET WAS BASED ON ESTIMATES AND PROJECTIONS OF REVENUES AND EXPENDITURES FOR THE CURRENT FISCAL YEAR AND MUST NOT BE CONSTRUED AS STATEMENTS OF FACT. THE STATE NOTED FURTHER THAT THE ESTIMATES AND PROJECTIONS ARE BASED UPON VARIOUS ASSUMPTIONS WHICH MAY BE AFFECTED BY NUMEROUS FACTORS, INCLUDING FUTURE ECONOMIC CONDITIONS IN THE STATE AND THE NATION, AND THAT THERE CAN BE NO ASSURANCE THAT THE ESTIMATES WILL BE ACHIEVED.

The State is subject to an annual appropriations limit imposed

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by Article XIIIB of the State Constitution (the "Appropriations Limit"), and is prohibited from spending "appropriations subject to limitation" in excess of the Appropriations Limit. Article XIIIB, originally adopted in 1979, was modified substantially by Propositions 98 and 111 in 1988 and

1990, respectively. "Appropriations subject to limitation" are authorizations to spend "proceeds of taxes", which consist of tax revenues and certain other funds, including proceeds from regulatory licenses, user charges or other fees to the extent that such proceeds exceed the reasonable cost of providing the regulation, product or service. The Appropriations Limit is based on the limit for the prior year, adjusted annually for certain changes, and is tested over consecutive two-year periods. Any excess of the aggregate proceeds of taxes received over such two- year period above the combined Appropriation Limits for those two years is divided equally between transfers to K-14 districts and refunds to taxpayers.

Exempted from the Appropriations Limit are debt service costs of certain bonds, court or federally mandated costs, and, pursuant to Proposition 111, qualified capital outlay projects and appropriations or revenues derived from any increase in gasoline taxes and motor vehicle weight fees above January 1, 1990 levels. Some recent initiatives were structured to create new tax revenues dedicated to specific uses and expressly exempted from the Article XIIIB limits. The Appropriations Limit may also be exceeded in cases of emergency arising from civil disturbance or natural disaster declared by the Governor and approved by two-thirds of the Legislature. If not so declared and approved, the Appropriations Limit for the next three years must be reduced by the amount of the excess.

Article XIIIB, as amended by Proposition 98 on November 8, 1988, also establishes a minimum level of state funding for school and community college districts and requires that excess revenues up to a certain limit be transferred to schools and community college districts instead of returned to the taxpayers. Determination of the minimum level of funding is based on several tests set forth in Proposition 98. During fiscal year 1991-92 revenues were smaller than expected, thus reducing the payment owed to schools in 1991-92 under alternate "test" provisions. In response to the changing revenue situation, and to fully fund the Proposition 98 guarantee in the 1991-92 and 1992-93 fiscal years without exceeding it, the Legislature enacted legislation to reduce 1991-92 appropriations. The amount budgeted to schools but which exceeded the reduced appropriation was treated as a non-Proposition 98 short-term loan in 1991-92. As part of the 1992-93 Budget, $1.1 billion of the amount budgeted to K-14 schools was designated to "repay" the prior year loan, thereby reducing cash outlays in 1992-93 by that amount.

Because of the complexities of Article XIIIB, the ambiguities and possible inconsistencies in its terms, the applicability of its exceptions and exemptions and the impossibility of predicting future appropriations, the Sponsor cannot predict the impact of this or related legislation on the Bonds in the California Trust Portfolio. Other

Constitutional amendments affecting state and local taxes and appropriations have been proposed from time to time. If any such initiatives are adopted, the State could be pressured to provide additional financial assistance to local governments or appropriate revenues as mandated by such initiatives. Propositions such as Proposition 98 and others that may be adopted in the future, may place increasing pressure on the State's budget over future years, potentially reducing resources available for other State

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programs, especially to the extent the Article XIIIB spending limit would restrain the State's ability to fund such other programs by raising taxes.

As of June 30, 1993, the State had over $17.64 billion aggregate amount of its general obligation bonds outstanding. General obligation bond authorizations in the aggregate amount of approximately $7.24 billion remained unissued as of June 30, 1993. The State also builds and acquires capital facilities through the use of lease purchase borrowing. As of June 30, 1992, the State had approximately $2.88 billion of outstanding Lease-Purchase Debt.

In addition to the general obligation bonds, State agencies and authorities had approximately $21.87 billion aggregate principal amount of revenue bonds and notes outstanding as of March 31, 1993. Revenue bonds represent both obligations payable from State revenue-producing enterprises and projects, which are not payable from the General Fund, and conduit obligations payable only from revenues paid by private users of facilities financed by such revenue bonds. Such enterprises and projects include transportation projects, various public works and exposition projects, education facilities (including the California State University and University of California systems), housing health facilities and pollution control facilities.

The State is a party to numerous legal proceedings, many of which normally occur in governmental operations. In addition, the State is involved in certain other legal proceedings that, if decided against the State, might require the State to make significant future expenditures or impair future revenue sources. Examples of such cases include challenges to the State's method of taxation of certain businesses, challenges to certain vehicle license fees, and challenges to the State's use of Public Employee Retirement System funds to offset future State and local pension contributions. Other cases which could significantly impact revenue or expenditures involve reimbursement to school districts for voluntary school desegregation and state mandated costs, challenges to Medi-Cal eligibility, recovery for flood damages, and liability for toxic waste cleanup. Because of the prospective nature of these proceedings, it is not presently possible to predict the outcome of such litigation or estimate the potential impact on the ability of the State to pay debt service on its obligations.

As a result of the deterioration in the State's budget and cash situation in fiscal year 1991-92, and the delay in adopting the 1992-93 budget which resulted in issuance of registered warrants (I.O.U.s), rating agencies reduced the State's credit rating. Between November 1991 and September 30, 1992, the rating on the State's general obligation bonds was reduced by Standard & Poor's Corporation from "AAA" to "A+", by Moody's Investors Service, Inc. from "Aaa" to "Aa", and by Fitch Investors Service, Inc. from "AAA" to "AA". There can be no assurance that such ratings will continue for any given period of time or that they will not in the future be further revised or withdrawn.

Connecticut Trust

Potential purchasers of the Units of the Connecticut Trust should consider the fact that the Trust's Portfolio consists primarily of Bonds issued by the State of Connecticut (the "State") or its municipalities or authorities, and realize the substantial risks associated with an investment in such Bonds.

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Connecticut's manufacturing industry has historically been of prime economic importance to Connecticut. The manufacturing industry is diversified, with transportation equipment (primarily aircraft engines, helicopters and submarines) dominant followed by fabricated metal products, non-electrical machinery and electrical machinery. From 1970 to 1992, however, there was a rise in employment in service-related industries. During this period, manufacturing employment declined 30.8%, while employment in non-agricultural establishments (including government) increased 60.8%, particularly in the service, trade and finance categories. In 1992, manufacturing accounted for only 20.1% of total non-agricultural employment in Connecticut. Defense-related business plays an important role in the Connecticut economy. On a per capita basis, defense awards to Connecticut have traditionally been among the highest in the nation. Reductions in defense spending have had a substantial adverse impact on Connecticut's economy. Moreover, the State's largest defense contractors have announced substantial labor force reductions scheduled to occur over the next four years.

The annual average unemployment rate (seasonally adjusted) in Connecticut decreased from 6.9% in 1982 to a low of 3.0% in 1988 but rose to 7.2% in 1992. While these rates were lower than those recorded for the U.S. as a whole for the same periods, as of May, 1993, the estimated rate of unemployment in Connecticut in connection on a seasonally adjusted basis was 7.4%, compared to only 6.9 % for the United States as a whole, and pockets of significant unemployment and poverty exist in some of Connecticut's cities and towns. Moreover, Connecticut is now in a recession the depth

and duration of which is uncertain.

The State derives over seventy percent of its revenues from taxes imposed by the State. The two major taxes have been the sales and use taxes and the corporation business tax, each of which is sensitive to changes in the level of economic activity in the State, but the Connecticut income tax on individuals, trusts and estates enacted in 1991 is expected to supersede each of them in importance.

The State's General Fund budget for fiscal year 1986-87 (ending June 30) anticipated appropriations and revenues of approximately $4,300,000,000. The General Fund ended fiscal year 1986-87 with a surplus of $365,200,000. The General Fund budget for fiscal year 1987-88 anticipated appropriations and revenues of approximately $4,915,800,000. However, the General Fund ended fiscal year 1987-88 with a deficit of approximately $115.6 million. The General Fund budget for fiscal year 1988-89 anticipated that General Fund expenditures of $5,551,000,000 and certain educational expenses of $206,700,000 not previously paid through the General Fund would be financed in part from surpluses of prior years and in part from higher tax revenues projected to result from tax laws in effect for fiscal year 1987-88 and stricter enforcement thereof; a substantial deficit was projected during the third quarter of fiscal year 1988-89, but, largely because of tax law changes that took effect before the end of the fiscal year, the deficit was kept to $28,000,000. The General Fund budget for fiscal year 1989-90 anticipated appropriations of approximately $6,224,500,000 and, by virtue of tax increases enacted to take effect generally at the beginning of the fiscal year, revenues slightly exceeded such amount. However, largely because of tax revenue shortfalls, the General Fund ended fiscal year 1989-90 with a deficit for the year of $259,000,000, wiping out reserves for such events built up in prior years. The General Fund ended fiscal year 1990-91 with a deficit of $809,000,000, primarily because of significant declines in tax revenues and unanticipated expenditures

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reflective of economic adversity.

A General Fund was not enacted for fiscal year 1991-92 until August 22, 1991. This budget anticipated General Fund expenditures of $ 7,007,861,328 and revenues of $ 7,426,390,000. Anticipated decreases in revenues resulting from a 25% reduction in the sales tax rate effective October 1, 1991, the repeal of the taxes on the capital gains and interest and dividend income of resident individuals for years starting after 1991, and the phase-out of the corporation business tax surcharge over two years commencing with years starting after 1991 were expected to be more than offset by a new general income tax imposed at effective rates not to exceed 4.5% on the Connecticut taxable income of resident and non-resident individuals, trusts and estates. The Comptroller's annual report for fiscal year 1991-92 reflected a General

Fund operating surplus of $110,000,000. A General Fund budget for fiscal year 1992-93 anticipated General Fund expenditures of $7,372,062,859 and revenues of $7,372,210,000 and the General Fund ended fiscal year 1992-93 with an operating surplus of $113,500,000. Balanced General Fund budgets for the biennium ending June 30, 1995, have been adopted appropriating expenditures of $7,828,900,000 for fiscal year 1993-94 and $8,266,000,000 for fiscal year 1994-95.

The primary method for financing capital projects by the State is through the sale of the general obligation bonds of the State. These bonds are backed by the full faith and credit of the State. As of October 1, 1993, there was a total legislatively authorized bond indebtedness of $9,140,275,363, of which $7,384,654,455 had been approved for issuance by the State Bond Commission and $6,355,937,037 had been issued.

To fund operating cash requirements, prior to fiscal year 1991-92 the State borrowed up to $750,000,000 pursuant to authorization to issue commercial paper, and on July 29, 1991, it issued $200,000,000 General Obligation Temporary Notes, none of which temporary borrowings were outstanding as of July 1, 1993. To fund the cumulative General Fund deficit for fiscal years 1989-90 and 1990-91, the legislation enacted August 22, 1991, authorized the State Treasurer to issue Economic Recovery Notes up to the aggregate amount of such deficit, which must be payable no later than June 30, 1996; at least $50,000,000 of such Notes, but no more than a cap amount, is to be retired each fiscal year commencing with fiscal year 1991-92, and any unappropriated surplus up to $205,000,000 in the General Fund at the end of each of the three fiscal years commencing with fiscal year 1991-92 must be applied to retire such Notes as may remain outstanding at those times. On September 25, 1991 and October 24, 1991, the State issued $640,710,000 and $325,002,000, respectively, of such Economic Recovery Notes, of which $705,610,000 were outstanding as of October 1, 1993, and are shown in the outstanding state general obligation bond indebtedness shown above.

To meet the need for reconstructing, repairing, rehabilitating, and improving the State transportation system (except Bradley International Airport), the State adopted legislation which provides for, among other things, the issuance of special tax obligation ("STO") bonds the proceeds of which will be used to pay for improvements to the State's transportation system. The STO bonds are special tax obligations of the State payable solely from specified motor fuel taxes, motor vehicle receipts and licenses, permit and fee revenues pledged therefor and deposited in the special transportation fund. The ten-year cost of the infrastructure program which began in 1984, to be

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met from federal, state and local funds, is currently estimated at $9.5

billion. To finance a portion of the State's share of such cost, the State expects to issue $3.7 billion of STO bonds over the ten-year period.

As of October 1, 1993, the General Assembly has authorized STO bonds for the program in the aggregate amount of $3,604,363,104, of which $2,794,650,752 had been issued. It is anticipated that additional STO bonds will be authorized by the General Assembly annually in an amount necessary to finance and to complete the infrastructure program. Such additional bonds may have equal rank with the outstanding bonds provided certain pledged coverage requirements of the STO indenture controlling the issuance of such bonds are met. The State expects to continue to offer bonds for this program.

The State, its officers and employees are defendants in numerous lawsuits. According to the Attorney General's Office, an adverse decision in any of the cases which are summarized herein could materially affect the State's financial position: (i) an action in which eight retarded persons claim denial of equal protection rights on behalf of all retarded persons between ages 19 and 61 who require daily care but are ineligible for admission to a group home; (ii) litigation on behalf of black and hispanic school children in the City of Hartford seeking "integrated education" within the greater Hartford metropolitan area; (iii) litigation involving claims by Indian tribes to less than 1/10 of 1% of the State's land area; (iv) litigation challenging the State's method of financing elementary and secondary public schools on the ground that it denies equal access to education; (v) an action in which two retarded persons seek placement outside a State hospital, new programs and damages on behalf of themselves and all mentally retarded patients at the hospital; (vi) litigation involving claims for refunds of taxes by several cable television companies; (vii) an action on behalf of all persons with retardation or traumatic brain injury, claiming that their constitutional rights are violated by placement in State hospitals alleged not to provide adequate treatment and training, and seeking placement in community residential settings with appropriate support services; (viii) an action by the Connecticut Hospital Association and 33 hospitals seeking to require the State to reimburse hospitals for in-patient medical services on a basis more favorable to them; (ix) a class action by the Connecticut Criminal Defense Lawyers Association claiming a campaign of illegal surveillance activity and seeking damages and injunctive relief; (x) two actions for monetary damages brought by a former patient at a state mental hospital stemming from an attempted suicide that left her brain-damaged; (xi) an action challenging the validity of the State's imposition of surcharges on hospital charges to finance certain uncompensated care costs incurred by hospitals and (xii) an action to enforce the spending cap provision of the State's constitution by seeking to require that the General Assembly define certain terms used therein and to enjoin certain increases in "general budget expenditures" until this

is done.

As a result of the State's budget problems, the ratings of its general obligation bonds were reduced by Standard & Poor's from AA+ to AA on March 29, 1990, and by Moody's from Aa1 to Aa on April 9, 1990. Moreover, because of these problems, on February 5, 1991, Standard & Poor's placed the State's general obligation bonds and certain other obligations that depend in part on the creditworthiness of the State on CreditWatch with negative implications. On March 7, 1991, Moody's downgraded its ratings of the revenue bonds of four Connecticut hospitals because of the effects of the

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State's restrictive controlled reimbursement environment under which they have been operating. On September 13, 1991 the ratings of the State's general obligation bonds and certain other obligations were lowered by Standard & Poor's from AA to AA- and removed from CreditWatch.

General obligation bonds issued by Connecticut municipalities are payable primarily only from ad valorem taxes on property subject to taxation by the municipality. Certain Connecticut municipalities have experienced severe fiscal difficulties and have reported operating and accumulated deficits in recent years. The most notable of these is the City of Bridgeport, which filed a bankruptcy petition on June 7, 1991; the State opposed the petition. The United States Bankruptcy Court for the District of Connecticut has held that Bridgeport had authority to file such a petition but that its petition should be dismissed on the grounds that Bridgeport was not insolvent when the petition was filed. Regional economic difficulties, reductions in revenues, and increased expenses could lead to further fiscal problems for the State and its political subdivisions, authorities, and agencies. This could result in declines in the value of their outstanding obligations, increases in their future borrowing costs, and impairment of their ability to pay debt service on their obligations.

Florida Trust

The State's economy in the past has been highly dependent on the construction industry and construction-related manufacturing. This dependency has declined in recent years and continues to do so as a result of continued diversification of the State's economy. For example, in 1980 total contract construction employment as a share of total non-farm employment was just over seven percent, and in 1990 the share had edged downward to six percent. This trend is expected to continue as the State's economy continues to diversify. Florida nevertheless has a dynamic construction industry, with single and multi-family housing starts accounting for 9.48% of total U.S. housing starts in 1991 while the State's population is 5.3% of the U.S. total population.

A driving force behind the State's construction industry has been the State's rapid rate of population growth. Although Florida currently is the fourth most populous state, its population growth is now projected to decline as the number of people moving into the State is expected to hover near the mid-200,000 range annually well into the 1990s. This population trend should provide plenty of fuel for business and home builders to keep construction activity lively in Florida for some time to come. However, some factors that have adversely affected the construction industry's performance include:

(i) Federal tax reform legislation that has eliminated tax deductions for owners of three or more residential real estate properties and the lengthening of depreciation schedules on investment and commercial properties;

(ii) Costs of financing that have been relatively high in recent years; and

(iii) Economic growth and existing supplies of commercial buildings and homes also contribute to the level of construction activities in the State.

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Since 1980, the State's job creation rate is well over twice the rate for the nation as a whole, and its growth rate in new non-agricultural jobs is the fastest of the 11 most populous states and second only to California in the absolute number of new jobs created. Contributing to the State's rapid rate of growth in employment and income is international trade. In addition, since 1980, the State's unemployment rate has generally tracked below that of the Nation's unemployment rate. However, in the last two years, the State's jobless rate moved ahead of the national average of approximately 7.2%. According to Florida's Office of Planning & Budgeting Revenue and Economic Analysis Unit ("Office of Planning & Budget"), the State's unemployment rate was 5.9% during 1990. The State's unemployment rate had increased to 7.3% for 1991. The State forecasts that the unemployment rate will be 8.2% in 1992. Unemployment is projected to be 7.3% of the labor force in 1992-93 and 6.8% in 1993-94. The State's non-farm job growth rate is expected to mirror the path of employment growth of the nation (decline 1.3% in 1992-93 and rise 4.3% in 1993-94). The State's two largest and fastest growing private employment categories are the service and trade sectors. Employment in these sectors is expected to decline 3.6% for trade and growth and 1.5% for services in 1991-92 and are expected to grow 0.7% and 3.7% in 1992-93, respectively. Together, they account for more than half of the total non-farm employment growth over the next two years. The service sector has overtaken the trade sector and is now the State's largest employment

category.

The number of tourists coming to the State has stabilized. The State's tourist industry over the years has become more sophisticated, attracting visitors year-round, thus, to a degree, reducing its seasonality. Approximately 40.9 million people visited the State in 1992. During 1992-93, tourist arrivals are expected to be approximately 42 million.

The State's per capita personal income in 1992 of $19,397 was slightly below the national average of $19,841 and significantly ahead of that for the southeast United States, which was $17,661. Growth in real personal income in the State follows a course similar to that of the nation. Real personal income is estimated to increase 0.7% in 1992-93 and increasing 5.1% in 1993-94. The decrease in the 1992-93 level is due to property loses resulting from Hurricane Andrew.

Compared to other states, Florida has a proportionately greater retirement age population, which comprises 18.3% of the State's population, and is forecast to grow at over 1.96% through the 1990s. Thus, property income (dividends, interest, and rent) and transfer payments (Social Security and pension benefits, among other sources of income) are relatively more important sources of income. For example, Florida's total wages and salaries and other labor income in 1990 and 1991 was 54.9% and 54.8%, respectively of total income, while a similar figure for the nation for 1990 and 1991 was 64.8% and 64.4%, respectively. Transfer payments are typically less sensitive to the business cycle than employment income and, therefore, act as stabilizing forces in weak economic periods; however, these payments, which have increased approximately 8.6% annually from 1985-90, may also be subject to greater risks from inflation.

In fiscal year 1990-91, approximately 64% of the State's total direct revenue to its four operating funds were derived from state taxes, with federal grants and other special revenue accounting for the balance. State sales and use tax, corporate income tax, and beverage tax amounted to 66%, 7%, and 5%, respectively, of total receipts by the General

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Revenue Fund during fiscal 1990-91. In that same year, expenditures for education, health and welfare, and public safety amounted to 55%, 27%, and 8%, respectively, of total expenditures from the General Revenue Fund. At the end of fiscal year 1991, approximately $4.45 billion in principal amount of debt secured by the full faith and credit of the State was outstanding. Since July 1, 1991 through August 1992, the State has issued $965 million in principal amount of full faith and credit bonds.

Fiscal year 1991-92 General Revenue plus Working Capital funds available total $11,253.1 million. Compared to 1991-92 General Revenue effective appropriations of $11,066.1 million.

Estimated fiscal year 1992-93 General Revenue plus Working Capital funds available total $12,255.9 million, a 9.1% increase over 1991-92. The amount reflects a transfer of $228.8 million, out of an estimated $233.5 million in non-recurring revenue due to Hurricane Andrew, to a hurricane relief trust fund. The $12,004.1 million Estimated Revenues (excluding the Hurricane Andrew impacts) represent an increase of 10.1% over the previous year's Estimated Revenues. With effective General Revenue plus Working Capital Fund appropriations at $11,804.5 million, unencumbered reserves at the end of the fiscal year are estimated at $441.4 million.

The State Constitution and statutes mandate that the State budget, as a whole, and each separate fund within the State budget, be kept in balance from currently available revenues each fiscal year. If the Governor or Comptroller believes a deficit will occur in any State fund, by statute, he must certify his opinion to the Administrative Commission, which then is authorized to reduce all State agency budgets and releases by a sufficient amount to prevent a deficit in any fund. In response to the deficits projected for fiscal 1990-91, the State established mandatory budget holdbacks of $479.9 million and $270 million. To effectuate the holdbacks, and thus prevent a deficit, the State has undertaken significant budget reducing and revenue increasing measures, including, but not limited to, layoffs of State employees and curtailments of State services. While there can be no assurance that such measures will eliminate the State budget deficit, as of early January 1991, the 1990-91 revenue shortfall was reported to be forecast at approximately $270 million, and the State has indicated since such forecast that, based on projected revenues and further budget reductions, there will be no shortfall.

The State's sales and use tax (6%) currently accounts for the State's single largest source of tax receipts. Slightly less than 10% of the State's sales and use tax is designated for local governments and is distributed to the respective counties in which collected for such use by such counties and municipalities. In addition to this distribution, local governments may (by referendum) assess a 0.5% or a 1.0% discretionary sales surtax within their county. Proceeds from this local option sales tax are earmarked for funding local infrastructure programs and acquiring land for public recreation or conservation or protection of natural resources as provided under Florida law. Certain charter counties have other taxing powers in addition. For the fiscal year ended June 30, 1992, estimated sales and use tax receipts (exclusive of the tax on gasoline and special fuels) totalled $8,375.5 million, an increase of 2.7% over fiscal year 1990-91.

The State imposes an alcoholic beverage wholesale tax (excise tax) on beer, wine, and liquor. This tax is one of the State's major tax sources, with revenues totalling $435.2 million in fiscal year ending June 30, 1992. Alcoholic beverage tax receipts declined over the previous

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year. The revenues collected from this tax are deposited into the State's General Revenue Fund.

The second largest source of State tax receipts is the tax on motor fuels. However, these revenues are almost entirely dedicated trust funds for specific purposes and are not included in the State's General Fund.

The State imposes a corporate income tax. All receipts of the corporate income tax are credited to the General Revenue Fund. For the fiscal year ended June 30, 1992, receipts from this source were $801.3 million, a increase of 14.2% from fiscal year 1990-91.

The State also imposes a stamp tax on deeds and other documents relating to realty, corporate shares, bonds, certificates of indebtedness, promissory notes, wage assignments, and retail charge accounts. The documentary stamp tax collections totaled $472.4 million during fiscal year 1991-92, a 0.5% increase from the previous fiscal year. For the fiscal year 1991-92, 76.21% of the documentary stamp tax revenues were deposited to the General Revenue Fund. Beginning in fiscal year 1992-93, 71.29% of these taxes are to be deposited to the General Revenue Fund.

On January 12, 1988, the State began its own lottery. State law requires that lottery revenues be distributed 50% to the public in prizes, 37.5% for use in enhancing education, and the balance, 12.5%, to retailers as commissions for their services and for administration of the lottery. Additionally, the 1990 State Legislature decreased the allocation for administrative costs to 12.0% for fiscal year 1990-91. Lottery ticket sales totalled $2.19 billion in fiscal 1991-92, providing education with $835.4 million.

Currently under litigation are several issues relating to State actions or State taxes that put at risk substantial amounts of General Revenue Fund monies. Accordingly, there is no assurance that any of such matters, individually or in the aggregate, will not have a material adverse effect on the State's financial position.

In the wake of the U.S. Supreme Court decision holding that a Hawaii law unfairly discriminated against out-of-state liquor producers, suits have been filed in the State's courts contesting a similar State law (in effect prior to 1985), that seek $384 million in tax refunds. A trial court, in a ruling that was subsequently upheld by the State's Supreme Court, found the State law in question to be unconstitutional but made its ruling operate prospectively, thereby denying any tax refunds. The issue of whether the unconstitutionality of the tax should be applied retroactively was recently decided by the United States Supreme Court. The Supreme Court found in favor of the taxpayers. On remand from the U.S. Supreme Court, the Florida Supreme Court, on January 15, 1991, mandated further proceedings to fashion a "clear and certain remedy" consistent with constitutional restrictions and the opinion of the U.S. Supreme Court. The Florida Department of Revenue has proposed to the Florida Supreme Court that the Department be allowed to collect back tax from those who received a tax preference under the prior law. If the Department's proposal is rejected and tax refunds are ordered to all potential claimants, a liability of approximately $298 million could result. The case is now before the Florida Circuit Court, 2nd Judicial District. That court will hear affected parties response to the Department's proposed collection of the tax at the higher rate charged to out-of-staters.

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Florida law provides preferential tax treatment to insurers who maintain a home office in the State. Certain insurers challenged the constitutionality of this tax preference and sought a refund of taxes paid. Recently, the State Supreme Court ruled in favor of the State. Similar issues have been raised in other cases where insurers have challenged taxes imposed on premiums received for certain motor vehicle service agreements. These four cases and pending refund claims total about $200 million.

On August 24, 1992, the State was hit with a major hurricane, Hurricane Andrew. Published speculation estimates total damage to the southern portion of the State to be $20-30 billion. The actual economic impact to the State is unknown at this time, but, in published reports, the director of economic and demographic research for the Joint Legislative Management Committee of the State's Legislature estimates that the State's revenues from sales tax collection will exceed the estimates prior to Andrew. It is estimated that about $15.0 billion of these losses are insured. In addition, a major funding package totalling $10.6 billion from the federal government will provide additional funding to help offset these losses. However, the Revenue Estimating Conference has estimated additional non-recurring General Revenues totalling $645.8 million during fiscal years 1992-93, 1993-94 and 1994-95 as a result of increased economic activity. In a December 1992 special session, the Legislature enacted a law that sets aside an estimated $630.4 million of the $645.8 million hurricane revenue windfall to be used by State and local government agencies to defray a wide array of expenditures related to Hurricane Andrew.

Florida maintains a bond rating of Aa and AA from Moody's Investors Service and Standard & Poor's Corporation, respectively, on the majority of its general obligation bonds, although the rating of a particular series of revenue bonds relates primarily to the project, facility, or other revenue source from which such series derives funds for repayment. While these ratings and some of the information presented above may indicate that Florida is in satisfactory economic health, there can be no assurance that there will not be a decline in economic conditions or that particular Bonds in the portfolio of the Florida Trust will not be adversely affected by any such changes.

The sources for the information above include official statements and financial statements of the State of Florida. While the sponsor has not independently verified this information, the Sponsor has no reason to believe that the information is not correct in all material respects.

Maryland Trust

State Debt. The Public indebtedness of the State of Maryland and its instrumentalities is divided into three general types. The State issues general obligation bonds for capital improvements and for various State projects, to the payment of which the State ad valorem property tax is exclusively pledged. In addition, the Maryland Department of Transportation issues for transportation purposes its limited, special obligation bonds payable primarily from specific, fixed-rate excise taxes and other revenues related mainly to highway use. Certain authorities issue obligations payable solely from specific non-tax, enterprise fund revenues and for which the State has no liability and has given no moral obligation assurance.

General obligation bonds of the State are authorized and issued primarily to provide funds for State-owned capital improvements, including institutions of higher learning, and the construction of locally

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owned public schools. Bonds have also been issued for local government improvements, including grants and loans for water quality improvement projects and correctional facilities, to provide funds for repayable loans or outright grants to private, non-profit cultural or educational institutions, and to fund certain loan and grant programs.

The Maryland Constitution prohibits the contracting of State debt unless it is authorized by a law levying an annual tax or taxes sufficient to pay the debt service within 15 years and prohibiting the repeal of the tax or taxes or their use for another purpose until the debt is paid. As a uniform practice, each separate enabling act which authorizes the issuance of general obligation bonds for a given object or purpose has specifically levied and directed the collection of an ad valorem property tax on all taxable property in the State. The Board of Public Works is directed by law to fix by May 1 of each year the precise rate of such tax necessary to produce revenue sufficient for debt service requirements of the next fiscal year, which begins July 1. However, the taxes levied need not be collected if or to the extent that funds sufficient for debt service requirements in the next fiscal year have been appropriated in the annual State budget. Accordingly, the Board, in annually fixing the rate of property tax after the end of the regular legislative session in April, takes account of appropriations of general funds for debt service.

In the opinion of counsel, the courts of Maryland have jurisdiction to entertain proceedings and power to grant mandatory injunctive relief to (i) require the Governor to include in the annual budget a sufficient appropriation to pay all general obligation bond debt service for the ensuing fiscal year; (ii) prohibit the General Assembly from taking action to reduce any such appropriation below the level required for that debt service; (iii) require the Board of Public Works to fix and collect a tax on all property in the State subject to assessment for State tax purposes at a rate and in an amount sufficient to make such payments to the extent that adequate funds are not provided in the annual budget; and (iv) provide such other relief as might be necessary to enforce the collection of such taxes and payment of the proceeds of the tax collection to the holders of general obligation bonds, pari passu, subject to the inherent constitutional limitations referred to below.

It is also the opinion of counsel that, while the mandatory injunctive remedies would be available and while the general obligation bonds of the State are entitled to constitutional protection against the impairment of the obligation of contracts, such constitutional protection and the enforcement of such remedies would not be absolute. Enforcement of a claim for payment of the principal of or interest on the bonds could be subject to the provisions of any statutes that may be constitutionally enacted by the United States Congress or the Maryland General Assembly extending the time for payment or imposing other constraints upon enforcement.

There is no general debt limit imposed by the Maryland Constitution or public general laws, but a special committee created by statute annually submits to the Governor an estimate of the maximum amount of new general obligation debt that prudently may be authorized. Although the committee's responsibilities are advisory only, the Governor is required to give due consideration to the committee's findings in preparing a preliminary allocation of new general debt authorization for the next ensuing fiscal year.

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Consolidated Transportation Bonds are limited obligations issued by the Maryland Department of Transportation, the principal of which must be paid within 15 years from the date of issue, for highway, port, transit, rail or aviation facilities or any combination of such facilities. Debt service on Consolidated Transportation Bonds is payable from those portions of the excise tax on each gallon of motor vehicle fuel and the motor vehicle titling tax, all mandatory motor vehicle registration fees, motor carrier fees, and the corporate income tax as are credited to the Maryland Department of

Transportation, plus all departmental operating revenues and receipts. Holders of such bonds are not entitled to look to other sources for payment.

The Maryland Department of Transportation also issues its bonds to provide financing of local road construction and various other county transportation projects and facilities. Debt service on these bonds is payable from the subdivisions' share of highway user revenues held to their credit in a special State fund.

The Maryland Transportation Authority operates certain highway, bridge and tunnel toll facilities in the State. The tolls and other revenues received from these facilities are pledged as security for revenue bonds of the Authority issued under and secured by a trust agreement between the Authority and a corporate trustee.

Certain other instrumentalities of the State government are authorized to borrow money under legislation which expressly provides that the loan obligations shall not be deemed to constitute a debt or a pledge of the faith and credit of the State. The Community Development Administration of the Department of Housing and Community Development, the Board of Trustees of St. Mary's College of Maryland, the Maryland Environmental Service, the Board of Regents of the University of Maryland System, the Board of Regents of Morgan State University, and the Maryland Food Center Authority have issued and have outstanding bonds of this type. The principal of and interest on bonds issued by these bodies are payable solely from various sources, principally fees generated from use of the facilities or enterprises financed by the bonds.

Under a Comprehensive Plan of Financing, as amended, of the Maryland Stadium Authority, the Authority is authorized to finance the acquisition and construction of sports facilities at a site within the City of Baltimore. Under the Plan of Financing, the Authority proposes to engage in a series of borrowings, together with certain equity contributions, to finance acquisitions of the site, construction of a baseball stadium and ancillary facilities, and if a lease agreement is executed between the Authority and a professional football franchise, a football stadium.

The Authority's financings as well as any future financings for a football stadium are leased-backed revenue obligations, payment of which is secured by among other things, an assignment of revenues to be received under a lease of the sports facilities from the Authority to the State of Maryland; rental payments due from the State under that lease will be subject to annual appropriation by the Maryland General Assembly. The State anticipates that revenues to fund the lease payments will be generated from a variety of sources,

including in each year sports lottery revenues, the net operating revenues of the Authority and funds from the City of Baltimore.

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The Water Quality Revolving Loan Fund is administered by the Water Quality Financing Administration in the Department of the Environment. The Fund may be used to provide loans, subsidies and other forms of financial assistance to local government units for wastewater treatment projects as contemplated by the 1987 amendments to the Federal Water Pollution Control Act. The Administration is authorized to issue bonds secured by revenues of the Fund, including loan repayments, federal capitalization grants, and matching State grants.

The University of Maryland System, Morgan State University, and St. Mary's College of Maryland are authorized to issue revenue bonds for the purpose of financing academic and auxiliary facilities. Auxiliary facilities are any facilities that furnish a service to students, faculty, or staff, and that generate income. Auxiliary facilities include housing, eating, recreational, campus, infirmary, parking, athletic, student union or activity, research laboratory, testing, and any related facilities.

On August 7, 1989, the Governor issued an Executive Order assigning to the Department of Budget and Fiscal Planning responsibility to review certain proposed issuances of revenue and enterprise debt other than private activity bonds. The Executive Order also provides that the Governor may establish a ceiling of such debt to be issued during the fiscal year, which ceiling may be amended by the Governor.

Although the State has authority to make short-term borrowings in anticipation of taxes and other receipts up to a maximum of $100 million, in the past it has not issued short-term tax anticipation and bond anticipation notes or made any other similar short-term borrowings. However, the State has recently issued certain obligations in the nature of bond anticipation notes for the purpose of assisting several savings and loan associations in qualifying for Federal insurance and in connection with the assumption by a bank of the deposit liabilities of an insolvent savings and loan association.

The State has financed the construction and acquisition of various facilities through unconditional purchase, sale-leaseback, and similar transactions. By statute, all of the lease payments under these arrangements are subject to an annual appropriation by the Maryland General Assembly. In the event that appropriations are not made, the State may not be held contractually liable for the payments.

Savings and Loan matters. During the first half of calendar year 1985, several State-chartered savings and loans associations, the savings accounts of which were privately insured, experienced unusually heavy withdrawals of funds by depositors. The resulting decline in the associations' liquid assets led to the appointment of receivers for the assets of six associations and the creation of an agency of the State to succeed, by statutory merger, the private insurer. The savings accounts of all savings and loan associations operating in the State of Maryland must be insured by either the State agency or the Federal Savings and Loan Insurance Corporation. The State agency assumed the insurance liabilities of the private insurance agency with respect to deposits made prior to May 18, 1985, and insures amounts deposited after that date up to the amount insured by the Federal Savings and Loan Insurance Corporation.
The legislation establishing the insurance agency provides that "It is the policy of this State that funds will be appropriated to the (insurance agency) to the extent necessary to protect holders of savings accounts in member associations". As of December 31, 1989, depositors of all

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insured accounts at associations in receivership have been paid in full. Because the amount of the losses incurred by the State Insurance Agency are estimated and because numerous lawsuits involving the Agency are pending, the ultimate outcome of the savings and loan situation is uncertain.

Local Subdivision Debt. The counties and incorporated municipalities in Maryland issue general obligation debt for general governmental purposes. The general obligation debt of the counties and incorporated municipalities is generally supported by ad valorem taxes on real estate, tangible personal property and intangible personal property subject to taxation. The issuer typically pledges its full faith and credit and unlimited taxing power to the prompt payment of the maturing principal and interest on the general obligation debt and to the levy and collection of the ad valorem taxes as and when such taxes become necessary in order to provide sufficient funds to meet the debt service requirements. The amount of debt which may be authorized may in some cases be limited by the requirement that it not exceed a stated percentage of the assessable base upon which such taxes are levied.

In the opinion of counsel, the issuer may be sued in the event that it fails to perform its obligations under the general obligation debt to the holders of the debt, and any judgments resulting from such suits would be enforceable against the issuer. Nevertheless, a holder of the debt who has obtained any such judgment may be required to seek additional relief to compel the issuer to levy and collect such taxes as may be necessary to provide the funds from which a judgment may be paid. Although there is no Maryland law on this point, it is the opinion of counsel that the appropriate courts of Maryland have jurisdiction to entertain proceedings and power to grant additional relief, such as mandatory injunction, if necessary, to enforce the levy and collection of such taxes and payment of the proceeds of the collection of the taxes to the holders of general obligation debt, pari passu, subject to the same constitutional limitations on enforcement, as described above, as apply to the enforcement of judgments against the State.

Local subdivisions, including counties and municipal corporations, are also authorized by law to issue special and limited obligation debt for certain purposes other than general governmental purposes. The source of payment of that debt is limited to certain revenues of the issuer derived from commercial activities operated by the issuer, payments made with respect to certain facilities or loans, and any funds pledged for the benefit of the holders of the debt. That special and limited obligation debt does not constitute a debt of the State, the issuer or any other political subdivision of either within the meaning of any constitutional or statutory limitation. Neither the State nor the issuer or any other political subdivision of either is obligated to pay the debt or interest on the debt except from the revenues of the issuer specifically pledged to the payment of the debt. Neither the faith and credit nor the taxing power of the State, the issuer or any other political subdivision of either is pledged to the payment of the debt. The issuance of the debt is not directly or indirectly or contingently an obligation, moral or other, of the State, the issuer or any other political subdivision of either to levy any tax for its payment.

Washington Suburban Sanitary District Debt. The Washington Suburban Sanitary District operates as a public corporation of the State to provide, as authorized, water, sewerage and drainage systems, including water supply, sewage disposal, and storm water drainage facilities for Montgomery County, Maryland and Prince George's County, Maryland. For the purpose of paying the principal of and interest on bonds of the District,

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Maryland law provides for the levy, annually, against all the assessable property within the District by the County Council of Montgomery County and the County Council of Prince Georges County of ad valorem taxes sufficient to pay such principal and interest when due and payable.

Storm water drainage bonds for specific projects are payable from ad valorem tax upon all of the property assessed for county tax purposes within the portion of the District situated in the county in which the storm water project was, or is to be, constructed. Storm water drainage bonds of the District are also guaranteed by such county, which guaranty operates as a pledge of the full faith and credit of the county to the payment of the bonds and obligates the county council to the extent that the tax revenues referred to above and any other money available or to become available are inadequate to provide the funds necessary to pay the principal of and the interest on the bonds, to levy upon all property subject to taxation within the county ad valorem taxes in rate and in amount sufficient to make up any such deficiency.

Substantially all of the debt service on the bonds, except storm water drainage bonds, is being paid from revenues derived by the District from water consumption charges, from foot benefit charges, and sewage usage charges. Notwithstanding the payment of principal of and interest on those bonds from those charges, the underlying security of all bonds of the District is the levy of ad valorem taxes on the assessable property as stated above.

Special Authority Debt. The State and local governments have created several special authorities with the power to issue debt on behalf or the State of local government for specific purposes, such as providing facilities for non-profit health care and higher educational institutions, facilities for the disposal of solid waste, funds to finance single family and low-to-moderate income housing, and similar purposes. The Maryland Health and Higher Educational Facilities Authority, the Northeast Maryland Waste Disposal Authority, the Housing Opportunities Commission of Montgomery County, and the Housing Authority of Prince Georges County are some of the special authorities which have issued and have outstanding debt of this type.

The debts of the authorities issuing debt on behalf of the State and the local governments are limited obligations of the authorities payable solely from and secured by a pledge of the revenues derived from the facilities or loans financed with the proceeds of the debt and from any other funds and receipts pledged under an indenture with a corporate trustee. The debt does not constitute a debt, liability or pledge of the faith and credit of the State or of any political subdivision or of the authorities. Neither the State nor any political subdivision thereof nor the authorities shall be obligated to pay the debt or the interest on the debt except from such revenues, funds and receipts. Neither the faith and credit nor the taxing power of the State or of any political subdivision of the State or the authorities is pledged to the payment of the principal of or the interest on such debt. The issuance of the debt is not directly or indirectly an obligation, moral or other, of the State or of any political subdivision of the State or of the authority to levy or to pledge any form of taxation whatsoever, or to make any appropriation, for their payment. The authorities have no taxing power.

Hospital Bonds. The rates charged by non-governmental Maryland hospitals are subject to review and approval by the Maryland Health Services Cost Review Commission. Maryland hospitals subject to regulation by the Commission are not permitted to charge for services at rates other than those established by the Commission. In addition, the

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Commission is required to permit any nonprofit institution subject to its jurisdiction to charge reasonable rates which will permit the institution to provide, on a solvent basis, effective and efficient service in the public interest.

Under an agreement between Medicare and the Commission, Medicare agrees to pay Maryland hospitals on the basis of Commission-approved rates, less a 6% differential. Under this so-called "Medicare Waiver", Maryland hospitals are exempt from the Medicare Prospective Payment System which pays hospitals fixed amounts for specific services based upon patient diagnosis. No assurance can be given that Maryland will continue to meet any current or future tests for the continuation of the Medicare Waiver.

In setting hospital rates, the Commission takes into account each hospital's budgeted volume of services and cash financial requirements for the succeeding year. It then establishes the rates of the hospital for the succeeding year based upon the projected volume and those financial requirements of the institution which the Commission has deemed to be reasonable. Financial requirements allowable for inclusion in rates generally include budgeted operating costs, a "capital facilities allowance", other financial considerations (such as charity care and bad debts) and discounts allowed certain payers for prompt payment. Variations from projected volumes of services are reflected in the rates for the succeeding year. The Commission, on a selective basis by the application of established review criteria, grants Maryland hospitals increases in rates to compensate for inflation experienced by hospitals and for other factors beyond the hospitals' control.

Regulations of the Commission provide that overcharges will in certain circumstances be deducted from prospective rates. Similarly, undercharges will in certain circumstances not be recoverable through prospective rates.

The Commission has entered into agreements with certain hospitals to adjust rates in accordance with a prospectively approved, guaranteed inpatient revenue per admission program. Those agreements are in addition to the rate adjustment methodology discussed above. Under the program, a hospital's revenue per admission is compared to the revenue per admission, as adjusted, for a base year. Variations from the adjusted base year revenues per admission are added or deducted, as the case may be, from the hospital's gross revenue and rates for the following year.

There can be no assurance that the Commission will continue to utilize its present rate-setting methodology or approve rates which will be sufficient to ensure payment on an individual hospital's obligations. Future actions by the Commissions or the loss of the Medicare Waiver may adversely affect the operations of individual hospitals.

Changes in economic conditions in or governmental policies of the state of Maryland could have a significant impact on the performance of the Maryland Trust. For example, services (including mining), wholesale and retail trade, government, and manufacturing (primarily printing and publishing, food and kindred products, instruments and related products, electronic equipment, industrial machinery and transportation equipment), are the leading areas of employment in the State of Maryland. In contrast to the nation as a whole, more people in Maryland are employed in government than in

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manufacturing. The relatively high concentration of governmental employment in Maryland makes the state potentially vulnerable spending. Recent Maryland executive branch projections show a budgetary deficit for the fiscal year ending June 30, 1991. The Governor of Maryland has recently acted to curtail spending in response to the projected deficit for that fiscal year.

In recent years, finance, insurance, and real estate were large contributors to the gross state product. The continued strength in those sectors is subject to question given recent disclosures indicating financial weakness in major banking and insurance companies having their corporate headquarters in Maryland and the general regional decline in real estate activity and values.

The State is the subject of numerous legal proceedings relating to normally recurring governmental operations in which the State is a defendant and where monetary damages sought are substantial. These proceedings could adversely affect the financial condition of the State for the present or any future fiscal year.

Massachusetts Trust

In the past, the Commonwealth of Massachusetts, and certain of its public bodies and municipalities, including the City of Boston, have faced serious financial difficulties which have adversely affected the credit standing and borrowing abilities of Massachusetts and the respective entities.

The recurrence of such financial difficulties could result in declines in the market values of, or default on, existing obligations, including Bonds deposited in the Massachusetts Trust. The following constitutes only a brief summary of the most significant financial problems of the Commonwealth of Massachusetts and issues related to its financial condition and does not purport to be complete.

On June 30, 1991 the legislature approved a fiscal 1992 budget of $12.994 billion. The budget as passed represents a substantial reduction in levels of spending for a variety of programs, including a reduction in local aid of approximately $328 million. As signed by the Governor on July 10, 1991, the budget for fiscal 1992 was based on estimated total revenues of $13.032 billion (including estimated tax revenues of $8.292 billion, which was $703 million less than tax revenues for fiscal 1991) and total estimated expenditures of $13.177 billion (including, at that time, approximately $537 million

in anticipated supplemental appropriations). The fiscal 1992 budget was projected to end the year with a small positive balance through the use of $145 million in estimated positive balances from fiscal 1991.

With regard to revenues, the fiscal 1992 budget as signed depended on non-tax and one-time revenue sources, such as the sale of certain assets, the availability of which was subject to certain contingencies. The fiscal 1992 budget as signed assumed continued federal reimbursements related to uncompensated care payments. The federal Health Care Financing Administration has published regulations to become effective October 1, 1992 that are not expected to materially affect these reimbursements in fiscal 1992 and it is currently expected that the amount of such federal reimbursements in fiscal 1992 will be $195 million.

With regard to spending, the budget made large reductions in appropriations for certain programs such as Medicaid, General Relief,

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and Group Health Insurance, where spending has been difficult to control in the past.

Budgeted revenues and other sources for fiscal 1992 were $13.728 billion, including projected tax revenues of $9.484 billion. Budgeted revenues and other sources increased by approximately 0.7% from fiscal 1991 to fiscal 1992, while tax revenues increased by 5.4% for the same period.

Budgeted expenditures were approximately $13.420 billion in fiscal 1992, which is $238.7 million, or 1.7%, lower than fiscal 1991 budgeted expenditures. Final fiscal 1992 budgeted expenditures were approximately $300 million higher than the initial July 1991 estimates of budgeted expenditures. While certain expenditures were less than originally estimated, spending for certain human services programs, in particular, was higher than initially estimated, including an increase of $268.7 million for the Medicaid program and $50.0 million for mental retardation consent decree requirements. Fiscal 1992 budgeted expenditures for Medicaid were $2.818 billion, or 1.9% higher than fiscal 1991. This increase compares favorably with the 19.0% average annual growth rate of Medicaid expenditures for fiscal years 1988 and 1991.

Overall, the budgeted operating funds ended 1992 with an excess of revenues and other sources over expenditures and other uses of $312.3 million and with positive fund balances of $549.4 million, when such excess is added to the fund balances of $237.1 million carried forward from fiscal 1991. Total fiscal 1992 spending authority continued into fiscal 1993 is $231.0 million.

After payment in full of the quarterly Local Aid distribution of $514.0 million due on June 30, 1992, retirement of the

Commonwealth's outstanding commercial paper (except for approximately $50 million of bond anticipation notes) and certain other short-term borrowings, as of June 30, 1992, the Commonwealth showed a year-end cash position of approximately $731.0 million. The fiscal 1992 ending balance compares favorably with the cash balance of $182.3 million at the end of fiscal 1991.

On January 22, 1992, the Governor submitted his fiscal 1993 budget recommendation of $13.992 billion. The Governor's budget recommendation is based on a tax revenue estimate of $9.150 billion, a decrease of approximately $75 million, or less than 1%, from estimated fiscal 1992 tax revenues of $9.225 billion. The reduction in estimated tax revenues in fiscal 1993 is attributable in part to reduction in the Commonwealth's personal income tax rate on earned income and certain other income from 6.25% to 5.95%, which took effect on January 1, 1992, and on the assumption that a proposed further reduction in that rate to 5.75% will be adopted retroactive to the same date; the rate reductions are estimated to decrease fiscal 1993 tax revenues by $210 million and $140 million, respectively. The fiscal 1993 reduction in estimated tax revenues is also attributable in part to proposed new tax credits which are estimated to reduce tax revenues by approximately $52 million in fiscal 1993.

On November 17, 1992, the Legislature authorized the partial funding of certain collective bargaining agreements between the Commonwealth and its employees. These agreements, which were originally scheduled to take effect in January 1991, included a three year increase in wage levels for Commonwealth employees of approximately 13.7%. The legislative authorization effectively increases wage levels by

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6% during the remainder of fiscal 1993, and by approximately an additional 7% for fiscal 1994. This action increases the Commonwealth's compensation obligations by approximately $39.8 million for fiscal 1993 and $173.8 million for fiscal 1994. The Governor vetoed the legislation authorizing such funding due to then current fiscal conditions. However, the veto was overridden by the Legislature and the pay raise was implemented effective December 21, 1992.

The fiscal 1993 budget is based on estimated budgeted revenue and other sources of $14.641 billion (including the current tax revenue estimate of $9.940 billion). Concurrently with signing the fiscal 1993 budget, the Governor vetoed or reduced approximately $315.0 million in line-item appropriations. In addition, the Governor vetoed certain legislative riders to the fiscal 1993 budget which affected the ability of the Commonwealth to collect an estimated $69.0 million of non-tax revenues otherwise available for fiscal 1993. The Legislature has overridden the Governor's veto of approximately $200.3 million of fiscal 1993 budgetary spending

authority. In addition, the Legislature has extended certain fiscal 1992 spending authority to fiscal 1993. These actions will increase fiscal 1993 spending by $231.0 million. The fiscal 1993 budget, as signed by the Governor and including the additional spending authority noted above, is based upon budgeted expenditures of $14.976 billion, which is $1.556 billion or 11.6% higher than fiscal 1992 budgeted expenditures. The fiscal 1993 budget presently anticipates that the difference between estimated revenues and other sources and expenditures and other uses be provided for by application of $319.4 million of the estimated $549.4 million beginning fund balance for fiscal 1993 to produce an estimated ending fund balance for fiscal 1993 of approximately $230.0 million.

In September 1992, the Governor submitted legislation proposing various tax and other incentives for businesses to locate or remain in the Commonwealth. The legislation included a phase-out of the capital gains tax and up to $50 million of indirect loan guarantees. The legislation was not enacted during the 1992 legislative session. However, portions of the legislation were refiled in January 1993, and the Legislature is now considering a different version of the original legislation, including provisions for increasing the investment tax credit for businesses, establishing a fund to assist biotechnology firms and various tax incentives to business.

On January 27, 1993, the Governor submitted his fiscal 1994 budget recommendation which called for budgeted expenditures of approximately $15.208 billion. This recommended spending level is approximately $232.2 million, or 1.6%, over estimated budgeted expenditures for fiscal 1993 of $14.976 billion. Proposed budgeted revenues for fiscal 1994 would exceed proposed budgeted expenditures by approximately $20.5 million. The Governor's recommendation projects a fiscal 1994 ending fund balance of $250.7 million, of which $198.8 million will be in the Stabilization Fund. The Governor's budget recommendation is based on a tax revenue estimate of $10.460 billion, an increase of approximately $520 million, or approximately 5.2%, as compared to currently estimated fiscal 1993 tax revenues of $9.940 billion. This increase from fiscal 1993 to fiscal 1994 is based on estimates of real economic growth of approximately 1.75% and inflation of 2.75%, as well as additional fiscal 1994 revenues from the newly increased cigarette tax. The Governor's fiscal 1994 budget submission also proposes tax reductions aggregating $30 million, including a tax credit for credit for certain college tuition payments and a tax credit for health insurance premiums

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paid by the elderly.

Unemployment has been decreasing since January 1993 and, as of July, 1993 was 6.3%, as compared to 6.0% for June, 1993 and 8.4% for July, 1992. The United States unemployment rate in July, 1993 was 6.8%, as compared to 7.0% for June, 1993 and 7.6% for July,

1992. In addition, per capita personal income is currently growing at a rate lower than the national average.

Prior to 1980, property taxes on residential property were substantially higher in Massachusetts than in most states. In 1979, the property tax was virtually the only source of tax revenues available for use by Massachusetts cities and towns to meet local costs and represented 46% of all state and local taxes in Massachusetts. The pressures to reduce the levels of taxation in Massachusetts, particularly the property tax, culminated in the adoption on November 4, 1980 by the voters of an initiative petition, known as Proposition 2 .5, designed to cut property taxes sharply and to reduce governmental spending. The reduction in local revenues caused by Proposition 2.5 varied considerably among the cities and towns. Proposed reductions in personnel and services created strong demand from the cities and towns for substantial increases in local aid from State government. These demands lead to significant increases in local aid from fiscal 1981 to fiscal 1989. Because of decreased Commonwealth revenues, local aid declined slightly in fiscal 1990, decreased by approximately $330 million more in fiscal 1991 and decreased by $240 million more in fiscal 1992. Accordingly, substantial reductions in personnel and services may be required in certain localities and local capital expenditures may have to be further deferred.

Limitations on state tax revenues have been established by legislation approved by the Governor on October 25, 1986 and by an initiative petition approved by the voters on November 4, 1986. The two measures are inconsistent in several respects, including the methods of calculating the limits and the exclusions from the limits. The initiative petition, unlike its legislative counterpart, contains no exclusion for debt service on Commonwealth bonds and notes. Under both measures, excess revenues are returned to taxpayers in the form of lower taxes. It is not yet clear how differences between the two measures will be resolved. State tax revenues in fiscal 1988 through fiscal 1992 did not exceed the limit imposed either by the initiative petition or the legislative enactment. The Executive Office for Administration and Finance currently estimates that state tax revenues in fiscal 1993 will not reach the limit imposed by either of these statutes.

The Commonwealth's two retirement systems historically have been operated on a pay-as-you-go basis, resulting in a significant unfunded pension liability. In January 1988, comprehensive pension reform legislation was approved which will require the Commonwealth to fund future pension liabilities on a current basis and to amortize over a 40-year period its existing unfunded liabilities for the two state retirement systems and for the cost-of-living adjustments for local systems. The new legislation also provides for state aid to local pension systems which also commit to eliminating their unfunded liabilities over a 40-year period. Total pension expenditures

increased at an average annual rate of 5.8% from $600.2 million in fiscal 1988 to $751.5 million in 1992. In November 1992, the Legislature overrode the Governor's veto of approximately $14.9 million of spending authority passed by the Legislature to fund 5% cost of living adjustments for certain Commonwealth, county and municipal retirees for the period January 1, 1992 through June 30, 1992, which spending authority is

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included within fiscal 1992 pension expenditures. The estimated pension expenditures (inclusive of current benefits and pension reserves) for fiscal 1993 are $873.8 million, representing an increase of 16.2% over fiscal 1992 expenditures.

Capital spending by the State in the State bond funds was approximately $595 million in fiscal 1987, $632 million in fiscal 1988, $971 million in fiscal 1989, $936 million in fiscal 1990, $847.1 million in fiscal 1991 and $694 million in fiscal 1992. Capital expenditures are projected to increase to $821 million in fiscal 1993.

The Commonwealth maintains financial information on a budgetary basis. Since fiscal year 1986, the Comptroller also has prepared annual financial statements in accordance with generally accepted accounting principles (GAAP) as defined by the Government Accounting Standards Board. On a GAAP basis all budgeted operating funds of the Commonwealth had deficits of $51.6 million, $946.2 million, $1.896 billion, $761.2 million and $381.6 million at the end of fiscal years 1988, 1989, 1990, 1991 and 1992, respectively.

Many factors affect the financial condition of the Commonwealth, including many social, environmental and economic conditions which are beyond the control of the Commonwealth. As with most urban states, the continuation of many of the Commonwealth's programs, particularly its human services programs, is in significant part dependent upon continuing federal reimbursements which have been declining. Recent federal legislation has effected substantial reductions in direct federal payments and in grants to states and municipalities for programs in social service, water pollution control and other areas. The loss of grants to the state and the cities and towns could slow economic development and cause programs to be curtailed or cause the recipients of such funding to find other revenue sources. Reductions in state revenues, reductions in federal aid, the rehabilitation of public facilities and meeting environmental requirements for clean water and clean air and solid and hazardous waste disposal are expected to be the principal challenges for the Commonwealth and its local governments in the near future.

The Sponsors are unable to predict what effect, if any, such factors may have on the Bonds in the Massachusetts Trust. Nevertheless, investors should be aware that if there should be a financial crisis relating to Massachusetts, its public bodies or municipalities (including the city of Boston), the market value and marketability of all outstanding bonds issued by the Commonwealth and its public authorities or municipalities, including the Bonds in the Massachusetts Trust, could be adversely affected.

Minnesota Trust

In the early 1980s, the State of Minnesota experienced financial difficulties due to a downturn in the State's economy resulting from the national recession. As a consequence, the State's revenues were significantly lower than anticipated in the July 1, 1979 to June 30, 1981 biennium and the July 1, 1981 to June 30, 1983 biennium. In response to revenue shortfalls, the legislature broadened and increased the State sales tax, increased income taxes (by increasing rates and eliminating deductions) and reduced appropriations and deferred payments of State aid, including appropriations for and aids to local governmental units. The State's fiscal problems affected other governmental units within the State, such as local government, school districts and state agencies, which, in varying degrees, also faced cash flow difficulties. In certain cases, revenues of local governmental units

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and agencies were reduced by the recession. Because of the State's fiscal problems, Standard & Poor's Corporation reduced its rating of the State's outstanding general obligation bonds from AAA to AA+ in August 1981 and to AA in March 1982. Moody's Investors Service, Inc. lowered its rating on the State's outstanding general obligation bonds from Aaa to Aa in April 1982.

The State's economy recovered in the July 1, 1983 to June 30, 1985 biennium, and substantial reductions in the individual income tax were enacted in 1984 and 1985. Standard & Poor's raised its rating on the State's outstanding general obligation bonds to AA+ in January 1985. In 1986, 1987 and 1991, legislation was required to eliminate projected budget deficits by raising additional revenue and reducing expenditures, including aid to political subdivisions and higher education and making other budgetary adjustments. A budget forecast released by the Department of Finance on February 27, 1992 projected a $569 million budget shortfall, primarily attributable to reduced income tax receipts, for the biennium ending June 30, 1993. Planning estimates for the 1994-95 biennium project a budget shortfall of $1.75 billion (less a $400 million reserve). The State responded by enacting legislation that made substantial accounting changes, reduced the budget reserve (cash flow account) by $160 million to $240 million, reduced appropriations for state agencies and higher education, imposed a sales tax on purchases by local governmental units, and adopted other tax and spending changes. A revised forecast released by the Department of Finance on November 24, 1992 reflects these legislative changes and projects a $217 million General Fund surplus at the end of the current biennium, June 30, 1993, plus a $240 million cash flow account, against a total budget for the biennium of approximately $14.6 billion, and planning estimates for the 1994-95 biennium project a budget shortfall of $986 million (less the $217 million balance carried forward and the $240 million cash flow account).
Although Standard & Poor's has affirmed its rating on the State's general obligation bonds in connection with a July, 1992 issue, it has revised its outlook for the rating to "negative." The projections generally do not include increases for inflation or operating costs, except where Minnesota law requires them.

Tax refund actions for 1979-83 have been filed by over 170 Minnesota banks, alleging that the Minnesota bank excise tax was invalid because the State of Minnesota excluded interest on certain obligations of the State and its political subdivisions from the computation of the tax while including interest on federal obligations. The Ramsey County District Court tried this issue on a test case basis, and found in favor of plaintiffs. The court held the Minnesota bank excise tax unlawful on the grounds that it discriminated against federal obligations and that the tax is an income tax rather than a franchise tax. The District Court judgments have been reversed by the Minnesota Supreme Court on the grounds that (1) the bank excise tax is a franchise tax, (2) the banks should be estopped from asserting their challenge to the tax, since they accepted the benefits of the exemption for interest on State of Minnesota obligations, and (3) the invalid provisions should be severed from the statute. On June 28, 1993, however, the United States Supreme Court vacated the judgment of the Minnesota Supreme Court and remanded the case for further consideration in light of the recent decision in HARPER V. VIRGINIA DEPARTMENT OF TAXATION. The taxes and interest in suit are estimated to be in excess of $188 million for the tax at issue, 1979-1983.
Another District Court decision has held that the State may not tax the portion of certain federal retirement annuities that is attributable to

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interest earned by the retirement fund from investments in federal obligations. This judgment has been reversed by the Minnesota Supreme Court, but plaintiffs have indicated that they plan to seek review of this case by the United States Supreme Court. The amount at issue is approximately $8 million, plus per tax year. The State of Minnesota is also a party to a variety of other civil actions which could adversely affect the State's general fund. A Minnesota District Court has held certain elements of the State's financing system for public education unconstitutional under the State equal protection clause and has ordered the development of appropriate changes to such financing system. It is not possible to predict what effect this decision will have on the budgetary situations of the State and local school districts.

State grants and aids represent a large percentage of the total revenues of cities, towns, counties and school districts in Minnesota. Even with respect to Bonds that are revenue obligations of the issuer and

not general obligations of the State, there can be no assurance that the fiscal problems referred to above will not adversely affect the market value or marketability of the Bonds or the ability of the respective obligors to pay interest on and principal of the Bonds.

Missouri Trust

The following discussion regarding constitutional limitations and the economy of the State of Missouri is included for the purpose of providing general information that may or may not affect issuers of the Bonds in Missouri.

In November 1981, the voters of Missouri adopted a tax limitation amendment to the constitution of the State of Missouri (the "Amendment"). The Amendment prohibits increases in local taxes, licenses, or fees by political subdivisions without approval of the voters of such political subdivision. The Amendment also limits the growth in revenues and expenditures of the State to the rate of growth in the total personal income of the citizens of Missouri. The limitation may be exceeded if the General Assembly declares an emergency by a two-thirds vote. The Amendment did not limit revenue growth at the state level in fiscal 1982 through 1991 with exception of fiscal 1984. Management Report No. 85-20, which was issued on March 5, 1985 by State Auditor Margaret Kelly, indicates that state revenues exceeded the allowable increase by $30.52 million in fiscal 1984.

The economy of Missouri is diverse and includes manufacturing, retail and wholesale trade, services, agriculture, tourism, and mining. According to the Business and Public Administration Research Center of the College of Business and Public Administration, University of Missouri at Columbia, real per capita personal income in Missouri, adjusted for inflation, is projected to increase 5.9% during 1993. As a result of the State's weak economic outlook, Missouri General Fund Revenues are currently projected to increase by only 3.1% for the 1992-1993 fiscal year. According to the Missouri Department of Labor and Industrial Relations, the unemployment rate in Missouri for December 1992 was 5.3 percent, compared to 6.0 percent in December 1991, and 4.8 percent in November 1992. There can be no assurance that the general economic conditions or the financial circumstances of Missouri or its political subdivisions will not adversely affect the market value of the Bonds or the ability of the obligor to pay debt service on such Bonds.

Currently, Moody's Investors Service rates Missouri general obligation bonds "Aaa" and Standard & Poor's Corporation rates

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Missouri general obligation bonds "AAA". Although these ratings indicate that the State of Missouri is in relatively good economic health,

there can be, of course, no assurance that this will continue or that particular bond issues may not be adversely affected by changes in the State or local economic or political conditions.

The foregoing information constitutes only a brief summary of some of the general factors which may impact certain issuers of Bonds and does not purport to be a complete or exhaustive description of all adverse conditions to which the issuers of obligations held by the Missouri Trust are subject. Additionally, many factors including national economic, social and environmental policies and conditions, which are not within the control of the issuers of the Bonds, could affect or could have an adverse impact on the financial condition of the State and various agencies and political subdivisions located in the State. It is not possible to predict whether or to what extent such factors or other factors may affect the issuers of the Bonds, the market value or marketability of the Bonds or the ability of the respective issuers of the Bonds acquired by the Missouri Trust to pay interest on or principal of the Bonds.

New Jersey Trust

Risk Factors: Prospective investors should consider the recent financial difficulties and pressures which the State of New Jersey (the "State") and certain of its public authorities have undergone.

The State's 1994 fiscal year budget became law on June 30, 1993.

The economic recovery is likely to be slow and uneven in both New Jersey and the nation. Some sectors, like commercial and industrial construction, will undoubtedly lag because of continued excess capacity. Also, employers in rebounding sectors can be expected to remain cautious about hiring until they become convinced that improved business will be sustained. Other firms will continue to merge or downsize to increase profitability. As a result, job gains will probably come grudgingly and unemployment will recede at a corresponding slow pace.

Pursuant to the State Constitution, no money may be drawn from the State Treasury except for appropriations made by law. In addition, all monies for the support of State purposes must be provided for in one general appropriation law covering one and the same fiscal year.

In addition to the Constitutional provisions, the New Jersey statutes contain provisions concerning the budget and appropriation system. Under these provisions, each unit of the State requests an appropriation from the Director of Division of Budget and Accounting,

who reviews the budget requests and forwards them with his recommendation to the Governor. The Governor then transmits his recommended expenditures and sources of anticipated revenue to the legislature, which reviews the Governor's Budget Message and submits an appropriations bill to the Governor for his signing by July 1 of each year. At the time of signing the bill, the Governor may revise appropriations or anticipated revenues. That action can be reversed by a two-thirds vote of each House. No supplemental appropriation may be enacted after adoption of the act, except where there are sufficient

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revenues on hand or anticipated, as certified by the Governor, to meet the appropriation. Finally, the Governor may, during the course of the year, prevent the expenditure of various appropriations when revenues are below those anticipated or when he determines that such expenditure is not in the best interest of the State.

State Aid to Local Governments is the largest portion of fiscal year 1994 appropriations. In fiscal year 1994, $6,562.0 million of the State's appropriations consisted of funds which are distributed to municipalities, counties and school districts. The largest State Aid appropriation, in the amount of $4,824.1 million, was provided for local elementary and secondary education programs. Of this amount, $2,538.2 million is provided as foundation aid to school districts by formula based upon the number of students and the ability of a school district to raise taxes from its own base. In addition, the State provided $582.5 million for special education programs for children with disabilities. A $293 million program was also funded for pupils at risk of educational failure, including basic skills improvement. The State appropriated $767.2 million on behalf of school districts as the employer share of the teachers' pension and benefits programs, $263.8 million to pay for the cost of pupil transportation and $57.4 million for transition aid, which guaranteed school districts a 6.5% increase over the aid received in fiscal year 1991 and is being phased out over four years.

Appropriations to the Department of Community Affairs total $650.4 million in State Aid monies for fiscal year 1994. The principal programs funded were the Supplemental Municipal Property Tax Act ($365.7 million); the Municipal Revitalization Program ($165.0 million); municipal aid to urban communities to maintain and upgrade municipal services ($40.4 million); and the Safe and Clean Neighborhoods Program ($58.9 million). Appropriations to the State Department of the Treasury total $312.5 million in State Aid monies for fiscal year 1994. The principal programs funded by these appropriations were payments under the Business Personal Property Tax Replacement Programs ($158.7 million); the cost of senior citizens, disabled and veterans property tax deductions and exemptions ($41.7 million); aid to densely populated municipalities ($33.0 million); Municipal Purposes Tax Assistance ($30.0 million); and payments to municipalities for services

to state owned property ($34.9 million).

Other appropriations of State aid in fiscal year 1994 include: welfare programs ($477.4 million); aid to county colleges ($114.6 million); and aid to county mental hospitals ($88.0 million).

The second largest portion of appropriations in fiscal 1994 is applied to Direct State Services: the operation of State government's 19 departments, the Executive Office, several commissions, the State Legislature and the Judiciary. In fiscal 1994, appropriations for Direct State Services aggregate $4,574.6 million. Some of the major appropriations for Direct State Services during fiscal 1994 are detailed below.

$602.3 million was appropriated for programs administered by the Department of Human Services. The Department of Labor is appropriated $51.4 million for the administration of programs for workers' compensation, unemployment and disability insurance, manpower development, and health safety inspection.

The Department of Health was appropriated $37.6 million for the prevention and treatment of diseases, alcohol and drug abuse

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programs, regulation of health care facilities, and the uncompensated care program.

$673.0 million was appropriated to the Department of Higher Education for the support of eight State colleges, Rutgers University, the New Jersey Institute of Technology, and the University of Medicine and Dentistry of New Jersey.

$932.6 million was appropriated to the Department of Law and Public Safety and the Department of Corrections.

$99.8 million was appropriated to the Department of Transportation for the various programs it administers, such as the maintenance and improvement of the State highway systems and subsidies for railroads and bus companies.

$156.4 million was appropriated to the Department of Environmental Protection for the protection of air, land, water, forest, wildlife and shellfish resources and for the provision of outdoor recreational facilities.

The primary method for State financing of capital projects is through the sale of the general obligation bonds of the State. These bonds are backed by the full faith and credit of the State. State tax revenues and certain other fees are pledged to meet the principal and interest payments required to pay the debt fully. No general obligation debt can be issued by the State without prior voter approval, except that

no voter approval is required for any law authorizing the creation of a debt for the purpose of refinancing all or a portion of outstanding debt of the State, so long as such law requires that the refinancing provide a debt service savings.

All appropriations for capital projects and all proposals for State bond authorizations are subject to the review and recommendation of the New Jersey Commission on Capital Budgeting and Planning. This permanent commission was established in November, 1975, and is charged with the preparation of the State Capital Improvement Plan, which contains proposals for State spending for capital projects.

The aggregate outstanding general obligation bonded indebtedness of the State as of June 30, 1993 was $3.549.7 billion. The debt service obligation for outstanding indebtedness is $119.9 million for fiscal year 1994.

Aside from its general obligation bonds, the State's "moral obligation" backs certain obligations issued by the New Jersey Housing and Mortgage Finance Agency, the South Jersey Port Corporation (the "Corporation") and the Higher Education Assistance Authority. As of June 30, 1992, there was outstanding in excess of $1 billion of moral obligation bonded indebtedness issued by such entities, for which the maximum annual debt service was over $101 million as of such date. The State provides the Corporation with funds to cover debt service and property tax requirements when earned revenues are anticipated to be insufficient to cover these obligations. For the calendar years 1986 through 1992, the State has appropriated $12,237,565.00 to cover property tax shortfalls of the Corporation.

At any given time, there are various numbers of claims and cases pending against the State, State Agencies and employees, seeking recovery of monetary damages that are primarily paid out of the fund created pursuant to the Tort Claims Act, N.J.S.A. 59:1-1 et seq. In addition, at any given time there are various contract claims against the

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State and State agencies seeking recovery of monetary damages. The State is unable to estimate its exposure for these claims and cases. An independent study estimated an aggregate potential exposure of $50 million for claims pending, as of January 1, 1982. It is estimated that were a similar study made of claims currently pending, the amount of such estimated exposure would be somewhat higher. New Jersey is involved in a number of lawsuits in which adverse decisions could materially affect revenues or expenditures. Such cases include challenges to its system of educational funding, the methods by which the State Department of Human Services shares with county governments the maintenance recoveries and costs for residents in State psychiatric hospitals and residential facilities for the developmentally disabled.

Other lawsuits that could materially affect revenue or expenditures include a suit by a number of taxpayers seeking refunds of taxes paid to the Spill Compensation Fund pursuant to N.J.S.A. 58:10-23.11; a suit alleging that unreasonably low Medicaid payment rates have been implemented for long-term care facilities in New Jersey; a suit alleging unfair taxation on interstate commerce; a suit by Essex County seeking to invalidate the State's method of funding the medical system and a suit seeking return of moneys paid by various counties for maintenance of Medicaid or Medicare eligible residents of institutions and facilities for the developmentally disabled, and a suit challenging the imposition of premium tax surcharges on insurers doing business in New Jersey, and assessments upon property and casualty liability insurers pursuant to the Fair Automobile Insurance Reform Act.

Legislation approved June 30, 1992, effective immediately, called for revaluation of several public employee pension funds, authorized an adjustment to the assumed rate of return on investment and refunds $773 million in public employer contributions to the State from various pension funds, to be reflected as a revenue source for Fiscal Year 1992 and $226 million in Fiscal Year 1993 and each fiscal year thereafter. Several labor unions filed suit seeking a judgment directing the State Treasurer to refund all monies transferred from the pension funds and paid into the General Fund. An adverse determination would have a significant impact on Fiscal Years 1992 and 1993 revenue estimates.

Bond Ratings: Citing a developing pattern of reliance on non-recurring measures to achieve budgetary balance, four years of financial operations marked by revenue shortfalls and operating deficits, and the likelihood that financial pressures will persist, on August 24, 1992 Moody's lowered from Aaa to Aa1 the rating assigned to New Jersey general obligation bonds. Currently, Standard & Poor's rates New Jersey general obligation bonds AA+. On July 6, 1992, Standard & Poor's affirmed its AA+ ratings on New Jersey's general obligation and various lease and appropriation backed debt, but its ratings outlook was revised to negative for the longer term horizon (beyond four months) for resolution of two items: (i) the Federal Health Care Facilities Administration ruling concerning retroactive Medicaid hospital reimbursements and (ii) the State's uncompensated health care funding system, which is under review in the U.S. Supreme Court.

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New York Trust

New York State

The national and regional economic recession has caused a substantial reduction in State tax receipts. This reduction is the principal cause of the imbalance between recurring receipts and disbursements that faced the Governor and Legislature in the adoption of the budget for the 1992-1993 fiscal year.

Consequently, the State took various actions for its 1992 fiscal year, which included increases in certain State taxes and fees, substantial decreases in certain expenditures from previously projected levels, including cuts in State operations and reductions in State aid to localities, and the sale of $531 million of short-term deficit notes prior to the end of the State's 1992 fiscal year. The State's 1992-93 budget was passed on time, closing an estimated $4.8 billion imbalance resulting primarily from the national and regional economic recession.
Major budgetary actions included a freeze in the scheduled reduction in the personal income tax and business tax surcharge, adoption of significant Medicaid cost containment or revenue initiatives, and reductions in both agency operations and grants to local governments from previously anticipated levels. the State completed its 1993 fiscal year with a positive margin of $671 million in the General Fund which was adopted into a tax refund reserve account.

The Governor released the recommended Governor's Executive Budget for the 1993-94 fiscal year on January 19, 1993. The recommended 1993-94 State Financial Plan projected a balanced General Fund. General Fund receipts and transfers from other funds were projected at $31.6 billion, including $184 million carried over from the State's 1993 fiscal year. Disbursements and transfers from other funds were projected at $31.5 billion, not including a $67 million repayment to the State's Tax Stabilization Reserve Fund. To achieve General Fund budgetary balance in the 1994 State fiscal year, the Governor recommended various actions. These included proposed spending reductions and other actions that would reduce General Fund spending ($1.6 billion); continuing the freeze on personal income and corporate tax reductions and on hospital assessments (41.3 billion); retaining moneys in the General Fund that would otherwise have been deposited in dedicated highway and transportation funds ($516 million); a 21-cent increase in the cigarette tax ($180 million); and new revenues from miscellaneous sources ($91 million). The recommended Governor's 1993-94 Executive Budget included reductions in anticipated aid to all levels of local government.

In comparison to the recommended 1993-94 Executive Budget, the 1993-94 State budget, as enacted, reflects increases in both receipts and disbursements in the general Fund of $811 million.

The $811 million increase in projected receipts reflects (i) an increase of $487 million, from $184 million to $671 million, in the positive year-end margin at March 31, 1993, which resulted primarily from improving economic conditions and higher-than-expected tax collections, (ii) an increase of $269 million in projected receipts, $211 million resulting from the improved 1992-93 results and the expectation

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of an improving economy and the balance from improved auditing and enforcement measures and other miscellaneous items, (iii) additional payments of $200 million from the Federal government to reimburse the State for the cost of providing indigent medical care, and (iv) the payment of an additional $50 million of personal income tax refunds in the 1993-94; offset by (v) $195 million of revenue raising recommendations in the Executive Budget that were not enacted in the budget and thus are not included in the 1993-94 State Financial Plan.

The $811 million increase in projected disbursements reflects (i) an increase of $252 million in projected school-aid payments, after applying estimated receipts from the State Lottery allocated to school aid, (ii) an increase of $194 million in projected payments for Medicaid assistance and other social service programs, (iii) additional spending on the judiciary ($56 million) and criminal justice ($48 million), (iv) a net increase in projected disbursements for all other programs and purposes, including mental hygiene and capital projects, of $161 million, after reflecting certain re-estimates in spending, and (v) the transfer of $100 million to a newly established contingency reserve.

The 1993-94 State budget, as enacted, included $400 million less in State actions that the City had anticipated. Reform of education aid formulas was achieved which brought an additional 145 million education dollars to New York City. However, the State legislature failed to enact a takeover of local Medicaid cost containment items proposed by the Governor, which would have provided the City with savings. The adopted State budget cut aid for probation services, increased sanctions on social service programs, eliminated the pass-through of a State surcharge on parking tickets, cut reimbursement for CHIPS transportation operating dollars, and required a large contribution in City funds to hold the MTA fare at the current level. In the event of any significant reduction in projected State revenues or increases in projected State expenditures from the amounts currently projected by the State, there could be an adverse impact on the timing and amounts of State aid payments to the City in the future.

In certain prior fiscal years, the State has failed to enact a budget prior to the beginning of the State's fiscal year. A delay in the adoption of the State's budget beyond the statutory April 1 deadline and the resultant delay in the State's Spring borrowing has in certain prior years delayed the projected receipt by the City of State aid, and there can be no assurance that State budgets in the future fiscal years will be adopted by the April 1 statutory deadline.

The State has noted that its forecasts of tax receipts have been subject to variance in recent fiscal years. As a result of these uncertainties and other factors, actual results could differ materially and adversely from the State's current projections and the State's projections could be materially and adversely changed from time to time.

There can be no assurance that the State will not face substantial potential budget gaps in future years resulting from a significant disparity between tax revenues projected from a lower recurring receipts base and the spending required to maintain State programs at current levels.

To address any potential budgetary imbalance, the State may need to take significant actions to align recurring receipts and disbursements in future fiscal years.

Ratings on general obligation bonds of the State of New York

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were lowered by Standard & Poor's Corporation and Moody's Investors Service during 1990 from AA- to A and Aa to A, respectively. On January 6, 1992, Moody's Investors Service lowered its rating on certain appropriations-backed debt of New York State to Baa1 from A. The agency cited the failure of Governor Mario M. Cuomo and New York State lawmakers to close New York's current year budget gap. Moody's Investors Services also placed the general obligation, State guaranteed and New York local Municipal Assistance Corporation Bonds under review for possible downgrade in coming months. In addition, on January 13, 1992, Standard & Poor's Corporation lowered its rating on general obligation debt and guaranteed debt to A- from A. Standard & Poor's Corporation also downgraded its rating on variously rated debt, State moral obligations, contractual obligations, lease purchase obligations and other State guarantees. Additional reductions in ratings could result in a loss to Unit holders.

State Authorities

The fiscal stability of the State is related to the fiscal stability of its authorities, which generally have responsibility for financing, constructing, and operating revenue-producing benefit facilities. Certain authorities of the State, including the State Housing Finance Agency ("HFA"), the Urban Development Corporation ("UDC") and the Metropolitan Transportation Authority ("MTA") have faced and continue to experience substantial financial difficulties

which could adversely affect the ability of such authorities to make payments of interest on, and principal amounts of, their respective bonds. Should any of its authorities default on their respective obligations, the State's access to public credit markets could be impaired. The difficulties have in certain instances caused the State (under its so-called "moral obligation") to appropriate funds on behalf of the authorities. Moreover, it is expected that the problems faced by these authorities will continue and will require increasing amounts of State assistance in future years. Failure of the State to appropriate necessary amounts or to take other action to permit those authorities having financial difficulties to meet their obligations (including HFA, UDC and MTA) could result in a default by one or more of the authorities. Such default, if it were to occur, would be likely to have a significant adverse effect on investor confidence in, and therefore the market price of, obligations of the defaulting authority. In addition, any default in payment of any general obligation of any authority whose bonds contain a moral obligation provision could constitute a failure of certain conditions that must be satisfied in connection with Federal guarantees of City and MAC obligations and could thus jeopardize the City's long-term financing plans.

The MTA oversees the operation of New York City's subway and bus lines by its affiliates, the New York City Transit Authority and the Manhattan and Bronx Surface Transit operating (collectively, the "Transit Authority" or the "TA"). Through MTA's subsidiaries, the Long Island Railroad Company, the Metro-North Commuter Railroad Company and the Metropolitan Suburban Bus Authority, the MTA operates certain commuter rail and bus lines in the New York metropolitan area. In addition, the Staten Island Rapid Transit Operating Authority, an MTA subsidiary, operates a rapid transit line on Staten Island. Through its affiliated agency, the Triborough Bridge and Tunnel Authority (the "TBTA"), the MTA operates certain intrastate toll bridges and tunnels. Because fare revenues are not sufficient to finance the mass transit portion of these operations, the MTA has depended and will

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continue to depend for operating support upon a system of Federal, State, local government and TBTA support, including loans, grants and operating subsidies. Over the past several years, the State has enacted several taxes, including a surcharge on the profits of banks, insurance corporations and general business corporations doing business in the 12-county region served by the MTA (the"Metropolitan Transportation Region") and a special one-quarter of 1% regional sales and use tax, that provide additional revenues for mass transit purposes including assistance to the MTA, the surcharge, which expires in November 1995, yielded $507 million in calendar year 1992, of which the MTA was entitled to receive approximately 90 percent, or approximately $456 million.

For 1993, the TA is currently projecting a budget gap of about $266 million. The MTA Board approved an increase in TBTA tolls which took effect January 31, 1993. Since the TBTA operating surplus helps subsidize TA operations, the January toll increase on TBTA facilities, and other developments, reduced the projected gap to approximately $241 million. Legislation passed in April 1993 relating to the MTA's 1992-1996 Capital Program reflected a plan for closing this gap without raising fares. A major element of the plan provides that the TA receive a significant share of the petroleum business tax which will be paid directly to MTA for its agencies. The plan also relies on certain City actions that have not yet been taken. The plan also relies on certain City resources projected to be available to help close the gap. If any of the assumptions used in making these projections prove incorrect, the TA's gap could grow, and the TA would be required to seek additional State assistance, raise fares or take other actions.

A subway fire on December 28, 1990, which caused fatalities and many injuries, has given rise to substantial claims for damages against both the TA and the City. A subway derailment on August 28, 1991, which caused fatalities and many injuries, may give rise to additional claims.

The State's experience has been that if an Authority suffers serious financial difficulties, both the ability of the State and the Authorities to obtain financing in the public credit markets and the market price of the State's outstanding bonds and notes may be adversely affected. The Housing Finance Agency ("HFA") and the Urban Development Corporation ("UDC") have in the past required substantial amounts of assistance from the State to meet debt service costs or to pay operating expenses. Further assistance, possibly in increasing amounts, may be required for these, or other, Authorities in the future. In addition, certain statutory arrangements provide for State local assistance payments otherwise payable to localities whose local assistance payments otherwise payable to localities to be made under certain circumstances to certain Authorities. The State has no obligation to provide additional assistance to localities whose local assistance payments have been paid to Authorities under these arrangements. However, in the event that such local assistance payments are so diverted, the affected localities could seek additional State funds.

New York City and Other Localities

The fiscal health of the State is closely related to the fiscal health of its localities, particularly The City of New York (the "City"),

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which has required and continues to require significant financial

assistance from the State. The City's independently audited operating results for each of its 1981 through 1992 fiscal years show a General Fund surplus reported in accordance with GAAP. The City has eliminated the cumulative deficit in its net General Fund position. In addition, the City's financial statements for the 1992 fiscal year received an unqualified opinion from the City's independent auditors, the tenth consecutive year the City has received such an opinion.

In response to the City's fiscal crisis in 1975, the State took a number of steps to assist the City in returning to fiscal stability. Among these actions, the State created the Municipal Assistance Corporation for The City of New York ("MAC") to provide financing assistance to the City. The State also enacted the New York State Financial Emergency Act for The City of New York (the "Financial Emergency Act") which, among other things, established the New York State Financial Control Board (the "Control Board") to oversee the City's financial affairs. The State also established the Office of the State Deputy Comptroller for The City of New York ("OSDC") to assist the Control Board in exercising its powers and responsibilities. On June 30, 1986, the Control Board's powers of approval over the City's Financial Plan were suspended pursuant to the Financial Emergency Act. However, the Control Board, MAC and OSDC continue to exercise various monitoring functions relating to the City's financial position. The City operates under a four-year financial plan which is prepared annually and is periodically updated. The City submits its financial plans as well as the periodic updates to the Control Board for its review.

The City's economy, whose rate of growth slowed substantially over the past three years, is currently in recession. During the 1990 and 1991 fiscal years, as a result of the slowing economy, the City has experienced significant shortfalls in almost all of its major tax sources and increases in social services costs, and has been required to take actions to close substantial budget gaps in order to maintain balanced budgets in accordance with the Financial Plan.

Beginning in 1992, the improvement in the national economy helped stabilize conditions in the City. The City now projects, and its current four-year financial plan assumes, that the City's economy will continue to improve during calendar year 1993 and that a modest economic recovery will begin during the second half of this calendar year.

On July 6, 1993, the City prepared the Financial Plan for the 1994 through 1997 fiscal years, which relates to the City, the Board of Education ("BOE") and the City University of New York ("CUNY"). The City is in the process of preparing a more detailed financial plan,

which will conform to the Financial Plan, and which the City expects to submit to the Control Board in August 1993.

The 1994-97 Financial Plan projects revenues and expenditures for the 1994 fiscal year balanced in accordance with GAAP. The 1994-1997 Financial Plan sets forth actions to close a previously projected gap of approximately $2.0 billion in the 1994 fiscal year. The gap-closing actions for the 1994 fiscal year included agency actions aggregating $666 million, including productivity savings and savings from restructuring the delivery of City services;

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service reductions aggregating $274 million; the sale of delinquent real property tax receivables for $215 million; discretionary transfers from the 1993 fiscal year of $110 million; reduced debt service costs aggregating $187 million, resulting from refinancings and other actions; $150 million in proposed increased Federal assistance; a proposed continuation of the personal income tax surcharge, resulting in revenues of $143 million; $80 million in proposed increased State aid, of which approximately $35 million may be subject to approval by the Governor and State Legislature; and revenue actions aggregating !173 million. The projected expenditures, for the 1994 fiscal year reflect the $131 million of expenditure reductions announced subsequent to the adoption of the budget on June 14, 1993, including a $50 million reduction in BOE expenditures, a $30 million reduction in personal service costs and a $25 million reduction in other than personal services.

The Financial Plan also sets forth projections for the 1995 through 1997 fiscal years and outlines a proposed gap-closing program to close projected budget gaps of $1.3 billion, $1.8 billion and $2.0 billion for the 1995 through 1997 fiscal years, respectively. The projections include $150 million of increased Federal assistance in each of the 1995 through 1997 fiscal years and $131 million, $291 million and $291 million of increased State assistance in the 1995, 1996 and 1997 fiscal years, respectively, which could include savings from the proposed State assumption of certain Medicaid costs or various proposed mandate relief measures and include the continuation of the personal income tax surcharge, resulting in revenues of $420, $446 and$471 million in the 1995, 1996 and 1997 fiscal years, respectively. The proposed gap-closing actions include City actions aggregating $287 million,$564 million and $645 million in the 1995 through 1997 fiscal years respectively; $100 million and $200 million in proposed additional Federal assistance in the 1996 and 1997 fiscal years, respectively; savings from various proposed mandate relief measures and the proposed reallocation of State education aid among various localities, aggregating $175 million, $325 million and $475 million in the 1995 through 1997 fiscal years, respectively; and other unspecified Federal, State or City actions of $800 million, $800 million and $700 million in the 1995 through 1997 fiscal years, respectively.

Various actions proposed in the Financial Plan, including the proposed continuation of the personal income tax surcharge beyond December 31, 1995 and the proposed increase in State aid, are subject to approval by the Governor and the State Legislature, and the proposed increase in Federal aid, is subject to approval by Congress and the President. The State Legislature has in previous legislative sessions failed to approve proposals for the State assumption of certain Medicaid costs, mandate relief and reallocation of State education aid, thereby increasing the uncertainty as to the receipt of the State assistance included in the Financial Plan. If these actions can not be implemented, the City will be required to take other actions to decrease expenditures or increase revenues to maintain a balance financial plan. The State Legislature has approved the continuation of the personal income tax surcharge through December 31, 1995, and the Governor is expected to approve this continuation. The Financial Plan has been the subject of extensive public comment and criticism particularly regarding the sale of delinquent property tax receivables, the sale of the New York City Off-Track Betting Corporation, the amount of State and Federal aid included in the Financial Plan and the inclusion of non-recurring actions.

The City Comptroller issued a statement on June 14, 1993 that identified problems totalling $476 million in the fiscal year 1994

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budget. The problems included the uncertainty of (1) receiving all the Federal aid anticipated, (ii) completing the sale or reorganization of OTB in fiscal year 1994 and (iii) winning approval to eliminate preparation time of certain teachers. The City Comptroller is expected to issue reports on the Financial Plan in the near future.

Although the City has maintained balanced budgets in each of its last twelve fiscal years, and is projected to achieve balanced operating results for the 1993 fiscal year, there can be no assurance that the gap-closing actions proposed in the Financial Plan can be successfully implemented or that the City will maintain a balanced budget in future years without additional State aid, revenue increases or expenditure reductions. Additional tax increases and reductions in essential City services could adversely affect the City's economic base.

The 1994-97 Financial Plan is based on numerous assumptions, including the recovery of the City's and the region's economy early in the calendar year 1993. The 1994-97 Financial Plan is subject to various other uncertainties and contingencies relating to, among other factors, the extent, if any, to which wage increases for City employees exceed the annual increases assumed for the 1994 through 1997 fiscal years; continuation of the 9% interest earnings assumptions for pension fund assets affecting the City's required pension fund contributions; the willingness and the ability of the State to provide the aid contemplated by the Financial Plan

and to take various other actions to assist the City, including the proposed State takeover of certain Medicaid costs and State mandate relief, the ability of HHC, BOE and other agencies to maintain budget balance; the willingness of the Federal government to provide Federal aid; approval of the proposed continuation of the personal income tax surcharge and the State budgets; adoption of the City's budgets by the City Council; the ability of the City to implement contemplated productivity and service and personnel reduction programs and the success with which the City controls expenditures; additional expenditures that may be incurred due to the requirements of certain legislation requiring minimum levels of funding for education; the City's ability to market its securities successfully in the public credit markets; the level of funding required to comply with the Americans with Disabilities Act of 1990; and additional expenditures that may be incurred as a result of deterioration in the condition of the City's infrastructure. Certain of these assumptions have been questioned by the City Comptroller and other public officials.

Estimates of the City's revenues and expenditures are based on numerous assumptions and the subject to various uncertainties. If expected Federal or State aid is not forthcoming, if unforeseen developments in the economy significantly reduce revenues derived from economically sensitive taxes or necessitate increased expenditures for public assistance, if the City provided for in the City's Financial Plan of if other uncertainties materialize that reduce expected revenues or increase projected expenditures then, to avoid operating deficits, the City may be required to implement additional actions, including increases in taxes and reductions in essential City services. The City might also seek additional assistance from the State.

The City depends on the State for State aid both to enable the City to balance its budget and to meet its cash requirements. For its 1993 fiscal year, the State, before taking any remedial action, reported a potential budget deficit of $4.8 billion (before providing for repayment of the deficit notes as described below). If the State experiences revenue

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shortfalls or spending increases beyond its projections during its 1993 fiscal year or subsequent years, such developments could result in reductions in projected State aid to the City.
In addition, there can be no assurance that State budgets in future fiscal years will be adopted by the April 1 statutory deadline and that there will not be adverse effects on the City's cash flow and additional City expenditures as a result of such delays.

Implementation of the Financial Plan is also dependent upon the City's ability to market its securities successfully in the public credit markets. The City's financing program for fiscal years 1994-97 contemplates issuance of $10.8 billion of general obligation bonds primarily to reconstruct and rehabilitate

the City's infrastructure and physical assets and to make capital investments. A significant portion of such bond financing is used to reimburse the City's general fund for capital expenditures already incurred. In addition, the City issues revenue and tax anticipation notes to finance its seasonal working capital requirements. The success of projected public sales of City bonds and notes will
be subject to prevailing market conditions at the time of the sale, and no assurance can be given that such sales will be completed. If the City were unable to sell its general obligation bonds and notes, it would be prevented from meeting its planned operating and capital expenditures.

Substantially all of the City's full-time employees are members of labor unions. The Financial Emergency Act requires that all collective bargaining agreements entered into by the City and the Covered Organizations be consistent with the City's current financial plan, except under certain circumstances, such as awards arrived at through impasse procedures.

On January 11, 1993, the City announced a settlement with a coalition of municipal unions, including Local 237 of the International Brotherhood of Teamsters ("Local 237"), District 37 of the American Federation of State, County and Municipal Employees ("District Council 37") and other unions covering approximately 44% of the City's workforce. The settlement, which has been ratified by the unions, includes a total net expenditure increase
of 8.25% over a 39-month period, ending March 31, 1995 for most of these employees. On April 9, 1993 the City announced an agreement with the Uniformed Fire Officers Association (the"UFOA") which is consistent with the coalition agreement. The agreement has been ratified. The Financial Plan reflects the costs associated with these settlements and provides for similar increases for all other City-funded employees.

The Financial Plan provides no additional wage increases for City employees after their contracts expire in the 1995 fiscal year. Each 1% wage increase for all employees commencing in the 1995 fiscal year would cost the City an additional $56 million for the 1995 fiscal year and $152 million for the 1996 fiscal year and each year thereafter above the amounts provided for in the Financial Plan.

The terms of eventual wage settlements could be determined through the impasse procedure in the New York City Collective Bargaining Law, which can impose a binding settlement.

MAC was organized in 1975 to provide financing assistance for the City and also to exercise certain review functions with respect to the City's finances. MAC bonds are payable out of certain State sales and compensating use taxes imposed within the City, State stock transfer

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taxes and per capita State aid to the City. Any balance from these

sources after meeting MAC debt service and reserve fund requirements and paying MAC's operating expenses is remitted to the City or, in the case of stock transfer taxes, rebated to the taxpayers. The State is not, however, obligated to continue the imposition of such taxes or to continue appropriation of the revenues therefrom to MAC, nor is the State obligated to continue to appropriate the State per capita aid to the City which would be required to pay the debt service on certain MAC obligations. MAC has not taxing power and MAC bonds do not create an enforceable obligation of either the State or the City. As of March 31, 1993, MAC had outstanding an aggregate of approximately $5.463 billion of its bonds.

On February 11, 1991, Moody's Investors Service lowered its rating on the City's general obligation bonds from A to Baa1. On July 2, 1993, Standard & Poor's reconfirmed its A- rating of City bonds, continued its negative rating outlook assessment and stated that maintenance of such ratings depended upon the City's making further progress towards reducing budget gaps in the outlying years.

Certain localities in addition to New York City could also have financial problems leading to requests for additional State assistance during the State's 1992-93 fiscal year and thereafter. The 1992-93 State Financial Plan includes a significant reduction in State aid to localities in such programs as revenue sharing and aid to education from projected base-line growth in such programs. It is expected that such reductions will result in the need for localities to reduce their spending or increase their revenues. Fiscal difficulties experienced by the City of Yonkers ("Yonkers") resulted in the creation of the Financial Control Board for the City of Yonkers (the "Yonkers Board") by the State in 1984. The Yonkers Board is charged with oversight of the fiscal affairs of Yonkers. Future actions taken by the Governor or the State Legislature to assist Yonkers could result in allocation of State resources in amounts that cannot yet be determined.

Municipalities and school districts have engaged in substantial short-term and long-term borrowings. In 1991, the total indebtedness of all localities in the State was approximately $31.6 billion, of which $16.8 billion was debt of New York City (excluding $6.7 billion in MAC debt); a small portion (approximately $39 million) of the $31.6 billion of indebtedness represented borrowing to finance budgetary deficits and was issued pursuant to enabling State legislation. In 1992, an unusually large number of local government units requested authorization for deficit financings. Although the comptroller has indicated that the level of deficit financing requests is unprecedented, such developments are not expected to have a material adverse effect on the financial conditions of the State. Certain proposed Federal expenditure reductions would reduce, or in some cases affected localities. If the State, New York City or any of the Authorities were to suffer

serious financial difficulties jeopardizing their respective access to the public credit markets, the marketability of notes and bonds issued by localities within the State could be adversely affected. Localities also face anticipated and potential problems resulting from certain pending litigation, judicial decisions, and long-range economic trends. The longer-range problems of declining urban population, increasing expenditures, and other economic trends could adversely affect localities and require increasing State assistance in the future.

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Litigation

The State is the subject of numerous legal proceedings relating to State finances, State programs and miscellaneous tort, real property and contract claims in which the State is a defendant and where monetary damages sought are substantial. These proceedings could adversely affect the financial condition of the State in the 1991-92 fiscal years or thereafter.

Among the more significant of these litigations, which are at various procedural stages, are those that challenge: (i) the validity of agreements and treaties by which various Indian tribes transferred title to the State of certain land in central New York; (ii) certain aspects of the State's Medicaid rates and regulations, including reimbursements to providers of mandatory and optional Medicaid services; (iii) contamination in the Love Canal area of Niagara Falls; (iv) an action against State and New York City officials alleging that the present level of shelter allowance for public assistance recipients is inadequate under statutory standards to maintain proper housing; (v) alleged employment discrimination by the State and its agencies; (vii) challenges to the practice of reimbursing certain Office of Mental Health patient care expenses from the client's Social Security benefits; (vii) a challenge to the methods by which the State reimburses localities for the administrative costs of food stamp programs; (viii) a challenge to the State's possession of certain funds taken pursuant to the State's Abandoned Property Law; (ix) alleged responsibility of State officials to assist in remedying racial segregation in the City of Yonkers; (x) an action in which the State is a third party defendant, for injunctive or other appropriate relief concerning liability for the maintenance of stone groins constructed along certain areas of Long Island's shoreline; (xi) actions challenging the constitutionality of legislation enacted during the 1990 legislative session which changed the actuarial funding methods for determining contributions to State employee retirement systems; (xii) actions challenging legislation enacted in 1990 which requires the withholding of certain amounts of pay from State employees until their separation from State employment; (xiii) a challenge to the constitutionality of specified financial programs authorized by Chapter 190 of the laws of 1990 and which seeks the recall

and refunding of obligations of certain public authorities issued pursuant to such legislation; (xiv) challenges to the constitutionality of financial programs of the Thruway Authority authorized by Chapters 166 and 410 of the Laws of 1991, and to the sufficiency of the fiscal year 1991-92 judiciary budget; (xv) challenges to the constitutionality of sections 1, 2, 3 and 10 of Chapter 220 of the Laws of 1990 which relate to the creation and operation of the New York Local Governmental Assistance Corporation ("LGAC") and of the issuance of bonds by LGAC; (xvi) challenges to the constitutionality of the State's statutory scheme relating to excess medical malpractice insurance; (xvii) an action challenging the constitutionality of a proposal by the Governor for a multi-year fiscal plan for the State's 1991-92 and 1992-93 fiscal years and the "continuous issuance, retirement and reissuance of the temporary revenue anticipation notes (TRANS)"; (xviii) challenges to the delay by the State Department of Social Services in making two one-week Medicaid payments to the service providers; (xxi) challenges to portions of Chapter 55 of the laws of 1992 requiring hospitals to impose and remit to the State an 11% surcharge on hospital bills paid by commercial insurers; (xx) challenges promulgated by the State Department of Social Services of a home assessment resource review instrument used to determine eligibility for and nature of home care services for Medicaid recipients; and (xxi) challenges to programs implemented under Section 62 of Chapter 41 of

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the Laws of 1992 to reduce Medicaid benefits to certain home-relief Medicaid recipients.

Economy

A national recession commenced in mid-1990. The State has suffered a more severe economic downturn. The national recession has been exacerbated in the State by a significant retrenchment in the financial services industry, cutbacks in defense spending, and an overbuilt real estate market.

Over the long term, serious potential economic problems may continue to aggravate State and local financial conditions. For decades, the State economy has grown more slowly than the nation as a whole, resulting in the gradual erosion of the State's relative economic affluence and tax base, and the relocation of certain manufacturing operations and executive offices outside the State. The causes of this relative decline are varied and complex, in many cases involving national and international developments beyond the State's control.
Part of the reason for the long-term relative decline in the State economy has been attributed to the combined state and local tax burden, which is among the highest in the nation. The existence of this tax burden limits the State's ability to impose higher taxes in the event of future financial difficulties.

If during the existence of the New York Trust, the City of New York, the State, or any of its agencies or municipalities, because of its or their own financial difficulties, become unable to meet regular commitments or if there should be a default, moratorium or other interruption of payments of interest or principal on any obligation issued by New York City, the State, or a municipality or other authority in the State, the market value and marketability of Bonds in the New York Trust, the asset value of Units of the New York Trust, and the interest income to the New York Trust, could be adversely affected.

North Carolina Trust

The Sponsors believe the information summarized below describes some of the more significant developments relating to Securities of (i) municipalities or other political subdivisions or instrumentalities of the State of North Carolina (the "State") which rely, in whole or in part, on ad valorem real property taxes and other general funds of such municipalities or political subdivisions or (ii) the State of North Carolina, which are general obligations of the State payable from appropriations from the State's General Fund. The sources of such information include official reports from the Department of the Treasurer, as well as other publicly available documents. The Sponsors have not independently verified any of the information contained in such official reports, but are not aware of any facts which would render such information inaccurate.

State Economic Profile. North Carolina is basically a rural state, having only five municipalities with populations in excess of 100,000. The economic profile of North Carolina consists of a combination of industry, agriculture, and tourism. Nonagricultural wage and salary employment accounted for approximately 3,203,500 jobs as of August 1993. The largest nonagricultural segment of jobs was the approximately 733,600 persons employed in trade, with textiles as the largest manufacturing segment employing approximately 204,900 people. The United States Department of Labor

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estimates that as of June, 1993, North Carolina ranked tenth among the states in nonagricultural employment, eighth in manufacturing employment, and eleventh in trade. During the period 1980 through 1992, per capita income in North Carolina grew from $7,999 to $17,667, an increase of approximately 121%. The North Carolina Employment Security Commission estimated the unadjusted unemployment rate in September 1993, to be 3.7% of the labor force, as compared with an unemployment rate of 6.4% nationwide. Gross agricultural income (excluding farm forest products) in 1992 was $5.182 billion. This places North Carolina tenth in the nation in gross agricultural income. Tobacco production is the leading source of agricultural crop

income in the State, accounting for approximately 20.3% of gross agricultural income in 1992.

State Financial Condition. The State's two principal operating accounts are the General Fund and the Highway Fund. The principal sources of General Fund tax revenues are the income tax and the sales and use tax. The State Constitution limits the income tax to a rate of 10% of total net income; the State actually imposed a maximum rate of 7.75% during the 1992 calendar year.

The State had (audited) General Fund balances at the June 30th year-end of approximately $541 million, $254 million, $124 million, $112 million (deficit balance), and $235 million for, respectively, the 1988, 1989, 1990, 1991 and 1992 fiscal years. For the year ended June 30, 1992, the State had total budgeted appropriations from the General Fund of approximately $9.980 billion.

The State Highway Fund had an ending credit balance of approximately $348 million as of June 30, 1992, with total expenditures of approximately $1.252 billion.

State Debt. As of June 30, 1992, approximately $549 million aggregate principal amount of the State's general obligation bonds and $119 million of its highway fund general obligation bonds were outstanding. The highway fund bonds are payable from the Highway Fund.

In addition, 16 constituent institutions of the University of North Carolina and 9 agencies or public authorities of the State had approximately $8.947 billion principal amount of revenue bonds outstanding as of June 30, 1992. There are no bonds of the State outstanding, and no State statutes which would authorize the issuance of any bonds, which contemplate the appropriation by the General Assembly of such amount as would be necessary to make up any deficiency in a debt service reserve fund.

Local governmental units in the State had approximately $4.323 billion principal amount of general obligation bonds and $1.331 billion of revenue bonds (excluding industrial revenue bonds of county authorities) outstanding as of June 30, 1992. The State has no financial responsibility with respect to this debt.

Ohio Trust

The Ohio Trust will invest substantially all of its net assets in Ohio Obligations. The Ohio Trust is therefore susceptible to political, economic and regulatory factors that may affect issuers of Ohio

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Obligations. The following information constitutes only a brief summary of some of the complex factors that may affect the financial situation of issuers in Ohio, and is not applicable to "conduit" obligations on which the public issue itself has no financial responsibility.

The creditworthiness of obligations issued by local Ohio issuers may be unrelated to the creditworthiness of obligations issued by the State, and generally there is no responsibility on the part of the State to make payments on those local obligations. There may be specific factors that are applicable in connection with investment in particular Ohio Obligations or in the obligations of particular Ohio issuers, and it is possible the investment will be in Ohio Obligations or in obligations of particular issuers as to which such specific factors are applicable. However, the information set forth below is intended only as a general summary and not a discussion of any such specific factors that may affect any particular issuer or issue of Ohio Obligations.

Ohio is the seventh most populous state, with a 1990 Census Count of 10,847,000 indicating a 0.5% population increase from 1980.

The economy of Ohio, while diversifying more into the service and other non-manufacturing areas, continues to rely in part on durable goods manufacturing, which is largely concentrated in motor vehicles and equipment, steel, rubber products and household appliances. As a result, general economic activity in Ohio, as in many other industrially-developed states, tends to be more cyclical than in some other states and in the nation as a whole. Agriculture also is an important segment of the economy in the State, and the State has instituted several programs to provide financial assistance to farmers. The State's economy, has had varying effects on different geographic areas of the State and the political subdivisions located within those geographic areas.

In prior years, the State's overall unemployment rate is commonly somewhat higher than the national average. In January 1993 and February 1993, the unemployment rate was 8.2 and 7.8, respectively, compared to the national rates 7.9 and 7.7 respectively. However, for both 1991 and 1992 the State rate was below the national rate; the State rates were 6.4% and 7.2%, and the national rates 6.7% and 7.4% respectively. The unemployment rate, and its effects, vary among particular geographic areas of the State.

There can be no assurance that future state-wide or regional economic difficulties, and the resulting impact on State or local government finances generally, will not adversely affect the market value of Ohio Obligations held in the portfolio of the Ohio Trust or the ability

of the particular obligors to make timely payments of debt service on (or lease payments relating to) those obligations.

The State operates on the basis of a fiscal biennium for its appropriations and expenditures, and is precluded by law from ending a fiscal year or biennium in a deficit position. Most operations are financed through the General Reserve Fund (GRF), with personal income and sales-use taxes being the major GRF sources.

Growth and depletion of GRF ending fund balances show a consistent pattern related to national economic conditions, with the June 30 (end of fiscal year) balance reduced during less favorable national economic periods and increased during more favorable economic times.

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Key end of biennium fund balances at June 30, 1991 were $135,365,000 (unaudited) (GRF) and approximately $300,000,000 (Budget Stabilization Fund (BSF), a cash and budgetary management fund). Necessary corrective steps were taken in fiscal year 1991 to respond to lower than estimated receipts and higher expenditures in certain categories. Those steps included the transfer of $64,000,000 from the BSF to the GRF. The State reported biennium ending fund balances of $135.3 million (GRF) and $300 million (BSF).

The State has established procedures for, and has timely taken, necessary actions to ensure a resource/expenditures balance during less favorable economic periods. These include general and selected reductions in appropriations spending; none have been applied to appropriations needed for debt service or lease rentals on any State obligations.

To allow time to complete the resolution of certain Senate and House differences in the budget and appropriations for the current biennium (beginning July 1, 1991), an interim appropriations act was enacted, effective July 1; it included debt service and lease rental appropriations for the entire 1992-93 biennium, while continuing most other appropriations for 31 days at 97% of fiscal year 1991 monthly levels. The general appropriations act for the entire biennium was passed on July 11, 1991 and signed by the Governor. It authorized the transfer, which has been made, of $200 million from the BSF to the GRF and provided for transfers in fiscal year 1993 back to the BSF if revenues are sufficient for the purpose (which the State Office of Budget and Management, OBM, at present thinks unlikely).

Based on updated fiscal year financial results and economic forecast for the State, in light of the continuing uncertain nationwide economic situation, OBM projected, and was timely addressed, a fiscal year 1992 imbalance in GRF resources and expenditures. GRF receipts were significantly below original forecasts, a shortfall resulting primarily from lower collections of certain taxes, particularly sales and use taxes. Higher than earlier projected expenditure levels totalling approximately $143,000,000 resulted from higher spending in certain areas, particularly human services, including Medicaid. As an initial action, the Governor ordered most State agencies to reduce GRF appropriations spending in the final six months of fiscal year 1992 by a total of approximately $184 million (debt service and lease rental obligations were not affected). The General Assembly authorized,and OBM made in June 1992, the transfer to the GRF of the $100.4 million BSF balance and additional amounts from certain other funds. Other administrative revenue and spending actions resolved the remaining GRF imbalance, resulting in positive GRF fiscal year 1992 ending fund and cash balances.

A significant GRF shortfall, approximately $520 million, was then projected for fiscal year 1993. It had been addressed by appropriate legislative and administrative actions. As a first step the Governor ordered, effectively July 1, 1992, $300 million in selected GRF spending reductions. Executive and legislative action in December 1992 (a combination of tax revisions and additional appropriations spending reductions) is projected by OBM to balance GRF resources and expenditures in this biennium and provide a better base for the appropriations for the next biennium. Those actions included tax revisions estimated to produce an additional $194,500,000 this fiscal year, and additional appropriations spending reductions totalling

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approximately $50,000,000 are provided for in that legislation and subsequent action by the Governor.

Litigation filed on February 1, 1993 seeks to have a new tax on soft drinks, included in those tax revisions, declared invalid and its collection enjoined. The trial court's preliminary injunction has been stayed by the Ohio Supreme Court on procedural grounds, and that tax is for now being collected. OBM had estimated approximately $18,500,000 being collected from that tax this fiscal year, representing less than 10% of the projected additional tax revenues. Several bases for invalidity were asserted, including a claim that the bill in which this and other elements of the tax package (as well as certain capital appropriations and financing authorizations) were included did not comply with a constitutional "one-subject" procedural requirement.

Supplementing the general authorization for the Governor's spending reduction orders described above and exercised several times in this biennium, the biennial appropriations act authorizes the OBM Director to implement up to 1% fiscal year reduction in GRF amounts appropriated if on March 1 of either fiscal year of the biennium receipts for that fiscal year are for any reason more than $150,000,000 under estimates and the then

estimated GRF ending fund balance is less than $50,000,000. Expressly, excerpted from this cutback authorization are debt service and lease rental appropriations. In light of the other corrective actions described above, this supplemental spending reduction authorization was not implemented in fiscal year 1992 and is not expected to be implemented in fiscal year 1993.

The general appropriations process for the next biennium (beginning July 1, 1993) has commenced with the Governor's presentation of a proposed GRF budget to the General Assembly. That budget document and the related appropriations bill as introduced and passed by the House include all necessary GRF appropriations for biennial State debt service and lease rental payments.

The incurrence or assumption of debt by the State without a popular vote is, with limited exceptions, prohibited by current provisions of the State Constitution. The State may incur debt to cover casual deficits or failures in revenues or to meet expenses not otherwise provided for, but limited in amount to $750,000. The State is expressly precluded from assuming the debts of any local government or corporation. (An exception in both cases is made for any debt incurred to repel invasion, suppress insurrection, or defend the State in war.)

By twelve constitutional amendments (the last adopted in 1987), Ohio voters have authorized the incurrence of State debt to which taxes or excesses were pledged for payment; $514 million of this debt was outstanding at February 23, 1993. The only such State debt still authorized to be incurred at February 23, 1993 are portions of the highway obligations bonds, and portions of the following bonds: (a) up to $100,000,000 of State full faith and credit obligations for coal research and development may be outstanding at any one time (with $36,000,000 outstanding); and (b) $1.2 billion of State full faith and credit obligations are authorized for local infrastructure improvements, with no more than $120,000,000 to be issued in any calendar year ($432,000,000 outstanding, and $720,000,000 remain to be issued).

The Constitution also authorized the issuance, for certain

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purposes, of State obligations, the owners of which are not given the right to have excises or taxes levied to pay debt service. Those special obligations include bonds and notes issued by, among others, the Ohio Public Facilities Commission and the Ohio Building Authority. A total of $3.91 billion of those obligations were outstanding at February 23, 1993.

A 1990 constitutional amendment authorized greater State and political subdivision participation in the provision of individual and family housing, including borrowing for this purpose. The General Assembly may authorize the issuance of State obligations secured by a pledge of all or such portion as it authorizes of State revenues or receipts, although the obligations may not be supported by the State's full faith and credit.

State and local agencies issue revenue obligations that are payable from revenues of revenue-producing facilities or categories of facilities, which obligations are not "debt" within constitutional provisions or payable from taxes. In general, lease payment obligations under lease-purchase agreements of Ohio issuers (in connection with which certificates of participation may be issued) are limited in duration to the issuer's fiscal period, and are renewable only upon appropriations being made available for the subsequent fiscal periods.

Local school districts in Ohio receive a major portion (on a statewide basis, historically approximately 46%) of their operating moneys from State subsidies (known as the Foundation Program), but are dependent on local ad valorem property taxes and in, 88 districts, income taxes for significant portions of their budgets. Litigation has recently been filed, similar to that in other states, questioning the constitutionality of Ohio's system of school funding. A small number of the State's 612 local school districts have in any year required special assistance to avoid year-end deficits. A current program (Emergency School Advancement Fund) provides for school district cash-need borrowing directly from commercial lenders, with State diversion of subsidy distributions to repayment if needed; 26 districts borrowed a total of $41.8 million in fiscal year 1991 under this program, in fiscal year 1992, borrowings totalled $61.9 million (including over $46.6 million by one district) and in fiscal year 1993 26 districts borrowed approximately $94.3 million (including $75 million for one district).

Ohio's 943 incorporated cities and villages rely primarily on property and municipal income taxes for their operations, and, with other local governments, receive local government support and property tax relief monies distributed by the State. Procedures have been established for those few municipalities that have on occasion faced significant financial problems, which include establishment of a joint State/local commission to monitor the municipality's fiscal affairs, with a financial plan developed to eliminate deficits and cure any defaults. Since inception in 1979, these procedures have been applied to 22 cities and villages, in 16 of which the fiscal situation has been resolved and the procedures terminated.

At present the State itself does not levy any ad valorem taxes on real or tangible personal property. Those taxes are levied by political subdivisions and other local taxing districts. The Constitution has since 1934 limited the amount of the aggregate levy of ad valorem property taxes, without a vote of the electors or municipal charter provision, to

1% of true value in money, and statutes limit the amount of the aggregate levy without a vote or

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charter provision to 10 mills per $1 of assessed valuation (commonly referred to as the "ten-mill limitation"). Voted general obligations of subdivisions are payable from property taxes unlimited as to amount or rate.

Although revenue obligations of the State or its political subdivisions may be payable from a specific project or source, including lease rentals, there can be no assurance that future economic difficulties and the resulting impact on State and local government finances will not adversely affect the market value of Ohio obligations held in the portfolio of the Trust or the ability of the respective obligors to make timely payments of principal and interest on such obligations.

The outstanding Bonds issued by the Sinking Fund are rated Aa by Moody's Investors Service ("Moody's") and AAA by Standard & Poor's Corporation ("S&P"). In January 1982, S&P adjusted its rating on certain of the State's general obligation bonds from AA+ to AA. Previously, in November 1979, the ratings on general obligation debt of the State were changed by Moody's and S&P from Aaa and AAA to Aa and AA+, respectively. S&P did not at either time change its AAA ratings on the Bonds. The outstanding State Bonds issued by the Ohio Public Facilities Commission and the Ohio Building Authority are rated A+ by S&P and A by Moody's.

Pennsylvania Trust

Potential purchasers of Units of the Trust should consider the fact that the Trust's portfolio consists primarily of securities issued by the Commonwealth of Pennsylvania (the "Commonwealth"), its municipalities and authorities and should realize the substantial risks associated with an investment in such securities. Although the Commonwealth had a positive budgetary balance at the end of each fiscal year from fiscal 1984 to fiscal 1989, the positive balance in the General Fund of the Commonwealth (the principal operating fund of the Commonwealth) declined to a zero balance at the close of fiscal 1989, and a negative balance was experienced in 1990 and 1991, tax increases and spending decreases helped return the General Fund balance to a surplus at June 30, 1992 of $87.5 million. The deficit in the Commonwealth's unreserved/undesignated funds was also reduced, from $1.1462 million at June 30, 1991 to $138.6 million at June 30, 1992.

Pennsylvania's economy historically has been dependent upon heavy industry, but has diversified recently into various services, particularly into medical and health services, education and financial services. Agricultural industries continue to be an important part of the economy, including not only the production of diversified food and livestock products, but substantial economic activity in agribusiness and food-related industries. Service industries currently employ the greatest share of non-agricultural workers, followed by the categories of trade and manufacturing. Future economic difficulties in any of these industries could have an adverse impact on the finances of the Commonwealth or its municipalities, and could adversely affect the market value of the Bonds in the Pennsylvania Trust or the ability of the respective obligors to make payments of interest and principal due on such Bonds.

Certain litigation is pending against the Commonwealth that could adversely affect the ability of the Commonwealth to pay debt service on its obligations, including suits relating to the following matters: (i) the ACLU has filed suit in federal court demanding

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additional funding for child welfare services; the Commonwealth settled a similar suit in the Commonwealth Court of Pennsylvania and is seeking the dismissal of the federal suit, inter alia, because of that settlement; in April 1993, the federal court granted in part and denied in part the Commonwealth's motion for summary judgment (no available estimates of potential liability); (ii) in 1987, the Supreme Court of Pennsylvania held that the statutory scheme for county funding of the judicial system to be in conflict with the Constitution of the Commonwealth but stayed judgment pending enactment by the legislature of funding consistent with the opinion and the legislature has yet to consider legislation implementing the judgment; (iii) several banks have filed suit against the Commonwealth contesting the constitutionality of a law enacted in 1989 imposing a bank shares tax (potential liability estimated at $1.023 billion plus interest); (iv) in January 1992, the Pennsylvania Commonwealth Court held that dividends received by a corporate taxpayer and accounted for under the equity method of accounting are not included in the tax base for purposes of the capital stock/franchise tax--the Commonwealth of Pennsylvania has appealed the decision but believes the likelihood of an unfavorable outcome is reasonably possible, and has provided sufficient reserves to fund the potential loss (potential lost revenue to the Commonwealth estimated at $30 million annually); (v) litigation has been filed in both state and federal court by an association of rural and small schools and several individual school districts and parents challenging the constitutionality of the Commonwealth's system for funding local school districts--the federal case has been stayed pending resolution of the state case and the state case is in the pre-trial state (no available estimate of potential liability); (vi) litigation has been filed in state court by a variety of plaintiffs challenging the validity of a number of provisions in the 1991 tax legislation, including the tax on leased vehicles the sales tax on periodicals, and the repeal of the deduction for net operating loss carryforwards (no available estimate of potential liability for refund of taxes collected or amount of tax revenue at risk); (vii) the ACLU has brought a class action on behalf of inmates challenging the conditions of confinement in thirteen of the Commonwealth's correctional institutions (no available estimate of potential cost of complying with the injunction sought but capital and personnel costs might cost millions of dollars) and (viii) a consortium of public interest law firms has filed a class action suit alleging that the Commonwealth has not complied with a federal mandate to provide screening, diagnostic and treatment services for all Medicaid-eligible children under 21 (potentially liability estimated at $98 million).

The Commonwealth's general obligation bonds have been rated AA-by Standard & Poor's and A1 by Moody's for approximately the last five years.

The City of Philadelphia (the "City") has been experiencing severe financial difficulties which has impaired its access to public credit markets and a long-term solution to the City's financial crisis is still being sought. The City experienced a series of General Fund deficits for fiscal years 1988 through 1991.

Additional deficits are expected for the 1992 and 1993 fiscal years. The City has no legal authority to issue deficit reduction bonds on its own behalf, but state legislation has been enacted to create an Intergovernmental Cooperation Authority to provide fiscal oversight for Pennsylvania cities (primarily Philadelphia) suffering recurring financial difficulties. The Authority is broadly empowered to assist cities in

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avoiding defaults and eliminating deficits
by encouraging the adoption of sound budgetary practices and issuing bonds. In order for the Authority to issue bonds on behalf of the City, the City and the Authority entered into an intergovernmental cooperative agreement providing the Authority with certain oversight powers with respect to the fiscal affairs of the
City, and the Authority approved a five-year financial plan prepared by the City. On June 16, 1992, the Authority issued a $474,555,000 bond issue on behalf of the City. A five year plan that projects a balanced General Fund budget in Fiscal Year 1994 without a grant from the Authority was approved by the Authority on April 6, 1992. Full implementation of the five year plan was
delayed due to labor negotiations that were not completed until October 1992, three months after the expiration of the old labor contracts. In March 1993, Philadelphia filed an amended five year plan with the Authority, which projects a $6.6 million deficit in the General Fund for the fiscal year ending June 30, 1993. The City Council and the Authority have approved a fiscal 1994 budget
that projects no deficit for the fiscal year ending June 30, 1994. In July 1993, the Authority issued $643,430,000 of bonds to refund certain general obligation bonds of the City and to fund additional capital

projects. In September 1993, the Authority issued $178,675,000 of bonds to advance refund certain of the bonds issued in June 1992.

Texas Trust

Potential purchasers of the Units of the Texas Trust should consider the fact that the Texas Trust's Portfolio consists of securities issued by the State of Texas, or its municipalities or authorities (the "Texas Securities") and realize the substantial risks associated with an investment in such Texas Securities. The following information is a brief summary and does not purport to be a complete
description of conditions, developments and risk factors that may adversely affect the Texas Securities and hence the value of the Units. The information is drawn principally from publicly available documents. While the Sponsors have not independently verified such information, they have no reason to believe that such information is inaccurate.

Economic Factors. Geographic, cultural, climatic and geological differences within the State of Texas have produced six generally distinct geographic regions in which economic developments, such as changes in oil prices, the value of the Mexican peso, and defense spending can be expected to have varying effects.

Texas experienced a severe economic recession in the 1980's commencing with a decline of the energy industry which in turn led to a depression of the real estate industry, financial institution failures and declines in most sectors of the Texas economy. As the Texas economy began to level off in the late 1980's, its dependence on certain industry segments began to shift. The energy industry currently comprises approximately 15% of the State's total economic output compared to a peak of 27% in 1981, while the service industry currently comprises approximately 15% of the State's total economic
output compared to a peak of 27% in 1981, while the service industry (including health and business services) comprises approximately 17% of the State's local economic output compared to 11.9% in 1982.

Economic growth and activity in Texas are likely to be inhibited by many factors including over-capacity in commercial and residential real estate markets, asset sales by the Resolution Trust Corporation, conservative lending practices owing to stricter risk-based capital guidelines imposed on financial institutions, the national

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recession, and the unstable international economic and political environment. Continued low levels of economic growth and activity in Texas' major industries, budgeting difficulties, constitutional limitations on taxes, and other matters could adversely affect the Texas Securities and hence the value of the Units in the Texas Trust. The Sponsors cannot predict the course of economic trends in Texas.

State Finances. The State operates on a fiscal year beginning September 1, and ending August 31. The State's accounting period is a biennium covering two fiscal years. The State is required by law to maintain its accounting and reporting functions on a cash basis.

The economic troubles of the 1980's caused numerous budgeting difficulties for the State and its political subdivisions due principally to a shrinking and changing tax base. Historically, the primary sources of the State's revenue have been sales taxes, mineral severance taxes and federal grants. Due to the State's economic recession and the consequent enactment of new tax measures, including those increasing the rates of existing taxes and expanding the tax base for certain taxes, there has been a reordering in the relative importance of the State's taxes in terms of their contribution to the State's total revenue. Key revenue sources in the State of Texas for the fiscal year ended August 31, 1992 included sales taxes (28.8% of total revenue), federal grants (28.4% of total revenue), licenses and fees (6.3% of total revenue), interest and investment income (6.3% of total revenue) and motor fuels taxes. The State imposes a corporate franchise tax based on a corporation's taxable capital apportionable to Texas. While the State currently has no income tax, an income tax has been and continues to be considered and may be enacted.

For the biennium ended August 31, 1989, the State of Texas had a budget surplus of approximately $297 million (attributable, in large part, to increased sales tax revenue), compared to a budget deficit of approximately $745 million for the biennium ended August 31, 1987 (attributable primarily to the decline of the energy industry which was principally a result of lower oil and gas prices). The above biennium end balances include approximately $300 million in oil overcharge funds which amounts are restricted to energy conservation projects. The 72nd Legislature meeting in special session, in the summer of 1991, approved for the Governor's signature an approximately $9.4 billion budget increase for the fiscal 1992-93 biennium to be financed in part by approximately $3.4 billion in new revenue measures.

The $3.4 billion in new revenues to finance the new budget came from several new sources. A tax and fee bill raised a total of $2.1 billion in new revenues for the state. A fiscal management bill added another $779 million. Legislative approval of a lottery is expected to add another $462 million. Finally, another $50 million was added through a change in the Permanent School Fund investment strategy, which will make additional short-term earnings available to help fund public schools during the biennium.

The most important component of the tax bill was a major overhaul of the State's franchise tax, which includes a new measure of business activity referred to as "earned surplus." A part of the change

was a lowering of the tax rate on capital from $5.25 to $2.50 per $1,000. An additional surtax on "earned surplus," which includes federal net corporate income and officers' and

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directors' compensation of 4.5%, was added. Essentially, corporations pay a tax on capital or a tax on "earned surplus," whichever is higher. The revised franchise tax is expected to raise an additional $789.3 million over currently projected franchise tax collections during the 1992-93 biennium.

The Texas Constitution prohibits the State from levying ad valorem taxes on property for general revenue purposes and limits the rate of such taxes for other purposes to $.35 per $100 of valuation. The Constitution also permits counties to levy, in addition to all other ad valorem taxes permitted by the Constitution, ad valorem taxes on property within the county for flood control and road purposes in an amount not to exceed $.30 per $100 of valuation. The Constitution prohibits counties, cities and towns from levying a tax rate exceeding $.80 per $100 of valuation for general fund and other specified purposes.

With certain specific exceptions, the Texas Constitution generally prohibits the creation of debt by or on behalf of the State unless the voters of the State, by constitutional amendment, authorize the issuance of debt (including general obligation indebtedness backed by the State's taxing power and full faith and credit). In excess of $7.3 billion of general obligation bonds have been authorized in Texas and almost $2.81 billion of such bonds are currently outstanding. Of these, over 37% were issued by the Veterans' Land Board.

Though the full faith and credit of the State are pledged for the payment of all general obligations issued by the State, much of that indebtedness is designed to be eventually self-supporting from fees, payments, and other sources of revenues; in some instances, the receipt of such revenues by certain issuing agencies has been in sufficient amounts to pay the principal of and interest on the issuer's outstanding bonds without requiring the use of appropriated funds.

From the time Standard & Poor's Corporation began rating Texas general obligation bonds in 1956 until early 1986, the firm gave such bonds its highest rating, "AAA." In April 1986, in response to the State economic problems, Standard & Poor's downgraded its rating of Texas general obligation bonds to "AA+." Such rating was further downgraded in July 1987 to "AA." Moody's Investors Service, Inc. has rated Texas bonds since prior to the Great Depression. Moody's upgraded its rating of Texas general obligation bonds in 1962 from "Aa" to "Aaa", its highest rating, following the imposition of a statewide sales tax by the Legislature. Moody's downgraded such rating to "Aa" in March 1987. No prediction can be made concerning future changes in ratings by national rating agencies of Texas general obligation bonds or concerning the effect of such ratings changes on the market for such issues.

The same economic and other factors affecting the State of Texas and its agencies also have affected cities, counties, school districts and other issuers of bonds located throughout the State. Declining revenues caused by the downturn in the Texas economy in the mid-1980s forced these various other issuers to raise taxes and cut services to achieve the balanced budget mandated by their respective charters or applicable State law requirements. Standard & Poor's Corporation and Moody's Investors Service, Inc. assign separate ratings to each issue of bonds sold by these other issuers. Such ratings may be significantly lower than the ratings assigned by such rating agencies to Texas general obligation bonds.

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Litigation. In October 1989, the Texas Supreme Court in Edgewood v. Kirby unanimously held that the State public school finance system violated provisions of the Texas Constitution. The Supreme Court reinstated an injunction issued by the District Court (enjoining the State from funding the public school finance system) but postponed its effect. New legislation intended to resolve the problem was passed, however, the District Court subsequently held the new finance system unconstitutional. The Texas Supreme Court was asked to review the matter, and in January 1991, held that the new finance system violated the Texas Constitution. The Texas Supreme Court stayed the effect of the injunction until April 1, 1991.

On April 15, 1991, the Governor signed into law Senate Bill 351, the School Finance Reform Bill. This bill sets a minimum local property tax rate which guarantees the local school districts a basic state allotment of a specified amount per pupil. The funding mechanism is based on tax base consolidation and creates 188 new taxing units, drawn largely along county lines. Within each taxing unit, school districts will share the revenue raised by the minimum local property tax. Local school districts are allowed to "enrich" programs and provide for facilities construction by levying an additional tax. In January 1992, the Texas Supreme Court declared the School Finance Reform Bill unconstitutional because the community education districts are in essence a state property tax. The legislature was given until September 1, 1993 to pass a new school finance reform bill. The Supreme Court said that, in the meantime, the county education districts could continue to levy and collect property taxes. Several taxpayers have filed suit challenging the right of such districts to collect a tax that has been declared unconstitutional by the Supreme Court. In connection with formulating a new school finance bill the legislature is expected to consider several proposals, some of which could fundamentally change the State's tax structure including a state income tax.

It is not possible to predict whether the new public school finance system will be held constitutional and, if it is, how the State will appropriate the additional funding, and what the impact of such appropriation will be upon the State. If the new public school system is held unconstitutional, it is not possible to predict the legislative solution to the problems or to assess the impact of such solution upon the financial condition of the State.

The Sponsors believe the information summarized above describes some of the more significant aspects relating to the State Trusts. The sources of such information are the official statements of issuers located in each of the respective States as well as other publicly available documents. While the Sponsors have not independently verified this information, they have no reason to believe that such information is not correct in all material respects.

The Units

On the date of this Prospectus, each Unit in a State Trust represented a fractional undivided interest in the principal and net income of such State Trust as is set forth in the "Summary of Essential Information" of Part A. If any Units are redeemed after the date of this Prospectus by the Trustee, the principal amount of the Bonds in the affected State Trust will be reduced by an amount allocable to redeemed Units and the fractional undivided interest in the affected State Trust

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represented by each unredeemed Unit will be increased. Units will remain outstanding until redeemed upon tender to the Trustee by any Unit holder, which may include the Sponsors, or until the termination of the Trust Agreement. (See "Amendment and Termination of the Trust Agreement--Termination".) References in this Prospectus to "Units" are to Units which represented the fractional undivided interest indicated in the "Summary of Essential Information" of Part A.

Estimated Current Return and Estimated Long-Term Return

Under accepted bond practice, tax-exempt bonds are customarily offered to investors on a "yield price" basis (as contrasted to a "dollar price basis) at the lesser of the yield as computed to maturity of the bonds or to an earlier redemption date and which takes into account not only the interest payable on the bonds but also the amortization or accretion to a specified date of any premium over or discount from the par (maturity) value in the bond's purchase price. Since Units of each State Trust are offered on a dollar price basis, the rate of return on an investment in Units of a State Trust is stated in terms of "Estimated Current Return", computed by dividing the Net Annual Income per Unit by the Public Offering Price per Unit. Any change in either the Net Annual Income per Unit or the Public Offering Price per Unit will result in a change in the Estimated Current Return. The Net Annual Income per Unit of a State Trust is determined by dividing the total annual interest income to such State Trust, less estimated annual fees and expenses of the Trustee, the Sponsor, and the Evaluator, by the number of Units of such State Trust outstanding. The Net Annual Income per Unit of a State Trust will change as the income or expenses of such State Trust changes and as Bonds are redeemed, paid, sold or exchanged. For a statement of the Net Annual Income per Unit and the Estimated Current Return based on the Public Offering Price, see Part A under "Summary of Essential Information".

The Estimated Long-Term Return for a State Trust is a measure of the return to the investor over the estimated life of a State Trust. The Estimated Long-Term Return represents an average of the yields to maturity (or call) of the Bonds in a State Trust's portfolio calculated in accordance with accepted bond practice and adjusted to reflect expenses and sales charges. In calculating Estimated Long-Term Return, the average yield for a State Trust's portfolio is derived by weighing each Bond's yield by the market value of the Bond and by the amount of time remaining to the date to which the Bond is priced. Once the average portfolio yield is computed, this figure is then reduced to reflect estimated expenses and the effect of the maximum sales charge paid by investors.

A State Trust may experience expenses and portfolio charges different from those assumed in the calculation of Estimated Long-Term Return. There thus can be no assurance that the Estimated Current Returns or Estimated Long-Term Returns quoted for a State Trust will be realized in the future. Since both Estimated Current Return and Estimated Long-Term Return quoted on a given business day are based on the market value of the underlying Bonds on that day, subsequent calculations of these performance measures will reflect the then-current market value of the underlying Bonds and may be higher or lower.

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Tax Status

In the opinion of bond counsel to the issuing governmental authorities given at the time of the original delivery of the Bonds, interest income on the Bonds comprising the Portfolios of each Trust is (except in certain instances, depending upon the Unit holder, as described below) exempt from Federal income tax under the provisions of the Internal Revenue Code in effect as of the date of issuance. In the case of Bonds issued when the Internal Revenue Code of 1954 was in effect, redesignation of the Code as the Internal Revenue Code of 1986 (the "Code" or the "1986 Code") has not adversely affected such exemption. (See "Tax Exempt Securities Trust--Portfolio.")

On the Date of Deposit for each Trust, Messrs. Cahill Gordon & Reindel, special counsel for the Sponsors and special counsel on New York tax matters, rendered an opinion under then existing provisions of the Code, the regulations then promulgated thereunder and then current rulings of the Internal Revenue Service substantially to the effect that:

None of the State Trusts is an association taxable as a corporation for Federal income tax purposes, and interest on the underlying debt obligations which is exempt from Federal income tax under the Code when received by each State Trust (or by a previously issued Series in whose property the State Trust has an ownership interest) will retain its status as tax-exempt interest, for Federal income tax purposes, to the Unit holders.

Each Unit holder will be considered the owner of a pro rata portion of the assets of each State Trust, Units of which are held by him (including any ownership interest of the State Trust in property comprising a previously issued Series) under Sections 671-678 of the Code. Each Unit holder will be considered to have received a pro rata share of interest derived from such Trust assets when it is received by the State Trust (or by the previously issued Series), and each Unit holder will have a taxable event when an underlying debt obligation is disposed of (whether by sale, exchange, redemption or payment at maturity) or when the Unit holder redeems or sells Units. The total tax cost of each Unit to a Unit holder is allocated among each of the underlying debt obligations held in the particular State Trust (in accordance with the proportion of the particular State Trust assets comprised by each underlying debt obligation) in order to determine the Unit holder's per Unit tax cost for each underlying debt obligation, and the tax cost reduction requirements of the Code relating to amortization of bond premium will apply separately to the per Unit tax cost of each underlying debt obligation. Therefore, under some circumstances a Unit holder may realize taxable gains when Units are sold or redeemed for an amount equal to or less than the Unit holder's original cost.

When a contract to acquire an underlying debt obligation is settled after the Unit holder's settlement date for a Unit, the Unit holder's proportionate share of the interest accrued on the underlying debt obligation on the debt obligation settlement date will exceed the portion of the purchase price that was allocable to interest accrued on the

Unit settlement date. A Unit holder will not be subject to Federal income tax on the Unit holder's proportionate share of the interest which accrues during the period between the Unit settlement date and the debt obligations' settlement date is received by the Trust or when it is distributed to the Unit holder.

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Under the personal income tax laws of the State and City of New York, the income of each State Trust will be treated as the income of its Unit holders. Interest on the underlying debt obligations which is exempt from tax under the laws of the State and City of New York when received by the New York Trust (or by a previously-issued Series in whose property the New York Trust has an interest) will retain its status as tax-exempt interest to its Unit holders. (Interest on the underlying obligations in the New York Trust is, however, not excludable from income in determining the amount of the income-based (i) New York State franchise taxes on business and financial corporations, or (ii) the New York City general corporation tax and the New York City financial corporation tax.) The minimum income taxes imposed by New York State and New York City on individuals, estates and trusts exclude from their taxable bases the federal tax preference item with respect to tax-exempt interest. Non-residents of New York City will not be subject to the City personal income tax on gains derived with respect to their Units. Non-residents of New York State will not be subject to New York State personal income tax on such gains unless the Units are employed in a business, trade or occupation carried on in New York State. A New York State or City resident should determine his basis and holding period for his Units in the same manner for New York State and City personal income tax purposes as for Federal income tax purposes.

If the proceeds received by a State Trust upon the sale or redemption of an underlying debt obligation exceed a Unit holder's adjusted tax cost allocable to the debt obligation disposed of, that Unit holder will realize a taxable gain to the extent of such excess. Conversely, if the proceeds received by a State Trust upon the sale or redemption of an underlying debt obligation are less than a Unit holder's adjusted tax cost allocable to the debt obligation disposed of, that Unit holder will realize a loss for tax purposes to the extent of such difference.

The Revenue Reconciliation Act of 1993 ("P.L. 103-66") was recently enacted. P.L. 103-66 increases maximum marginal income tax rates for individuals and corporations (generally effective for taxable years beginning after December 31, 1992), extends the authority to issue certain categories of tax-exempt bonds (qualified small issue bonds and qualified mortgage bonds), limits the availability of capital gain treatment for tax-exempt bonds purchased at a market discount, increases the amount of Social Security benefits subject to tax (effective for taxable years beginning after December 31, 1993) and makes a variety of other changes. Prospective investors are urged to consult their own tax advisors as to the effect of P.L. 103-66 on an investment in Units.

Any gain recognized on a sale or exchange of a Unit holder's pro rata interest in a Bond, and not constituting a realization of accrued "market discount", and any loss will be a capital gain or loss, except in the case of a dealer or financial institution. Gain realized on the disposition of the interest of a Unit holder in a market discount Bond is treated as ordinary income to the extent the gain does not exceed the accrued market discount. A Unit holder has an interest in a market discount Bond in a case in

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which the tax cost for the Unit holder's pro rata interest in the Bond is less than the stated redemption price thereof at maturity (or the issue price plus original issue discount accrued up to the acquisition date, in the case of an original issue discount Bond. Any capital gain or loss arising from the disposition of a Unit holder's pro rata interest in a Bond will be a long-term capital gain or loss if the Unit holder has held Units and the Trust has held the Bond for more than one year. Under the Code, net capital gain (i.e., the excess of net long-term capital gain over net short-term capital loss) of individuals, estates and trusts is subject to a maximum nominal tax rate of 28%. Such net capital gain may, however, result in a disallowance of itemized deductions and/or affect a personal exemption phase-out.

In the case of certain of the underlying debt obligations comprising the Portfolio of a State Trust, the opinions of bond counsel indicate that although interest on such underlying debt obligations is generally exempt from Federal income tax, such underlying debt obligations are "industrial development bonds" under the 1954 Code or "private activity bonds" under the 1986 Code, and interest on such underlying debt obligations will not be exempt from Federal income tax for any period during which such underlying debt obligations are held by a "substantial user" of the facilities financed by the proceeds of such underlying debt obligations (or a "related person" to such a "substantial user"). In the opinion of Messrs. Cahill Gordon & Reindel, interest attributable to such underlying debt obligations (although not subject to Federal income tax to on

Trust), if received by a Unit holder who is such a "substantial user" or "related person", will be taxable (i.e., not tax-exempt) to the Unit holder to the same extent as if such underlying debt obligations were held directly by the Unit holder as owner. No investigation as to the users or of the facilities financed by the underlying debt obligations has been made by the Sponsors or their counsel. Investors should consult their tax counsel for advice with respect to the effect of these tax provisions on their particular tax situations.

Furthermore, exemption of interest on a Bond from regular federal income tax requires that the issuer of the Bond (or other user of the Bond proceeds) meets certain ongoing compliance requirements. Failure to meet these requirements could result in loss of the exemption and such loss of exemption could apply retroactively from the date of issuance. A Bond may provide that if a loss of exemption is determined to have occurred, the Bond is immediately due and payable; and, in the case of a secured Bond, that the security can be reached if the Bond is not then paid. If such a loss of exemption were to occur and the Bond did not contain such an acceleration clause, or if the acceleration did not in fact result in payment of the Bond, the affected Bond would likely be sold as a taxable Bond. Sale of a Bond as a taxable Bond would likely result in a realization of proceeds less than the cost of the Bond.

Persons in receipt of Social Security benefits should be aware that a portion of such Social Security benefits may be includible in gross

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income. For 1993, the includible amount is the lesser of (a) one-half of the Social Security benefits or (b) one-half of the amount by which the sum of "modified adjusted gross income" plus one-half of the Social Security benefits exceeds a "base amount". The base amount is $25,000 for unmarried taxpayers, $32,000 for married taxpayers filing a joint return, and zero for married taxpayers not living apart who file separate returns.

For 1994 and subsequent taxable years, two threshold amounts apply. The 1993 rule continues to apply to a taxpayer whose modified adjusted gross income plus one-half of his or her Social Security benefits does not exceed $34,000 ($44,000 for married taxpayers filing a joint return). Taxpayers with modified adjusted gross income in excess of the $34,000 threshold ($44,000 for married taxpayers filing a joint return) are, however, required to include up to 85% of their Social Security benefits in gross income.

Modified adjusted gross income is adjusted gross income determined without regard to certain otherwise allowable deductions and exclusions from gross income, plus tax-exempt interest on municipal obligations including interest on the Bonds. To the extent that Social Security benefits are includible in gross income, they will be treated as any other item of gross income and therefore may be taxable. Although tax-exempt interest is included in modified adjusted gross income solely for the purpose of determining what portion, if any, of Social Security benefits will be included in gross income, no tax-exempt interest, including that received from such Trust, will be subject to Federal income tax.

The exemption of interest on municipal obligations for Federal income tax purposes does not necessarily result in exemption under any other Federal tax law or under the income or other tax laws of any state or city. The laws of the several states vary with respect to the taxation of such obligations.

Opinions relating to the validity of the Bonds and the exemption of interest thereon from Federal and specified state and local income tax are rendered by bond counsel to the issuing governmental authorities given at the time of the original delivery of the Bonds. Neither the Sponsors nor their counsel have made any review of proceedings relating to the issuance of Bonds or the bases for bond counsels' opinions. It is the view of the Sponsors that interest on the Securities will not be a tax preference item for purposes of the alternative minimum tax under the Tax Reform Act of 1986 (the "1986 Act"). Unit holders are urged to consult their own tax advisors concerning an investment in Units.

The Code provides generally that adjustments to taxable income to produce alternative minimum taxable income for corporations will include 75% of the amount by which adjusted current earnings (which would include tax-exempt interest) of the taxpayer exceeds the alternative minimum taxable income of the taxpayer before any amount is added to alternative minimum taxable income because of this adjustment.

The Code also imposes an additional 12/100% ($12.00 per

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$10,000) environmental tax on the alternative minimum taxable income (determined without regard to any alternative tax net operating loss deduction) of a corporation in excess of $2,000,000 for each taxable year beginning before January 1, 1996. The environmental tax is an excise tax and is deductible for United States

federal income tax purposes (but not for purposes of the environmental tax itself). Although the environmental tax is based on alternative minimum taxable income, the environmental tax must be paid in addition to any Federal income taxes payable by the corporation.

For Federal income tax purposes, State Trust expenses allocable to producing or collecting State Trust interest income are not deductible because the income derived by a State Trust is exempt from Federal income tax. A state or local income tax may provide for a deduction for the portion of such Trust expenses attributable to the production or collection of income derived by a State Trust and taxed by the state or locality. The effect on any such deductions of the 1986 Act rules whereby investment expenses and other miscellaneous deductions are deductible only to the extent in excess of 2% of adjusted gross income would depend upon the law of the particular state or locality involved.

From time to time other proposals have been introduced before Congress, the purpose of which is to restrict or eliminate the Federal income tax exemption for interest on securities similar to the Bonds in the Trusts or to require treatment of such interest generally as a "tax preference" for alternative minimum tax purposes, and it can be expected that similar proposals may be introduced in the future. The State Trusts and the Sponsors cannot predict what legislation, if any, in respect of the tax status of interest on Bonds may be proposed by the Executive Branch or by members of Congress, nor can they predict which proposals, if any, might be enacted or whether any legislation if enacted would apply to the Bonds in the Trusts.

The Portfolio of a State Trust may contain one or more Bonds which were originally issued at a discount ("original issue discount"). In general, original issue discount can be defined as the difference between the price at which a Bond was issued and its stated redemption price at maturity. In the case of a Bond issued before September 4, 1982, original issue discount is deemed to accrue (be "earned") as tax-exempt interest ratably over the period from the date of issuance of the Bond to the date of maturity and is apportioned among the original holder of the obligation and subsequent purchasers in accordance with a ratio the numerator of which is the number of calendar days the obligation was owned by the holder and the denominator of which is the total number of calendar days from the date of issuance of the obligation to its date of maturity. Gain or loss upon the disposition of an original issue discount Bond in the Portfolio of a State Trust is measured by the difference between the amount

realized upon disposition of and the amount paid for such obligation. A holder is entitled, however, to exclude from gross income that portion of such gain attributable to accrued interest and the "earned" portion of original issue discount.

In the case of a Bond issued after September 3, 1982, original

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issue discount is deemed to accrue on a constant interest method which corresponds, in general, to the economic accrual of interest (adjusted to eliminate proportionately on an elapsed-time basis any excess of the amount paid for the Bond by the Trust over the sum of the issue price and the accrued original issue discount on the acquisition date). A Unit holder's tax basis with regard to such Bond is increased by the amount of original issue discount that is deemed to accrue while a Unit holder holds his Units and the Trust holds the Bond. The difference between the amount realized on a disposition of the Bond (ex currently accrued interest) and the adjusted tax basis of the Bond will give rise to taxable gain or deductible loss upon a disposition of the Bond by the affected State Trust (or a sale or redemption of Units by a Unit holder).

In addition, investors should be aware that no deduction is allowed for Federal income tax purposes for interest on indebtedness incurred or continued to purchase or carry Units. Under rules used by the Internal Revenue Service for determining when borrowed funds are considered used for the purpose of purchasing or carrying particular assets, the purchase of Units may be considered to have been made with borrowed funds even though the borrowed funds are not directly traceable to the purchase of the Units.

All taxpayers are required to report for information purposes on their Federal income tax returns the amount of tax-exempt interest they receive.

Investors should consult their own tax advisors with respect to the applicability of the foregoing general comments to their own particular situations and as respects state and local tax consequences of an investment in Units.

The description of Federal tax consequences applies separately for each State Trust. Below, arranged alphabetically by state, is a description of certain state and local tax consequences for residents of the state and locality for which such State Trust is named.

California Trust

Messrs. Morgan, Lewis and Bockius acted as special California counsel to California Trust 98 and all prior California Trusts. Messrs. Adams, Duque and Hazeltine acted as special California counsel to California Trust 99 and all subsequent California Trusts. On the Date of Deposit for each California Trust, the respective counsel to the Trusts rendered an opinion under then existing law substantially to the effect that:

The California Trust is not an association taxable as a corporation under the income tax laws of the State of California;

The income, deductions and credits against tax of the California Trust will be treated as the income, deductions and credits against tax of the holders of Units in the California Trust under the income tax laws of the State of California;

Interest on the bonds held by the California Trust, and any interest income received by the California Trust from its investments in units of previously formed California trusts included within a Multistate Series or Umbrella Series of Tax Exempt

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Securities Trust (the "Previously Formed Trusts"), to the extent that such interest is exempt from taxation under California law will not lose its character as tax-exempt income merely because that income is passed through to the holders of Units; however, a corporation subject to the California franchise tax is required to include that interest income in its gross income for purposes of determining its franchise tax liability;

Each holder of a Unit in the California Trust will have a taxable event when the California Trust disposes of a bond (whether by sale, exchange, redemption, or payment at maturity) or when the Unit holder redeems or sells his Units. The total tax cost of each Unit to a holder of a Unit in the California Trust is allocated among each of the bond issues held in the California Trust (in accordance with the proportion of the California Trust comprised by each bond issue) in order to determine the holder's per Unit tax cost for each bond issue, and the tax cost reduction requirements relating to amortization of bond premium will apply separately to the per Unit tax cost of each bond issue. Therefore, under some circumstances, a holder of a Unit may realize taxable gain when the California Trust which issued such Unit disposes of a bond or the holder's Units are sold or redeemed for an amount equal to or less than his original cost of the bond or Unit. Similarly, each Unit holder will have a taxable event (i) when a Previously Formed Trust disposes of a bond, and (ii) when the California Trust disposes of any of its ownership interests in a Previously Formed Trust;

Each holder of a Unit in the California Trust is deemed to be the owner of a pro rata portion of the California Trust under the personal property tax laws of the State of California; and

The pro rata ownership of the bonds held by the California Trust, as well as the interest income therefrom, are exempt from California personal property taxes.

Connecticut Trust

On the Date of Deposit for each Connecticut Trust, Messrs. Day, Berry and Howard, special Connecticut counsel on Connecticut tax matters, rendered an opinion which was based explicitly on the opinion of Messrs. Cahill Gordon & Reindel regarding Federal income tax matters, under then existing Connecticut law substantially to the effect that:

The Connecticut Trust is not subject to the Connecticut corporation business tax or any other tax on or measured by net income imposed by the State of Connecticut;

Interest income of the Connecticut Trust from obligations issued by or on behalf of the State of Connecticut, any political subdivision thereof, or any agency, instrumentality, authority, or district of either (a "Connecticut Issuer"), or from obligations of United States territories or possessions and their public authorities the interest on which Federal law would prohibit Connecticut from taxing if received directly by a Unit holder from the issuer thereof, is not taxable under the Connecticut income tax on the Connecticut taxable income of individuals, trusts and estates (the "Connecticut Income Tax"), when received by the Connecticut Trust or when distributed by it to such a Unit holder;

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Gains and losses recognized by a Unit holder for Federal income tax purposes upon the sale, redemption, or other disposition of Units of the Connecticut Trust held by a Unit holder are taken into account as gains or losses, respectively, for purposes of the Connecticut Income Tax, except that, in the case of a unit holder holding a Unit of the Connecticut Trust as a capital asset, such gains and losses recognized upon the sale or exchange of a Connecticut Bond held by the Connecticut Trust are excluded from gains and losses taken into account for purposes of such tax and no opinion is expressed as to the treatment for purposes of such tax of gains and losses recognized upon the maturity or redemption of a Connecticut Bond held by the Connecticut Trust or, to the extent attributable to Connecticut Bonds, of gains and losses recognized upon the redemption, sale, or other disposition by a Unit holder of a Unit of the Connecticut Trust held by him;

The portion of any interest or capital gain of the Connecticut Trust that is allocable to a Unit holder that is subject to the Connecticut corporation business tax is includible in the gross income of such Unit holder for purposes of such tax; and

An interest in a Unit of the Connecticut Trust that is owned by or attributable to a Connecticut resident at the time of his death is includible in his gross estate for purposes of the Connecticut succession tax and the Connecticut estate tax.

The Connecticut Income Tax was enacted in August 1991. Generally, under this tax as enacted, a Unit holder recognizes gain or loss upon the maturity, redemption, sale, or other disposition by the Connecticut Trust of an obligation held by it, or upon the redemption, sale, or other disposition of a Unit of the Connecticut Trust held by the Unit holder, to the same extent that gain or loss is recognized by the Unit holder thereupon for Federal income tax purposes. However, on June 19, 1992, Connecticut legislation was adopted that provides that gains and losses from the sale or exchange of Connecticut Bonds held as capital assets will not be taken into account for purposes of the Connecticut Income Tax for taxable years starting on or after January 1, 1992. It is not clear whether this provision would apply to gain or loss recognized by a Unit holder upon the maturity or redemption of a Connecticut Bond held by the Connecticut Trust or, to the extent attributable to Connecticut Bonds held by the Connecticut Trust, to gain or loss recognized by a Unit holder upon the redemption, sale, or other disposition of a Unit of the Connecticut Trust held by the Unit holder. Unit holders are urged to consult their own tax advisers in this regard.

By legislation adopted May 19, 1993, as amended by legislation adopted June 25, 1993, Connecticut enacted the net Connecticut minimum tax, retroactive to taxable years beginning on or after January 1, 1993, which is applicable to individuals, trusts, and estates that are subject to the Federal alternative minimum tax. Income of the Connecticut Trust that is subject to the Federal alternative minimum tax in the case of such Unit holders may also be subject to the net Connecticut minimum tax.

Florida Trust

On the Date of Deposit for each Florida Trust, Messrs. Carlton, Fields, Ward, Emmanuel, Smith & Cutler, P.A., special Florida counsel on Florida tax matters, rendered an opinion, under then existing

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law substantially to the effect that:

The Florida Trust will not be subject to the Florida income tax imposed by Chapter 220 so long as the Florida Trust transacts no business in Florida or has no income subject to federal income taxation. In addition, political subdivisions of Florida do not impose any income taxes.

Non-Corporate Unit holders will not be subject to any Florida income taxation on income realized by the Florida Trust. Corporate Unit holders with commercial domiciles in Florida will be subject to Florida income taxation on income realized by the Trust. Other corporate Unit holders will be subject to Florida income taxation on income realized by the Florida Trust only to the extent that the income realized is other than "non-business income" as defined by Chapter 220.

Florida Trust Units will be subject to Florida estate tax if owned by Florida residents and may be subject to Florida estate tax if owned by other decedents at death. However, the Florida estate tax is limited to the amount of the credit allowable under the applicable Federal Revenue Act (currently Section 2011 [and in some cases Section 2102] of the Internal Revenue Code of 1986, as amended) for death taxes actually paid to the several states.

Neither the Bonds nor the Units will be subject to the Florida ad valorem property tax or the Florida sales or use tax.

The Florida Trust will not be subject to Florida intangible personal property tax. In addition, Units of the Florida Trust will not be subject to Florida intangible personal property tax.

The issuance and sale of the Units by the Florida Trust will not subject either the Florida Trust or the Unit holders to the Florida documentary stamp tax.

The transfer of Units by a Unit holder will not be subject to the Florida documentary stamp tax.

In the event Bonds issued by the government of Puerto Rico, the government of Guam, or the government of the United States Virgin Islands are included in the Florida Trust, the opinions expressed above will be unchanged.

For the purposes of the foregoing opinion, the following terms have the following meanings:

(a) "Non-Corporate Unit holder" -- a Unit holder of the Florida Trust who is an individual not subject to the Florida state income tax on corporations under Chapter 220, Florida Statutes (1989 and Supp. 1990) as amended by Chapter 91-112, Laws of Florida ("Chapter 220").

(b) "Corporate Unit holder" -- a Unit holder of the Florida Trust that is a corporation subject to the Florida state income tax on corporations under Chapter 220.

Maryland Trust

Messrs. Venable, Baetjer and Howard acted as special Maryland counsel to Maryland Trust 75 and all prior Maryland Trusts. Messrs. Weinberg & Green acted as special Maryland counsel to

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Maryland Trust 76 and all subsequent Maryland Trusts. On the Date of Deposit for each Maryland Trust, the respective counsel to the Trusts rendered an opinion for Maryland State and local income tax purposes and under then existing law, substantially to the effect that:

The Maryland Trust will not be treated as an association taxable as a corporation, and the income of the Maryland Trust will be treated as the income of the Holders. The Maryland Trust is not a "financial institution" subject to the Maryland Franchise Tax measured by net earnings. The Maryland Trust is not subject to Maryland property taxes imposed on the intangible personal property of certain corporations.

Except as described below in the case of interest paid on private activity bonds constituting a tax preference for federal income tax purposes, a Holder will not be required to include such Holder's pro-rata share of the earnings of, or distributions from, the Maryland Trust in such Holder's Maryland taxable income to the extent that such earnings or distributions represent interest excludable from gross income for federal income tax purposes received by the Maryland Trust on obligations of the State of Maryland, the Government of Puerto Rico, or the Government of Guam and their respective political subdivisions and authorities. Interest on Debt Obligations is subject to the Maryland Franchise Tax imposed on "financial institutions" and measured by net earnings.

In the case of taxpayers who are individuals, Maryland presently imposes an income tax on items of tax preference with reference to such items as defined in the Internal Revenue Code, as amended, for purposes of calculating the federal alternative minimum tax. Interest paid on certain private activity bonds is a preference item for purposes of calculating the federal alternative minimum tax. Accordingly, if the Maryland Trust holds such bonds, 50% of the interest on such bonds in excess of a threshold amount is taxable by Maryland.

A Holder will recognize taxable gain or loss, except in the case of an individual Holder who is not a Maryland resident, when the Holder disposes of all or part of such Holder's pro-rata portion of the Debt Obligations in the Maryland Trust. A Holder will be considered to have disposed of all or part of such Holder's pro-rata portion of each Debt Obligation when the Holder sells or redeems all or some of such Holder's Units. A Holder will also be considered to have disposed of all or part of such Holder's pro-rata portion of a Debt Obligation when all or part of the Debt Obligation is disposed of by the Maryland Trust or is redeemed or paid at maturity. Gain included in the gross income of Holders for federal income tax purposes is, however, subtracted from income for Maryland income tax purposes to the extent that the gain is derived from the disposition of Debt Obligations issued by the State of Maryland and its political subdivisions. Profits realized on the sale or exchange of Debt Obligations are subject to the Maryland Franchise Tax imposed on "financial institutions" and measured by net earnings.

Units of the Maryland Trust will be subject to Maryland inheritance and estate tax only if held by Maryland residents.

Neither the Debt Obligations nor the Units will be subject to Maryland personal property tax.

The sales of Units in Maryland or the holding of Units in Maryland will not be subject to Maryland Sales or Use Tax.

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Massachusetts Trust

On the Date of Deposit for each Massachusetts Trust, Messrs. Palmer and Dodge, special Massachusetts counsel on Massachusetts tax matters, rendered an opinion, which is based explicitly on the opinion of Messrs. Cahill Gordon & Reindel regarding Federal income tax matters, under then existing Massachusetts law substantially to the effect that:

Tax-exempt interest for Federal income tax purposes received by or through the Massachusetts Trust, or by or through a Previous Trust in which the Massachusetts Trust owns an interest, on obligations issued by Massachusetts, its counties, municipalities, authorities, political subdivisions or instrumentalities, by the government of Puerto Rico or by its authority or by the government of Guam or by its authority, will not result in a Massachusetts income tax liability for the Massachusetts Trust or for Unit holders who are subject to Massachusetts income taxation under Massachusetts General Laws, Chapter 62.

Capital gain and capital loss realized by the Massachusetts Trust and included in the Federal gross income of Unit holders who are subject to Massachusetts income taxation under General Laws, Chapter 62 will be included as capital gains and losses in the Unit holder's Massachusetts gross income, except where capital gain is specifically exempted from income taxation under the Massachusetts statute authorizing issuance of the obligations held by the Massachusetts Trust or held by the Previous Trusts in which the Massachusetts Trust owns an interest, and will not result in a Massachusetts income tax

liability for the Massachusetts Trust.

Gains and losses realized on sale or redemption of Units by Unit holders who are subject to Massachusetts income taxation under Massachusetts General Laws, Chapter 62 will be includible in their Massachusetts gross income.

Minnesota Trust

On the Date of Deposit for each Minnesota Trust, Messrs. Dorsey & Whitney, a partnership including professional corporations, special Minnesota counsel on Minnesota tax matters, rendered an opinion under then existing law substantially to the effect that:

The Minnesota Trust is not an association taxable as a corporation for purposes of Minnesota income taxation. Minnesota taxable net income is, with certain modifications, determined with reference to federal taxable income. Each Unit holder of the Minnesota Trust will be treated as the owner of a pro rata portion of the Minnesota Trust (including the ownership interest of the Minnesota Trust in property comprising previously issued Series) for purposes of Minnesota income taxation, and the income of the Minnesota Trust will be treated as the income of the Unit holders under Minnesota law. Interest on Bonds that would be excluded from Minnesota taxable net income when paid directly to an individual, estate or trust will be excluded from Minnesota taxable net income of Unit holders that are individuals, estates or trusts when received by the Minnesota Trust (or by a previously issued Series in which the Minnesota Trust has an ownership interest) and when distributed to such Unit holders. Interest on Bonds that would be included in Minnesota "alternative

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minimum taxable income" when paid directly to a noncorporate taxpayer will be included in Minnesota "alternative minimum taxable income" of Unit holders that are individuals, estates or trusts for purposes of the Minnesota alternative minimum tax.

Any such Unit holder that is subject to Minnesota income taxation will realize taxable gain or loss when the Minnesota Trust (or a previously issued Series in which the Minnesota Trust has an ownership interest) disposes of a Bond or an ownership interest in a previously issued Series (whether by sale, exchange, redemption or payment at maturity) or when the Unit holder redeems or sells Units at a price that differs from original cost, as adjusted for amortization of bond premium and other basis adjustments. The total tax cost of each Unit to a Unit holder is allocated proportionately (by value) among each of the Bonds held in the Minnesota Trust. Tax cost reduction requirements relating to amortization of bond premium may, under some circumstances, result in the realization of taxable gain by Unit holders when their Units (or underlying Bonds) are

sold or redeemed for an amount equal to or less than their original cost. Minnesota has repealed the favorable treatment of capital gains, but preserved limitations on the deductibility of capital losses.

Interest income attributable to Bonds that are "industrial development bonds" or "private activity bonds," as such terms are defined in the Internal Revenue Code, will be taxable under Minnesota law to a Unit holder that is a "substantial user" of the facilities financed by the proceeds of such Bonds (or a "related person" to such a "substantial user") to the same extent as if such Bonds were held directly by such Unit holder.

Minnesota law does not permit a deduction for interest on indebtedness incurred or continued by individuals, estates and trusts to purchase or carry Units. Minnesota law also restricts the deductibility of other expenses allocable to Units.

With limited exceptions, interest on Bonds in the Minnesota Trust will be included in taxable income for purposes of the Minnesota franchise tax on corporations and financial institutions. No opinion is expressed as to other Minnesota tax effects on Unit holders that are corporations or financial institutions.

Missouri Trust

Messrs. Bryan, Cave, McPheeters & McRoberts acted as special Missouri counsel to Missouri Trust 75 and all prior Missouri Trusts. Messrs. Blackwell Sanders Matheny Weary & Lombardi acted as special Missouri counsel to Missouri Trust 76 and all subsequent Missouri Trusts. On the Date of Deposit for each Missouri Trust, the respective counsel to the Trusts rendered an opinion under then existing law substantially to the effect that:

For Missouri income tax purposes under Chapters 143 of the Missouri Revised Statutes, the Missouri Trust will be treated as having the same organizational characteristics as it is accorded for Federal Income Tax purposes. In reliance upon the opinion of Cahill Gordon & Reindel as described above, we are therefore of the opinion that the Missouri Trust is not an association taxable as a corporation under Missouri law, that each Unit holder will be treated as the owner of a proportionate, undivided interest in the Missouri Trust, and the income of the Missouri Trust will be treated as the income of such Unit holders.

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Under Missouri law, interest income received by the Missouri Trust from (i) obligations of the State of Missouri, its political subdivisions and authorities, or (ii) bonds issued by the Government of Puerto Rico, or by its authority, and which is excluded from Federal

gross income by Federal law or on which Missouri is prohibited by Federal law from imposing an income tax, will be excluded from the Missouri taxable income of the Unit holders to the extent that the interest is exempt from income tax under Missouri law when received by the Missouri Trust.

Gains and losses from the Missouri Trust treated for Federal Income Tax purposes as the gains and losses of the Unit holders, to the extent included in Federal gross income, will be included in the Missouri taxable income of Unit holders who are individuals, except to the extent that (i) such Unit holders are non-residents of Missouri and (ii) such gains and losses of such non-resident Unit holders are derived from sources wholly without Missouri. Such gains or losses, to the extent included in determining the Federal taxable income of a corporate Unit holder after Missouri adjustments, are allocated or apportioned to Missouri in order to determine Missouri taxable income.

New Jersey Trust

On the Date of Deposit for each New Jersey Trust, Messrs. Shanley & Fisher, P.C., special New Jersey counsel on New Jersey tax matters, rendered an opinion under then existing law substantially to the effect that:

The proposed activities of the New Jersey Trust will not cause it to be subject to the New Jersey Corporation Business Tax Act.

The income of the New Jersey Trust will be treated as the income of individuals, estates and trusts who are the Holders of Units of the New Jersey Trust for purposes of the New Jersey Gross Income Tax Act, and interest which is exempt from tax under the New Jersey Gross Income Tax Act when received by the New Jersey Trust will retain its status as tax-exempt in the hands of such Unit Holders. Gains arising from the sale or redemption by a Holder of his Units or from the sale, exchange, redemption or payment at maturity of a Bond by the New Jersey Trust are exempt from taxation under the New Jersey Gross Income Tax Act (P.L. 1976 C. 47), as enacted and construed on the date hereof, to the extent such gains are attributable to Bonds, the interest on which is exempt from tax under the New Jersey Gross Income Tax Act. Any loss realized on such disposition may not be utilized to offset gains realized by such Unit Holder on the disposition of assets the gain on which is subject to the New Jersey Gross Income Tax Act.

Units of the New Jersey Trust may be subject, in the estates of New Jersey residents, to taxation under the Transfer Inheritance Tax Law of the State of New Jersey.

North Carolina Trust

In the opinion of Messrs. Petree Stockton, special North Carolina counsel on North Carolina tax matters, with respect to the North Carolina Trust, under then existing law applicable to persons who are North Carolina residents:

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The State of North Carolina imposes a tax upon the taxable income of individuals, corporations, estates, and trusts. Nonresident individuals are generally taxed only on income from North Carolina sources. Corporations doing business within and without North Carolina are entitled to allocate and apportion their income if they have income from business activity which is taxable in another state. The mere ownership of Units will not subject a nonresident Unit holder to the tax jurisdiction of North Carolina.

Counsel has been advised that for Federal income tax purposes the North Carolina Trust will be a grantor trust and not an association taxable as a corporation. Upon this assumption, counsel is of the opinion that the North Carolina Trust will be treated as a grantor trust for North Carolina income tax purposes and not as an association taxable as a corporation. Each participant in the North Carolina Trust must report his share of the taxable income of the North Carolina Trust.

The calculation of North Carolina taxable income of an individual, corporation, estate or trust begins with Federal taxable income. Certain modifications are specified, but no such modification requires the addition of interest on the obligations of the State of North Carolina, its political subdivisions, or nonprofit educational institutions organized or chartered under the laws of North Carolina.

As a general rule, gain (or loss) from the sale of obligations held by the North Carolina Trust (whether as a result of the sale of such obligations by the North Carolina Trust or as a result of the sale of a unit by a Unit holder) is includible (or deductible) in the calculation of the Unit holder's North Carolina taxable income. Under the language of certain enabling legislation such as the North Carolina Hospital Authorities Act, the North Carolina Health Care Facilities Finance Act, the North Carolina Housing Finance Agency Act, the act establishing the North Carolina State Ports Authority, the North Carolina Joint Municipal Electric Power and Energy Act, the act authorizing the organization of business development corporations, the North Carolina Higher Education Facilities Finance Act, the North Carolina Agricultural Finance Act, and the act establishing the North Carolina Solid Waste Management Loan Program, profits made on the sale of obligations issued by authorities created thereunder are made expressly exempt from North Carolina income taxation. The exemption of such profits from North Carolina income taxation does not require a disallowance of any loss incurred on the sale of such obligations in the calculation of North Carolina income taxes.

For Federal income tax purposes, interest on North Carolina obligations that would otherwise be exempt from taxation may in certain circumstances be taxable to the recipient. North Carolina law provides that the interest on North Carolina obligations shall maintain its exemption from North Carolina income taxation notwithstanding that such interest may be subject to federal income taxation.

North Carolina imposes a tax on persons for the privilege of ownership of items of intangible personal property. The tax is generally imposed at the rate of $.25 per $100 of the value of each item of intangible personal property at December 31 of each year. Bonds and other evidences of indebtedness of the State of North Carolina, political subdivisions of the State, agencies of such governmental units, or nonprofit educational institutions organized or chartered under the laws of North Carolina are exempt from the intangible personal property tax.

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This exemption does not extend to units of ownership of an investment trust that owns obligations which would be exempt from the intangible personal property tax if owned directly by the Unit holders of the investment trust. However, the North Carolina Department of Revenue by regulation has announced that the taxable value of units of ownership in an investment trust may be reduced by a percentage equal to the ratio of direct obligations of the United States Government and direct obligations of the State of North Carolina and its political subdivisions held in the trust on December 31. Thus, if the assets then held by the North Carolina Trust consist entirely of direct obligations of the United States Government and direct obligations of the State of North Carolina and its political subdivisions, the entire value of the North Carolina Trust Units will not be subject to the intangible personal property tax under this regulation.

North Carolina imposes a tax on transfers which occur by reason of death or by gift. Transfers of obligations of North Carolina, its political subdivisions, agencies of such governmental units, or nonprofit educational institutions organized or chartered under the laws of North Carolina are not exempt from the North Carolina inheritance and gift taxes.

48 U.S.C. Sec.745 provides that bonds issued by the Government of Puerto Rico, or by its authority, shall be exempt from taxation by any State or by any county, municipality, or other municipal subdivision of any State. Accordingly, interest on any such obligations held by the North Carolina Trust would be exempt from the North Carolina corporate and individual income taxes. The North Carolina Department of Revenue takes the position that gains from the sale or other disposition of such obligations are subject to the North Carolina corporate and individual income taxes. Such obligations would be treated as obligations of the United States for purposes of the intangible personal property tax and the application of such tax to units of ownership in an investment trust.

Ohio Trust

On the Date of Deposit for each Ohio Trust, Squire, Sanders & Dempsey, special Ohio counsel on Ohio tax matters, rendered an opinion under then existing law substantially to the effect that:

The Ohio Trust is not taxable as a corporation or otherwise for purposes of the Ohio personal income tax, Ohio school district income taxes, the Ohio corporation franchise tax, or the Ohio dealers in intangibles tax.

Income of the Ohio Trust will be treated as the income of the Unit holders for purposes of the Ohio personal income tax, Ohio school district income taxes, Ohio municipal income taxes and the Ohio corporation franchise tax in proportion to the respective interest therein of each Unit holder.

Interest on Ohio Obligations held by the Ohio Trust is exempt from the Ohio personal income tax and Ohio school district income taxes, and is excluded from the net income base of the Ohio corporation franchise tax when distributed or deemed distributed to Unit holders.

Gains and losses realized on the sale, exchange or other disposition by the Ohio Trust of Ohio Obligations are excluded in determining adjusted gross and taxable income for purposes of the Ohio personal income tax and Ohio school district income taxes, and are

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excluded from the net income base of the Ohio corporation franchise tax when distributed or deemed distributed to Unit holders.

Except as stated in the next sentence, Ohio municipalities may not impose income taxes on interest on or profit made on the sale of intangible property, including Ohio Obligations. The municipalities of Indian Hill, Wickliffe and Wyoming are authorized by state law to, and do, impose a tax on certain intangible income; however, it is not clear that such municipalities may tax interest on or profit made on the sale, exchange or other disposition of Ohio Obligations. In addition, specific Ohio statutes authorizing the issuance of certain Ohio Obligations generally provide that the interest on and, in some cases, gain or profit from the sale or other disposition of such Ohio Obligations are exempt from all taxation in the State. Interest on and gain or profit from the sale or other disposition of obligations issued pursuant to such statutes are exempt from all Ohio municipal income taxes.

Pennsylvania Trust

On the Date of Deposit for each Pennsylvania Trust, Messrs. Drinker Biddle & Reath, special Pennsylvania counsel on Pennsylvania tax matters, rendered an opinion under then existing law substantially to the effect that:

Units evidencing fractional undivided interests in the Pennsylvania Trust are not subject to any of the personal property taxes presently in effect in Pennsylvania to the extent that the Trust is comprised of bonds issued by the Commonwealth of Pennsylvania, any public authority, commission, board or other agency created by the Commonwealth of Pennsylvania or any public authority created by any such political subdivision ("Pennsylvania Bonds"). The taxes referred to include the County Personal Property Tax imposed on residents of Pennsylvania by the Act of June 17, 1913, P.L. 507, as amended, and the additional personal property taxes imposed on Pittsburgh residents by the School District of Pittsburgh under the Act of June 20, 1947, P.L. 733, as amended, and by the City of Pittsburgh under Ordinance No. 599 of December 28, 1967. The portion, if any, representing Pennsylvania Bonds held by Units in a Prior Trust are also not subject to such taxes. The portion, if any, of such Units representing bonds or other obligations issued by the Government of Guam or by its authority, bonds issued by the Government of Puerto Rico or by its authority, and bonds issued by the Government of the Virgin Islands or by a municipality thereof (collectively, "Possession Bonds") is not expressly exempt from taxation under the foregoing Pennsylvania Acts. However, such bonds are expressly relieved from state taxation by United States statutes. Therefore, Units in the Pennsylvania Trust are not subject to Personal Property Tax to the extent that the Trust is comprised of Possession Bonds. Pennsylvania Trust Units may be subject to tax in the estate of a resident decedent under the Pennsylvania inheritance and estate taxes.

Income received by a Unit holder attributable to interest realized by the Pennsylvania Trust from Pennsylvania Bonds, Possession Bonds, and Prior Trust Units is not taxable to individuals, estates or trusts under the Personal Income Tax imposed by Article III of the Tax Reform Code of 1971; to corporations under the Corporate Net Income tax imposed by Article IV of the Tax Reform Code of 1971; nor to individuals under the Philadelphia School District Net Income Tax ("School District Tax") imposed on Philadelphia resident individuals under the authority of the Act of August 9, 1963, P.L. 640.

Income received by a Unit holder attributable to gain on the

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sale or other disposition by the Pennsylvania Trust of Pennsylvania Bonds, Possession Bonds and Prior Trust Units is not taxable to individuals, estates or trusts under the Personal Income Tax. Nor is such

gain taxable under the Corporate Net Income Tax or under the School District Tax, except that gain on the sale or other disposition of Possession Bonds and that portion of Prior Trust Units attributable to such bonds held for six months or less may be taxable under the School District tax.

To the extent that gain on the disposition of a Unit represents gain realized on Pennsylvania or Possession Bonds held by the Pennsylvania Trust or held by Prior Trust Units, such gain may be subject to the Personal Income Tax and Corporate Net Income Tax. Such gain may also be subject to the School District Tax, except that gain realized with respect to a Unit held for more than six months is not subject to the school District Tax.

No opinion is expressed regarding the extent, if any, to which Units, or interest and gain thereon, is subject to, or included in the measure of, the special taxes imposed by the Commonwealth of Pennsylvania on banks and other financial institutions or with respect to any privilege, excise, franchise or other tax imposed on business entities not discussed herein (including the Corporate Capital Stock/Foreign Franchise Tax).

Texas Trust

The opinion of Akin, Gump, Strauss, Hauer & Feld, special Texas counsel on Texas tax matters with respect to the Texas Trust, given on the Date of Deposit under then existing Texas law which is subject to change includes the following:

(1) Neither the State nor any political subdivision of the State currently imposes an income tax on individuals. Therefore, no portion of any distribution received by an individual Unitholder of the Trust in respect of his Units, including a distribution of the proceeds of insurance in respect of such Units, is subject to income taxation by the State or any political subdivision of the State;

(2) Except in the case of certain transportation businesses, savings and loan associations and insurance companies, no Unit of the Trust is taxable under any property tax levied in the State;

(3) The "inheritance tax" of the State, imposed upon certain transfers of property of a deceased resident individual Unitholder, may be measured in part upon the value of Units of the Trust included in the estate of such Unitholder; and

(4) With respect to any Unitholder which is subject to the State corporate franchise tax, Units in the Trust held by such Unitholder, and distributions received thereon, will be taken into account in

computing the "taxable capital" of the Unitholder allocated to the State, one of the bases by which such franchise tax is currently measured (the other being a corporation's "net capital earned surplus," which is, generally, its net corporate income plus officers and directors income).

Expenses and Charges

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Initial Expenses

At no cost to the State Trusts, the Sponsors have borne all the expenses of creating and establishing each Multistate Trust or Umbrella Series, including the cost of the initial preparation and execution of the Trust Agreement, initial preparation and printing of the certificates for Units, the fees of the Evaluator during the initial public offering, legal expenses, advertising and selling expenses and other out-of-pocket expenses. The costs of maintaining the secondary market, such as printing, legal and accounting, will be borne by the Sponsors except as otherwise provided in the Trust Agreement.

Trustee's, Sponsors' and Evaluator's Fees--The Trustee will receive for its ordinary recurring services to each Multistate Trust or Umbrella Series an annual fee in the amount set forth in the "Summary of Essential Information" of Part A. For a discussion of the services performed by the Trustee pursuant to its obligations under the Trust Agreement, see "Rights of Unit Holders". The Trustee will receive the benefit of any reasonable cash balances in the Interest and Principal accounts.

The Portfolio supervision fee (the "Supervision Fee"), which is earned for Portfolio supervisory services is based upon the greatest face amount of Bonds in the Trust at any time during the calendar year with respect to which the fee is being computed. The Supervision Fee has been incurred by Portfolios which have come into existence after August 14, 1991, beginning with Series 345, initially, and each Series, in existence, thereafter.

The Supervision Fee, which is not to exceed the amount set forth in Part A--"Summary of Essential Information", may exceed the actual costs of providing Portfolio supervisory services for such Trust, but at no time will the total amount the Sponsors receive for Portfolio supervisory services rendered to all series of Tax Exempt Securities Trust in any calendar year exceed the aggregate cost to them of supplying such services in such year.
In addition, the Sponsors may also be reimbursed for bookkeeping and other administrative services provided to the Trust in amounts not exceeding their costs of providing these services.

The Evaluator determines the aggregate bid price of the underlying securities on a daily basis at a fee in the amount set forth under Part A, "Summary of Essential Information," for each evaluation of the Bonds in a State Trust. For a discussion of the services performed by the Evaluator pursuant to its obligations under the Trust Agreement, see "Evaluator--Responsibility" and "Public Offering--Offering Price".

Any of such fees may be increased without approval of the Unit holders by amounts not exceeding proportionate increases in consumer prices for services as measured by the United States Department of Labor's Consumer Price Index entitled "All Services Less Rent" or, if such Index is no longer published, in a similar index to be determined by the Trustee and the Sponsors. In addition, at the time of any such increase, the Trustee shall also be entitled to charge thereafter an additional fee at a rate or amount to be determined by the Trustee and the Sponsors based upon the face amount of Deposited Units in a Trust, for the Trustee's services in maintaining such Deposited Units. The approval of Unit holders shall not be required for charging of such additional fee.

Other Charges--The following additional charges are or may

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be incurred by a State Trust: all expenses of the Trustee (including fees and expenses of counsel and auditors) incurred in connection with its activities under the Trust Agreement, including reports and communications to Unit holders; expenses and costs of any action undertaken by the Trustee to protect the Multistate Trust or Umbrella Series and the rights and interests of the Unit holders; fees of the Trustee for any extraordinary services performed under the Trust Agreement; indemnification of the Trustee for any loss or liability accruing to it without gross negligence, bad faith or willful misconduct on its part, arising out of or in connection with its acceptance or administration of a State Trust; in the case of certain trusts, to the extent lawful, expenses (including legal, accounting and printing expenses) of maintaining registration or qualification of the Units and/or a State Trust under Federal or state securities laws subsequent to initial registration so long as the Sponsors are maintaining a market for the Units; and all taxes and other governmental charges imposed upon the Bonds or any part of a State Trust (no such taxes or charges are being levied or made or, to the knowledge of the Sponsors, contemplated). The above expenses, including the Trustee's fee, when paid by or owing to the Trustee, are secured by a lien on such State Trust. In addition, the Trustee is empowered to sell Bonds in order to make funds available to pay all expenses.

PUBLIC OFFERING

Offering Price

The Public Offering Price of the Units of the respective State Trusts is determined by adding to the Evaluator's determination of the aggregate bid price of the Bonds per Unit a sales charge equal to the percentage of the Public Offering Price indicated for the Trust in Part A, "Summary of Essential Information". The aggregate bid price of the underlying Bonds may be expected to be less than the aggregate offering price of the Bonds. (See "Method of Evaluation".) A proportionate share of accrued and undistributed interest on the Bonds in a State Trust at the date of delivery of the Units of such State Trust to the purchaser is also added to the Public Offering Price.

Units of a State Trust are available to employees of certain of the Sponsors, pursuant to employee benefit plans, at a Public Offering Price equal to the Evaluator's determination of the aggregate bid price of Bonds of a State Trust per Unit plus a sales charge of 1.25% of the Public Offering Price. Sales through such plans to employees of the Sponsors require less selling effort and selling expenses than sales to the general public.

Method of Evaluation

The aggregate bid price of the Bonds (which is used to calculate the price at which the Sponsors repurchase and sell Units in the secondary market and the Redemption Price at which Units may be redeemed) will be determined by the Evaluator (1) on the basis of the current bid prices for the Bonds, (2) if bid prices are not available for any Bonds, on the basis of current bid prices of comparable securities, (3) by appraisal, or (4) by any combination of the above. Such determinations will be made each business day as of the Evaluation Time set forth in the "Summary of Essential Information" of Part A,

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effective for all sales made subsequent to the last preceding determination. The term "business day," as used herein, shall exclude Saturdays, Sundays and any day on which the New York Stock Exchange is closed. The difference between the bid and offering prices of the Bonds may be expected to average approximately 1.5 % of principal amount. In the case of actively traded securities, the difference may be as little as 0.5 of 1%, and in the case of inactively traded securities, such difference will usually not exceed 3%. The price at which Units may be repurchased by the Sponsors in the secondary market could be less than the price paid by the Unit holder. For information relating to the calculation of the Redemption Price per Unit, which is also based on the aggregate bid price of the underlying Bonds and which may be expected to be less than the Public Offering Price per unit, see "Rights of Unit

Holders--Redemption of Units".

Distribution of Units

Units acquired in the secondary market (see "Public Offering--Market for Units") may be offered by this Prospectus at the Public Offering Price determined in the manner provided above (see "Public Offering--Offering Price"). The Sponsors will allow a discount on Units sold to members of the National Association of Securities Dealers, Inc. Such discount is subject to change from time to time.

Sales will be made only with respect to whole Units, and the Sponsors reserve the right to reject, in whole or in part, any order for the purchase of Units. A purchaser does not become a Unit holder (Certificate holder) or become entitled to exercise the rights of a Unit holder (including the right to redeem his Units) until he has paid for his Units. Generally, such payment must be made within five business days after an order for the purchase of Units has been placed. The price paid by a Unit holder is the Public Offering Price in effect at the time his order is received, plus accrued interest (see "Public Offering--Method of Evaluation"). This price may be different from the Public Offering Price in effect on any other day, including the day on which the Unit holder pays for the Units.

Market for Units

Although not obligated to do so, the Sponsors presently intend to maintain a market for the Units of the respective State Trusts and to continuously offer to purchase such Units at prices based upon the aggregate bid price of the underlying Bonds which may be less than the price paid by the Unit holder. For information relating to the method and frequency of the Evaluator's determination of the aggregate bid price of the underlying Bonds, see "Public Offering--Method of Evaluation". The costs of maintaining the secondary market, such as printing, legal and accounting, will be borne by the Sponsors except as otherwise provided in the Trust Agreement. The Sponsors may cease to maintain such a market at any time and from time to time without notice if the supply of Units of any of the respective State Trusts of the Multistate Trust or Umbrella Series exceeds demand, or for any other reason. In this event the Sponsors may nonetheless purchase Units, as a service to Unit holders, at prices based on the current Redemption Price of those Units. In the event that a market is not maintained for the Units of any of the State Trusts, a Unit holder of such State Trust desiring to dispose of his Units may be

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able to do so only by tendering such Units to the Trustee for redemption

at the Redemption Price, which is also based upon the aggregate bid price of the underlying Bonds. (See "Rights of Unit Holders--Redemption of Units".)

Exchange Option

Unit holders may elect to exchange any or all of their Units of this series for units of one or more of any series of Tax Exempt Securities Trust (the "Exchange Trust") available for sale in the state in which the Unit holder resides at a Public Offering Price for the units of the Exchange Trust to be acquired based on a fixed sales charge of $25 per unit. The Sponsors reserve the right to modify, suspend or terminate this plan at any time without further notice to Unit holders. Therefore, there is no assurance that a market for units will in fact exist on any given date on which a Unit holder wishes to sell his Units of this series and thus there is no assurance that the Exchange Option will be available to a Unit holder. Exchanges will be effected in whole units only. Any excess proceeds from Unit holders' Units being surrendered will be returned and Unit holders will not be permitted to advance any new money in order to complete an exchange.

An exchange of Units pursuant to the Exchange Option for units of an Exchange Trust will generally constitute a "taxable event" under the Code, i.e., a Holder will recognize a gain or loss at the time of exchange. However, an exchange of Units of this Trust for units of any other similar series of the Tax Exempt Securities Trust which are grantor trusts for U.S. federal income tax purposes will not constitute a taxable event to the extent that the underlying securities in each trust do not differ materially either in kind or in extent. Unit holders are urged to consult their own tax advisors as to the tax consequences to them of exchanging Units in particular cases.

Units of the Exchange Trust will be sold under the Exchange Option at the bid prices of the underlying securities in the particular portfolio involved per unit plus a fixed charge of $25 per unit. As an example, assume that a Unit holder, who has three units of a trust with a current price of $1,020 per unit based on the bid prices of the underlying securities, desires to exchange his Units for units of a series of an Exchange Trust with a current price of $880 per unit based on the bid prices of the underlying securities. In this example, the proceeds from the Unit holder's units will aggregate $3,060. Since only whole units of an Exchange Trust may be purchased under the Exchange Option, the Unit holder would be able to acquire three units in the Exchange Trust for a total cost of $2,715 ($2,640 for the units and $75 for the sales charge). The remaining $345 would be returned to the Unit holder in cash.

Reinvestment Programs

Distributions of interest and principal, if any, are made to Unit holders monthly. The Unit holder will have the option of either receiving his monthly income check from the Trustee or participating in one of the reinvestment programs offered by certain of the Sponsors provided such unit holder meets the minimum qualifications of the reinvestment program and such program lawfully qualifies for sale in the jurisdiction in which the Unit holder resides. Upon enrollment in a reinvestment program, the

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Trustee will direct monthly interest distributions and principal distributions, if any, to the reinvestment program selected by the Unit holder. Since each Sponsor has arranged for different reinvestment alternatives, Unit holders should contact the Sponsors for more complete information, including charges and expenses. The appropriate prospectus will be sent to the Unit holder.
The Unit holder should read the prospectus for a reinvestment program carefully before deciding to participate.
Participation in the reinvestment program will apply to all Units of a State Trust owned by a Unit holder and may be terminated at any time by the Unit holder, or the program may be modified or terminated by the Trustee or the program's Sponsor.

Sponsors' Profits

For their services the Sponsors receive a gross commission equal to a percentage of the Public Offering Price of the Units. In maintaining a market for the Units of the respective State Trusts (see "Public Offering--Market for Units"), the Sponsors also realize profits or sustain losses in the amount of any difference between the price at which they buy such Units and the price at which they resell or redeem such Units (see "Public Offering-- Offering Price").

RIGHTS OF UNIT HOLDERS

Certificates

Ownership of Units of the respective State Trusts is evidenced by registered certificates executed by the Trustee and the Sponsors. A Certificate is transferable by presentation and surrender of the Certificate to the Trustee properly endorsed or accompanied by a written instrument or instruments of transfer. Certificates may be issued in denominations of one Unit or any multiple thereof. A Unit holder may be required to pay $2.00 per certificate reissued or transferred, and to pay any governmental charge that may be imposed in connection with each such transfer or interchange. For new certificates issued to replace destroyed, stolen or lost certificates, the Unit

holder must furnish indemnity satisfactory to the Trustee and must pay such expenses as the Trustee may incur. Mutilated certificates must be surrendered to the Trustee for replacement.

Distribution of Interest and Principal

Interest and principal received by each State Trust will be distributed on each Monthly Distribution Date on a pro rata basis to Unit holders in such State Trust of record as of the preceding Record Date. All distributions will be net of applicable expenses and funds required for the redemption of Units and, if applicable, reimbursements to the Trustee for interest payments advanced to Unit holders on previous Monthly Distribution Dates. (See Part A, "Summary of Essential Information" and "Tax Exempt Securities Trust--Expenses and Charges" and "Rights of Unit Holders--Redemption of Units" in this Section.)

The Trustee will credit to the Interest Account of each respective State Trust all interest received by such State Trust, including that part of the proceeds of any disposition of Bonds of such State Trust which represents accrued interest. Other receipts will be credited to the Principal Account of the affected State Trust. The pro rata

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share of the Interest Account and the pro rata share of cash in the Principal Account represented by each Unit of a Trust will be computed by the Trustee each month as of the Record Date. (See Part A, "Summary of Essential Information".) Proceeds received from the disposition of any of the Bonds subsequent to a Record Date and prior to the next succeeding Distribution Date will be held in the Principal Account and will not be distributed until the following Distribution Date. The distribution to Unit holders as of each Record Date will be made on the following Distribution Date or shortly thereafter, and shall consist of an amount substantially equal to one-twelfth of such holders' pro rata share of the estimated annual income to the Interest Account after deducting estimated expenses (the "Monthly Interest Distribution") plus such holders' pro rata share of the cash balance in the Principal Account computed as of the close of business on the preceding Record Date. Persons who purchase Units between a Record Date and a Distribution Date will receive their first distribution on the second Distribution Date following their purchase of Units. No distribution need be made from the Principal Account if the balance therein is less than an amount sufficient to distribute $1.00 per Unit. The Monthly Interest Distribution per Unit as of the date shown in the "Summary of Essential Information" in Part A for the particular State Trust will change as the income and expenses of the respective State Trusts change and as Bonds are exchanged, redeemed, paid or sold.

Normally, interest on the Bonds in the Portfolio of each State Trust is paid on a semi-annual basis. Because Bond interest is not

received by the State Trusts at a constant rate throughout the year, any Monthly Interest Distribution may be more or less than the amount credit to the Interest Account as of the Record Date. In order to eliminate fluctuations in Monthly Interest Distributions resulting from such variances, the Trustee is required by the Trust Agreement to advance such amounts as may be necessary to provide Monthly Interest Distributions of approximately equal amounts. The Trustee will be reimbursed, without interest, for any such advances from funds available from the Interest Account on the next ensuing Record Date or Record Dates, as the case may be. If all or a portion of the Bonds for which advances have been made subsequently fail to pay interest when due, the Trustee may recoup advances made by it in anticipation of receipt of interest payments on such Bonds by reducing the amount distributed per Unit in one or more Monthly Interest Distributions. If units are redeemed subsequent to such advances by the Trustee, but prior to receipt by the Trustee of actual notice of such failure to pay interest, the amount of which was so advanced by the Trustee, each remaining Unit holder will be subject to a greater pro rate reduction in his Monthly Interest Distribution than would have occurred absent such redemptions. Funds which are available for future distributions, payments of expenses and redemptions are in accounts which are non-interest bearing to Unit holders and are available for use by United States Trust Company of New York, pursuant to normal banking procedures. The Trustee is entitled to the benefit of holding any reasonable cash balances in the Interest and Principal Accounts. The Trustee anticipates that the average cash balance in the Interest Account will be approximately 2% in excess of the amounts anticipated to be required for Monthly Distributions to Unit holders. In addition, because of the varying interest payment dates of the Bonds comprising each State Trust portfolio, accrued interest at any point in time will be greater than the amount of interest actually received by a particular State Trust and distributed to Unit holders. The excess accrued but undistributed interest amount is known as the accrued interest carryover. If a Unit holder sells or redeems all or a portion of his Units, a portion of his sale proceeds will be allocable to his proportionate share of the accrued interest carryover. Similarly, if a Unit holder

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redeems all or a portion of his Units, the Redemption Price per Unit which he is entitled to receive from the Trustee will include his accrued interest carryover on the Bonds. (See "Rights of Unit Holders--Redemption of Units--Computation of Redemption Price Per Unit.")

As of the first day of each month the Trustee will deduct from the Interest Account of each State Trust and, to the extent funds are not sufficient therein, from the Principal Account of such State Trust, amounts necessary to pay the expenses of such State Trust. (See "Tax Exempt Securities Trust--Expenses and Charges".) The Trustee also may withdraw from said accounts such amounts, if any, as it deems necessary to establish a reserve for any governmental charges payable out

of a State Trust. Amounts so withdrawn shall not be considered a part of a State Trust's assets until such time as the Trustee shall return all or any part of such amounts to the appropriate account. In addition, the Trustee may withdraw from the Interest Account and the Principal Account such amounts as may be necessary to cover redemption of Units by the Trustee. (See "Rights of Unit Holders--Redemption of Units".) The Trustee is also entitled to withdraw from the Interest Account, and, to the extent funds are not sufficient therein, from the Principal Account, on one or more Record Dates as may be appropriate, amounts sufficient to recoup advances which the Trustee has made in anticipation of the receipt by a Trust of interest in respect of Bonds which subsequently fail to pay interest when due.

Reports and Records

The Trustee shall furnish Unit holders in connection with each distribution a statement of the amount of interest, if any, and the amount of other receipts, if any, which are being distributed, expressed in each case as a dollar amount per Unit. In the event that the issuer of any of the Bonds fails to make payment when due of any interest or principal and such failure results in a change in the amount that would otherwise be distributed as a monthly distribution, the Trustee will, with the first such distribution following such failure, set forth in an accompanying statement, the issuer and the Bonds, the amount of the reduction in the distribution per Unit resulting from such failure, the percentage of the aggregate principal amount of Bonds which such Bond represents and, to the extent then determined, information regarding any disposition or legal action with respect to such Bond. Within a reasonable time after the end of each calendar year, the Trustee will furnish to each person who at any time during the calendar year was a Unit holder of record, a statement (1) as to the Interest Account: interest received (including amounts representing interest received upon any disposition of Bonds), deductions for payment of applicable taxes and for fees and expenses of a State Trust, redemptions of Units and the balance remaining after such distributions and deductions, expressed both as a total dollar amount and as a dollar amount representing the pro rata share of each Unit outstanding on the last business day of such calendar year; (2) as to the Principal Account: the dates of disposition of any Bonds and the net proceeds received therefrom (excluding any portion representing interest), deductions for payments of applicable taxes and for fees and expenses of a State Trust, redemptions of Units, and the balance remaining after such distributions and deductions, expressed both as a total dollar amount and as a dollar amount representing the pro rata share of each Unit outstanding on the last business day of such calendar year; (3) a list of the Bonds held and the number of Units outstanding on the last business day of such calendar year; (4) the Redemption Price per Unit

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based upon the last computation thereof made during such calendar year; and (5) amounts actually distributed during such calendar year from the Interest Account and from the Principal Account, separately stated, expressed both as total dollar amounts and as dollar amounts representing the pro rata share of each Unit outstanding. The accounts of such State Trust will be audited not less frequently than annually by independent auditors designated by the Sponsors, and the report of such auditors shall be furnished by the Trustee to Unit holders upon request.

The Trustee shall keep available for inspection by Unit holders at all reasonable times during usual business hours, books of record and account of its transactions as Trustee including records of the names and addresses of Unit holders, certificates issued or held, a current list of Bonds in the Portfolio of a State Trust and a copy of the Trust Agreement.

Redemption of Units

Units may be tendered to the Trustee for redemption at its unit investment trust office at 770 Broadway, New York, New York 10003, upon payment of any relevant tax. At the present time there are no specific taxes related to the redemption of the Units. No redemption fee will be charged by the Sponsors or the Trustee. Units redeemed by the Trustee will be canceled.

Certificates for Units to be redeemed must be properly endorsed or accompanied by a written instrument of transfer. Unit holders must sign exactly as their name appears on the face of the certificate with the signature guaranteed by an officer of a national bank or trust company or by a member of either the New York, Midwest or Pacific Stock Exchange. In certain instances the Trustee may require additional documents such as, but not limited to, trust instruments, certificates of death, appointments as executor or administrator or certificates of corporate authority.

Within seven calendar days following such tender, the Unit holder will be entitled to receive in cash an amount for each Unit tendered equal to the Redemption Price per Unit computed as of the Evaluation Time set forth in the "Summary of Essential Information" in Part A on the date of tender. (See "Redemption of Units-- Computation of Redemption Price per Unit".) The "date of tender" is deemed to be the date on which Units are received by the Trustee, except that as regards Units received after the close of trading on the New York Stock Exchange, the date of tender is the next day on which such Exchange is open for trading, and such Units will be deemed to have been tendered to the Trustee on such day for redemption at the Redemption Price computed on that day. For information relating to the purchase by the Sponsors of Units tendered to the Trustee for redemption at prices which may be, in certain circumstances in excess of the Redemption Price, see "Redemption of Units-- Purchase by the Sponsors of Units Tendered for Redemption."

Accrued interest paid on redemption shall be withdrawn from the Interest Account, or, if the balance therein is insufficient, from the Principal Account. All other amounts paid on redemption shall be withdrawn from the Principal Account. The Trustee is empowered to sell Bonds in order to make funds available for redemption. Such sales, if required, could result in a sale of Bonds by the Trustee at a loss. To the extent Bonds are sold, the size and diversity of a State Trust will be reduced.

The Trustee reserves the right to suspend the right of

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redemption and to postpone the date of payment of the Redemption Price per Unit for any period during which the New York Stock Exchange is closed, other than weekend and holiday closings, or trading on that Exchange is restricted or during which (as determined by the Securities and Exchange Commission) an emergency exists as a result of which disposal or evaluation of the underlying Bonds is not reasonably practicable, or for such other periods as the Securities and Exchange Commission has by order permitted.

Computation of Redemption Price per Unit--The Redemption Price per Unit of a State Trust is determined by the Trustee on the basis of the bid prices of the Bonds in such State Trust as of the Evaluation Time on the date any such determination is made. The Redemption Price per Unit of a State Trust is each Unit's pro rata share, determined by the Trustee, of: (1) the aggregate value of the Bonds in such State Trust on the bid side of the market (determined by the Evaluator as set forth under "Public Offering--Method of Evaluation"), (2) cash on hand in such State Trust, and accrued and unpaid interest on the Bonds as of the date of computation, less (a) amounts representing taxes or governmental charges payable out of such State Trust, (b) the accrued expenses of such State Trust, and (c) cash held for distribution to Unit holders of such State Trust of record as of a date prior to the evaluation.

Purchase by the Sponsors of Units Tendered for Redemption--The Trust Agreement requires that the Trustee notify the Sponsors of any tender of Units for redemption. So long as the Sponsors are maintaining a bid in the secondary market, the Sponsors, prior to the close of business on the second succeeding business day, will purchase any Units tendered to the Trustee for redemption at the price so bid by making payment therefor to the Unit holder in an amount not less than the Redemption Price not later than the day on which the Units would otherwise have been redeemed by the Trustee. (See "Public Offering--Market for Units".) Units held by

the Sponsors may be tendered to the Trustee for redemption as any other Units, provided that the Sponsors shall not receive for Units purchased as set forth above a higher price than they paid, plus accrued interest.

The offering price of any Units resold by the Sponsors will be the Public Offering Price determined in the manner provided in this Prospectus. (See "Public Offering--Offering Price".) Any profit resulting from the resale of such Units will belong to the Sponsors which likewise will bear any loss resulting from a lower offering or redemption price subsequent to their acquisition of such Units. (See "Public Offering--Sponsors' Profits".)

SPONSORS

Smith Barney Shearson Inc. 1345 Avenue of the Americas, New York, New York 10105 ("Smith Barney"), was incorporated in Delaware in 1960 and traces its history through predecessor partnerships to 1873. Smith Barney, an investment banking and securities broker-dealer firm, is a member of the New York Stock Exchange, Inc. and other major securities and commodities exchanges, the National Association of Securities Dealers, Inc. and the Securities Industry Association. Smith Barney is an indirect wholly-owned subsidiary of The Travelers Inc. (formerly, Primerica Corporation).

Kidder, Peabody & Co. Incorporated, 10 Hanover Square,

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New York, New York 10005 ("Kidder, Peabody"), was incorporated in Delaware in 1956 and traces its history through predecessor partnerships to 1865. Kidder, Peabody, an investment banking and securities broker-dealer firm, is a member of the New York Stock Exchange, Inc. and other major securities and option exchanges, the National Association of Securities Dealers, Inc. and the Securities Industry Association.

On May 26, 1989 the Commission granted Kidder, Peabody a permanent exemption from certain provisions of the Investment Company Act of 1940 which otherwise would have rendered Kidder, Peabody ineligible to serve as sponsor, depositor or underwriter of the Trust, as a result of an injunction entered against Kidder, Peabody. The injunction arose out of certain alleged activities of Kidder, Peabody not involving the Trust or any other investment company and which are described below. In order to obtain the permanent exemption, Kidder, Peabody retained a consultant (at its own expense) to review the policies and procedures utilized by it to prevent violations of the federal securities laws in connection with its investment company business, and to recommend, where appropriate, changes in policies, procedures and staffing necessary to assure ongoing compliance. The Commission considered the application of Kidder, Peabody for a

permanent exemption after the Commission had received a copy of the consultant's report and recommendations and reports from Kidder, Peabody setting forth the actions it had taken or proposed to take in respect of the implementation of the consultant's recommendations.

On June 4, 1987 the Commission filed a complaint (the "Complaint") in the United States District Court for the Southern District of New York, in a civil action entitled Securities and Exchange Commission v. Kidder,Peabody & Co. Incorporated, 87 Civ. 3869 (RO) (the "SEC Action"). On the same day, Kidder, Peabody entered into, and the parties filed in the SEC Action, a related Consent and Undertakings, in which Kidder, Peabody neither admitted nor denied any of the allegations in the Complaint except as to jurisdiction, and pursuant to which Consent and Undertakings the District Court entered a Final Judgment of Permanent Injunction and other relief as to Kidder, Peabody (the "Final Judgment"). The exemption from the Act was requested by Kidder, Peabody as a result of the Final Judgment.

The Complaint in the injunctive action brought by the Commission alleges that Kidder, Peabody violated sections 10(b) and 14(e) of the Securities Exchange Act of 1934 (the "Exchange Act") and rules promulgated thereunder by engaging, for its own account, in purchases or sales of the securities of six named companies while in the possession of material, non-public information concerning tender offers or other extraordinary corporate transactions concerning such companies. The Complaint asserts that such information was obtained by a former executive of Kidder, Peabody as part of a scheme for the exchange of non-public information with a partner at another investment banking firm. These allegations are directed to events in 1984 and 1985; the executive ceased employment with Kidder, Peabody in February, 1986. Other allegations of the Complaint allege violations by Kidder, Peabody of sections 7(c) and 17(a)(1) of the Exchange Act and various rules promulgated thereunder and aiding and abetting in violations by another entity of sections 15(c)(3) and 17(a)(1) of the Exchange Act and various rules promulgated thereunder. These provisions relate to the maintenance and preservation of accurate books and records, adherence to margin requirements prescribed by the Federal Reserve Board and compliance with net capital requirements applicable to

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broker-dealers. The violations alleged in the Complaint with respect to all of these provisions stem from several transactions in 1984 and 1985 involving another broker-dealer. According to the Complaint, oral understandings between Kidder, Peabody and the other broker-dealer enabled the other broker-dealer to avoid adherence to the net capital requirements and constituted an impermissible extension of credit to such entity by Kidder, Peabody.

Among other provisions, the Final Judgment enjoins Kidder, Peabody from engaging in certain transactions, acts, practices or courses of business which constitute or would constitute violations of Sections 7(c), 10(b), 14(e) and 17(a)(1), or constitute or would constitute aiding and abetting violations of Sections 15(c)(3) and 17(a)(1), of the Exchange Act and various rules promulgated thereunder. The Final Judgment also requires that Kidder, Peabody pay a penalty of approximately $11.6 million to the U.S. Treasury under the Insider Trading Sanctions Act of 1984, and establish a fund of approximately $13.7 million which would be available to compensate anyone with valid claims of injury from the conduct alleged.

Also, on June 4, 1987, the Commission instituted administrative proceedings against Kidder, Peabody pursuant to Section 15(b)(4) of the Exchange Act, entitled In the Matter of Kidder, Peabody & Co. Incorporated, Administrative Proceeding File No. 3-6855 (the "SEC Order"). On the same day, Kidder, Peabody filed an Offer of Settlement (the "Offer") with respect to the SEC Order, which was accepted by the Commission and incorporated into the SEC Order. The Final Judgment was the basis for the SEC Order. In the SEC Order, the Commission censured Kidder, Peabody and ordered that Kidder, Peabody comply with its undertakings (consisting of certain remedial measures to be taken by Kidder, Peabody designed to prevent future occurrence of the conduct alleged in the Complaint and to ensure Kidder, Peabody's compliance on an ongoing basis with the federal securities laws and the rules and regulations of self-regulatory organizations) set forth in the Order.

None of the allegations in the Complaint relate to any of Kidder, Peabody's activities in connection with any unit investment trust, or any other investment company.

Smith Barney sponsors seven open-end investment companies, Smith Barney Equity Funds, Inc., Smith Barney Funds, Inc., Smith Barney Variable Account Funds, Smith Barney Tax Free Money Fund, Inc., Smith Barney Money Funds, Inc., Smith Barney Muni Funds, Smith Barney World Funds, Inc. and four closed-end investment companies, Smith Barney Intermediate Municipal Fund, Inc., Smith Barney Municipal Fund, Inc., Smith Barney High Income Opportunity Fund Inc. and The Inefficient-Market Fund, Inc. Smith Barney also sponsors all Series of Corporate Securities Trust, Government Securities Trust and Harris, Upham Tax-Exempt Fund and acts as co-sponsor of certain trusts of The Equity Income Fund, Concept Series. Kidder, Peabody sponsors Target Corporate High Yield Series Unit Trust and twelve open-end investment companies; Kidder, Peabody Government Money Fund, Inc., Kidder, Peabody Premium Account Fund, Kidder, Peabody Tax Exempt Money Fund, Inc., Kidder, Peabody Cash Reserve Fund, Inc., Kidder, Peabody Exchange Money Fund, Kidder, Peabody Equity

Income Fund, Inc., Kidder, Peabody Government Income Fund, Inc., Liquid Institutional Reserves, Kidder, Peabody Global Equity Fund,

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Kidder, Peabody Intermediate Term Fixed Income Fund Kidder, Peabody Asset Allocation Fund and Kidder, Peabody California Tax Exempt Money Fund, Inc. Kidder, Peabody Asset Management Inc., a subsidiary of Kidder, Peabody, is the investment adviser and administrator of each of the twelve open-end investment companies. The Sponsors have acted previously as managing underwriters of other investment companies. In addition to participating as a member of various underwriting and selling groups or as agent of other investment companies, the Sponsors also execute orders for the purchase and sale of securities of investment companies and sell securities to such companies in their capacities as brokers or dealers in securities.

Limitations on Liability

The Sponsors are jointly and severally liable for the performance of their obligations arising from their responsibilities under the Trust Agreement, but will be under no liability to Unit holders for taking any action or refraining from any action in good faith or for errors in judgment or responsible in any way for depreciation or loss incurred by reason of the sale of any Bonds, except in cases of willful misfeasance, bad faith, gross negligence or reckless disregard of their obligations and duties. (See "Tax Exempt Securities Trust--Portfolio" and "Sponsors--Responsibility".)

Responsibility

The Sponsors are empowered to direct the Trustee to dispose of Bonds or deposited Units of other trusts when certain events occur that adversely affect the value of the Bonds, including default in payment of interest or principal, default in payment of interest or principal on other obligations of the same issuer, institution of legal proceedings, default under other documents adversely affecting debt service, decline in price or the occurrence of other market or credit factors, or decline in projected income pledged for debt service on revenue bonds and advanced refunding that, in the opinion of the Sponsors, may be detrimental to the interests of the Unit holders.

The Sponsors intend to provide portfolio services for each State Trust in order to determine whether the Trustee should be directed to dispose of any such Bonds.

It is the responsibility of the Sponsors to instruct the Trustee to reject any offer made by an issuer of any of the Bonds to issue new obligations in exchange and substitution for any Bonds pursuant to a refunding or refinancing plan, except that the Sponsors may instruct the Trustee to accept such an offer or to take any other action with respect thereto as the Sponsors may deem proper if the issuer

is in default with respect to such Bonds or in the judgment of the Sponsors the issuer will probably default in respect to such Bonds in the foreseeable future. Any obligations so received in exchange or substitution will be held by the Trustee subject to the terms and conditions of the Trust Agreement to the same extent as Bonds originally deposited thereunder. Within five days after the deposit of obligations in exchange or substitution for underlying Bonds, the Trustee is required to give notice thereof to each Unit holder, identifying the Bonds eliminated and the Bonds substituted therefor. Except as stated in this paragraph, the acquisition by a Multistate Trust or Umbrella Series of any securities other than the Bonds initially deposited in that particular State Trust is prohibited.

Smith Barney Shearson Inc. has been appointed by Kidder, Peabody & Co. Incorporated as agent for purposes of taking any action required or permitted to be taken by the Sponsors under the Trust

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Agreement. If the Sponsors are unable to agree with respect to action to be taken jointly by them under the Trust Agreement and they cannot agree as to which Sponsor shall act as sole Sponsor, then Smith Barney Shearson Inc. shall act as sole Sponsor. If one of the Sponsors fails to perform its duties under the Trust Agreement or becomes incapable of acting or becomes bankrupt or its affairs are taken over by public authorities, that Sponsor is automatically discharged under the Trust Agreement and the remaining Sponsor acts as Sponsor.

Resignation

Any Sponsor may resign provided that at the time of such resignation each remaining Sponsor maintains a net worth of $1,000,000 and is agreeable to such resignation. Concurrently with or subsequent to such resignation a new Sponsor may be appointed by the remaining Sponsors and the Trustee to assume the duties of the resigning Sponsor. If all Sponsors resign or otherwise fail or become unable to perform their duties under the Trust Agreement, and no express provision is made for action by the Trustee in such event, the Trustee may appoint a successor sponsor or terminate the Trust Agreement and liquidate the affected State Trusts.

TRUSTEE

The Trustee is United States Trust Company of New York, with its principal place of business at 114 West 47th Street, New York, New York 10036. United States Trust Company of New York has, since its establishment in 1853, engaged primarily in the management of trust and agency accounts for individuals and corporations. The Trustee is a member of the New York Clearing House Association and is subject

to supervision and examination by the Superintendent of Banks of the State of New York, the Federal Deposit Insurance Corporation and the Board of Governors of the Federal Reserve System. In connection with the storage and handling of certain Bonds deposited in any of the State Trusts, the Trustee may use the services of The Depository Trust Company. These services may include safekeeping of the Bonds and coupon-clipping, computer book-entry transfer and institutional delivery services. The Depository Trust Company is a limited purpose trust company organized under the Banking Law of the State of New York, a member of the Federal Reserve System and a clearing agency registered under the Securities Exchange Act of 1934.

Limitations on Liability

The Trustee shall not be liable or responsible in any way for depreciation or loss incurred by reason of the disposition of any moneys, securities or certificates or in respect of any evaluation or for any action taken in good faith reliance on prima facie properly executed documents except in cases of willful misfeasance, bad faith, gross negligence or reckless disregard for its obligations and duties. In addition, the Trustee shall not be personally liable for any taxes or other governmental charges imposed upon or in respect of any State Trust which the Trustee may be required to pay under current or future law of the United States or any other taxing authority having jurisdiction. (See "Tax Exempt Securities Trust--Portfolio".) For information relating to the responsibilities and indemnification of the Trustee under the Trust Agreement, reference is made to the material set forth under "Rights of Unit Holders", "Sponsors--Resignation" and

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"Other Charges".

Resignation

By executing an instrument in writing and filing the same with the Sponsors, the Trustee and any successor may resign. In such an event the Sponsors are obligated to appoint a successor trustee as soon as possible. If the Trustee becomes incapable of acting or becomes bankrupt or its affairs are taken over by public authorities, the Sponsors may remove the Trustee and appoint a successor as provided in the Trust Agreement. Such resignation or removal shall become effective upon the acceptance of appointment by the successor trustee. If no successor has accepted the appointment within thirty days after notice of resignation, the retiring trustee may apply to a court of competent jurisdiction for the appointment of a successor. The resignation or removal of a trustee becomes effective only when the successor trustee accepts its appointment as such or when a court of competent jurisdiction appoints a successor trustee.

EVALUATOR

The Evaluator is Kenny S&P Evaluation Services, a division of Kenny Information Systems, Inc., with main offices located at 65 Broadway, New York, New York 10006.

Limitations on Liability

The Trustee, Sponsors and Unit holders may rely on any evaluation furnished by the Evaluator and shall have no responsibility for the accuracy thereof. Determinations by the Evaluator under the Trust Agreement shall be made in good faith upon the basis of the best information available to it; provided, however, that the Evaluator shall be under no liability to the Trustee, the Sponsors or Unit holders for errors in judgment. But this provision shall not protect the Evaluator in cases of willful misfeasance, bad faith, gross negligence or reckless disregard of its obligations and duties.

Responsibility

The Trust Agreement requires the Evaluator to evaluate the Bonds of a State Trust on the basis of their bid prices on the last business day of June and December in each year, on the day on which any Unit of such State Trust is tendered for redemption and on any other day such evaluation is desired by the Trustee or is requested by the Sponsors. For information relating to the responsibility of the Evaluator to evaluate the Bonds on the basis of their bid prices see "Public Offering--Offering Price."

Resignation

The Evaluator may resign or may be removed by the joint action of the Sponsors and the Trustee, and in such event, the Sponsors and the Trustee are to use their best efforts to appoint a satisfactory successor. Such resignation or removal shall become effective upon the acceptance of appointment by a successor evaluator. If upon resignation of the Evaluator no successor has accepted appointment within thirty days after notice of resignation, the Evaluator may apply to a court of competent jurisdiction for the appointment of a successor.

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AMENDMENT AND TERMINATION OF THE TRUST AGREEMENT

Amendment

The Sponsors and the Trustee have the power to amend the Trust Agreement without the consent of any of the Unit holders when such an amendment is (1) to cure any ambiguity or to correct or supplement any provision of the Trust Agreement which may be defective or inconsistent with any other provision contained therein, or (2) to make such other provisions as shall not adversely affect the interests of the Unit holders; provided, that the Trust Agreement is not amended to increase the number of Units issuable thereunder or to permit the deposit or acquisition of securities either in addition to or in substitution for any of the Bonds initially deposited in the respective State Trusts, except for the substitution of certain refunding securities for such Bonds or to permit the Trustee to engage in business or investment activities not specifically authorized in the Trust Agreement as originally adopted. In the event of any amendment, the Trustee is obligated to notify promptly all Unit holders of the substance of such amendment.

Termination

The Trust Agreement provides that if the principal amount of Bonds is less than 50% of the principal amount of the Bonds originally deposited in such State Trust, the Trustee may in its discretion and will, when directed by the Sponsors, terminate such State Trust. Each State Trust may be terminated at any time by 100% of the Unit holders. See Part A for additional optional and mandatory termination provisions. However, in no event may any State Trust continue beyond the Mandatory Termination Date set forth under Part A "Summary of Essential Information." In the event of termination, written notice thereof will be sent by the Trustee to all Unit holders.
Within a reasonable period after termination, the Trustee will sell any Bonds remaining in the affected State Trust, and, after paying all expenses and charges incurred by such State Trust, will distribute to each Unit holder, upon surrender for cancellation of his certificate for Units, his pro rata share of the balances remaining in the Interest Account and Principal Account of such State Trust.

LEGAL OPINIONS

Certain legal matters in connection with the Units offered hereby have been passed upon by Messrs. Cahill Gordon & Reindel, a partnership including a professional corporation, 80 Pine Street, New York, New York 10005, as special counsel for the Sponsors.

AUDITORS

The Statements of Financial Condition and Portfolios of Securities of each State Trust included in this Prospectus have been audited by KPMG Peat Marwick, independent auditors, as indicated in their report with respect thereto, and are included herein in reliance upon the authority of said firm as experts in giving said report.

BOND RATINGS

All ratings except those identified otherwise are by Standard

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& Poor's Corporation.

Standard & Poor's Corporation

A Standard & Poor's corporate or municipal bond rating is a current assessment of the creditworthiness of an obligor with respect to a specific debt obligation. This assessment of creditworthiness may take into consideration obligors such as guarantors, insurers, or lessees.

The bond rating is not a recommendation to purchase or sell a security, inasmuch as it does not comment as to market price or suitability for a particular investor.

The ratings are based on current information furnished to Standard & Poor's by the issuer and obtained by Standard & Poor's from other sources it considers reliable. The ratings may be changed, suspended or withdrawn as a result of changes in, or unavailability of, such information.

The ratings are based, in varying degrees, on the following considerations:

I. Likelihood of default--capacity and willingness of the obligor as to the timely payment of interest and repayment of principal in accordance with the terms of the obligation;

II. Nature of and provisions of the obligation; and

III. Protection afforded by, and relative position of, the obligation in the event of bankruptcy, reorganization or other arrangement under the laws of bankruptcy and other laws affecting creditors' rights.

A summary of the meaning of the applicable ratings symbols as published by Standard & Poor's follows:

AAA--This is the highest rating assigned by Standard & Poor's to a debt obligation and indicates an extremely strong capacity to pay interest and repay principal.

AA--Bonds rated AA have a very strong capacity to pay interest and repay principal, and in the majority of instances they differ from AAA issues only in small degrees.

A--Bonds rated A have a strong capacity to pay interest and repay principal, although they are somewhat more susceptible to the adverse affects of changes in circumstances and economic conditions than bonds in higher-rated categories.

BBB--Bonds rated BBB are regarded as having an adequate capacity to pay interest and repay principal. Whereas they normally exhibit adequate protection parameters, adverse economic conditions or changing circumstances are more likely to lead to weakened capacity to pay interest and repay principal for bonds in this category than for bonds in the higher-rated categories.

BB, B, CCC, CC, C--Debt rated BB, B, CCC, CC, and C is regarded, on balance, as predominantly speculative with respect to capacity to pay interest and repay principal in accordance with the terms of the obligation. BB indicates the lowest degree of speculation and C the highest degree of speculation. While such debt

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will likely have some quality and protective characteristics, these are outweighed by large uncertainties or major risk exposures to adverse conditions.

Plus (+) or Minus (-): To provide more detailed indications of credit quality, the ratings from "AA" to "CCC" may be modified by the addition of a plus or minus sign to show relative standing within the major rating categories.

Provisional Ratings: The letter "p" following a rating indicates the rating is provisional. A provisional rating assumes the successful completion of the project being financed by the issuance of the bonds being rated and indicates that payment of debt service requirements is largely or entirely dependent upon the successful and timely completion of the project. This rating, however, while addressing credit quality subsequent to completion, makes no comment on the likelihood of, or the risk of default upon failure of, such completion. Accordingly, the investor should exercise his own judgment with respect to such likelihood and risk.

Conditional rating(s), indicated by "con" are given to bonds for which the continuance of the security rating is contingent upon Standard & Poor's receipt of an executed copy of escrow agreement or closing documentation confirming investments and cash flows and/or the security rating is conditional upon the issuance of insurance by the respective insurance company.

Moody's Investors Service

A brief description of the applicable Moody's Investors Service's rating symbols and their meanings is as follows:

Aaa--Bonds which are rated Aaa are judged to be of the best quality. They carry the smallest degree of investment risk and are generally referred to as "gilt edge". Interest payments are protected by a large or by an exceptionally stable margin and principal is secure. While the various protective elements are likely to change, such changes as can be visualized are most unlikely to impair the fundamentally strong position of such issues.

Aa--Bonds which are rated Aa are judged to be of high quality by all standards. Together with the Aaa group they comprise what are generally known as high grade bonds. Aa bonds are rated lower than the best bonds because margins of protection may not be as large as in Aaa securities or fluctuations of protective elements may be of greater amplitude or there may be other elements present which make the long-term risks appear somewhat larger than in Aaa securities.

A--Bonds which are rated A possess many favorable investment attributes and are to be considered as upper medium grade obligations. Factors giving security to principal and interest are considered adequate, but elements may be present which suggest a susceptibility to impairment sometime in the future.

Baa--Bonds which are rated Baa are considered as medium grade obligations; i.e., they are neither highly protected nor poorly secured. Interest payments and principal security appear adequate for the present but certain protective elements may be lacking or may be characteristically unreliable over any great length of time. Such bonds lack outstanding investment characteristics and in fact have speculative characteristics as well.

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Ba--Bonds which are rated Ba are judged to have speculative elements; their future cannot be considered as well assured. Often the protection of interest and principal payments may be very moderate and thereby not well safeguarded during both good and bad times over the future. Uncertainty of position characterizes bonds in this class.

B--Bonds which are rated B generally lack characteristics of the desirable investment. Assurance of interest and principal payments or of maintenance of other terms of the contract over any long period of time may be small.

Caa--Bonds which are rated Caa are of poor standing. Such issues may be in default or there may be present elements of danger with respect to principal or interest.

Ca--Bonds which are rated Ca represent obligations which are speculative in a high degree. Such issues are often in default or have

other marked shortcomings.

C--Bonds which are rated C are the lowest rated class of bonds and issues so rated can be regarded as having extremely poor prospects of ever attaining any real investment standing.

Note: Those municipal bonds in the Aa, A, Baa, Ba and B groups which Moody's believes possess the strongest investment attributes are designated by the symbols Aa1, A1, Baa1, Ba1, and B1, respectively. In addition, Moody's applies numerical modifiers, 1, 2, and 3 in each generic rating classification from Aa through B in its corporate bond rating system. The modifier 1 indicates that the security ranks in the higher end of its generic rating category; the modifier 2 indicates a mid-range ranking; and the modifier 3 indicates that the issue ranks in the lower end of its generic rating category. Although industrial Revenue Bonds and Environmental Control Revenue Bonds are tax-exempt issues, they are included in the corporate bond rating system.

Conditional ratings, indicated by "Con" are given to bonds for which the security depends upon the completion of some act or the fulfillment of some condition. These are bonds secured by (a) earnings of projects under construction, (b) earnings of projects unseasoned in operating experience, (c) rentals which begin when facilities are completed, or (d) payments to which some other limiting condition attaches. A parenthetical rating denotes probable credit stature upon completion of construction or elimination of basis of condition.

Fitch Investors Service, Inc.

A brief description of the applicable Fitch Investors Service, Inc. rating symbols and their meanings is as follows:

AAA--Bonds which are considered to be investment grade and of the highest credit quality. The obligor has an exceptionally strong ability to pay interest and repay principal, which is unlikely to be affected by reasonably foreseeable events.

AA--Bonds which are considered to be investment grade and of very high credit quality. The obligor's ability to pay interest and repay principal is very strong although not quite as strong as bonds rated AAA.

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A--Bonds which are considered to be investment grade and of high credit quality. The obligor's ability to pay interest and repay principal is considered to be strong, but may be more vulnerable to adverse changes in economic conditions and circumstances than bonds with higher ratings.

BBB-Bonds which are considered to be investment grade and of satisfactory credit quality. The obligor's ability to pay interest and repay principal is considered to be adequate. Adverse changes in economic conditions and circumstances, however, are more likely to have adverse impact on these bonds, and therefore impair timely payment. The likelihood that these bonds will fall below investment grade is higher than for bonds with higher ratings.

Plus (+) Minus (-)--Plus and minus signs are used with a rating symbol to indicate the relative position of a credit within the rating category. Plus and minus signs, however, are not used in the 'AAA', 'DDD', 'DD' or 'D' categories.

Conditional--A conditional rating is promised on the successful completion of a project of the occurrence of a specific event.

NOTE: NR indicates, among other things, that no rating has been requested, that there is insufficient information on which to base a rating, or that Standard & Poor's Corporation, Moody's Investors Service and Fitch Investors Service, Inc. do not rate a particular type of obligation as a matter of policy. Subsequent to the Date of Deposit, the credit characteristics of the Issuers of Securities may have changed. Currently, certain of the Securities in the Portfolio of a Trust may be unrated and have credit characteristics comparable to securities rated below the minimum requirements of such Trust for acquisition of a Security. See Part A--"Portfolio of Securities" herein to ascertain the ratings on the Securities, if any, on the date of the Portfolios of Securities.

Duff & Phelps Credit Rating Co.

A brief description of the applicable Duff & Phelps Credit Rating Co. rating symbols and their meanings is as follows:

AAA-Highest credit quality. The risk factors are negligible, being only slightly more than for risk-free U.S. Treasury debt.

AA-High credit quality. Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

A-Protection factors are average but adequate. However, risk factors are more variable and greater in periods of economic stress.

BBB-Below average protection factors but still considered sufficient for prudent investment. Considerable variability in risk during economic cycles.

NR- Not rated (credit characteristics comparable to A or better on the Date of Deposit).

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This Prospectus contains information concerning the Trust and
the Sponsors, but does not contain all the information set forth
in the registration statements and exhibits relating thereto, which
the Trust has filed with the Securities and Exchange Commission,
Washington, D.C. under the Securities Act of 1933 and the
Investment Company Act of 1940, and to which reference is
hereby made.

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This Prospectus does not constitute an offer to sell, or a solicitation of an offer to buy, securities in any state to any person to whom it is not lawful to make such offer in such state.
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PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

CONTENTS OF REGISTRATION STATEMENT

This Post-Effective Amendment to the Registration Statement on Form S-6 comprises the following papers and documents:

The facing Sheet on Form S-6.

The cross-reference sheet.

The Prospectus consisting of pages A-1 - A-   , and 1-   , back cover.

Signatures.

Written consents of the following persons:

KPMG Peat Marwick

Kenny S&P Evaluation Services,
a division of Kenny Information Systems, Inc.
(included in Exhibit 4.6A)

The following exhibits:
*4.6A - Consent of Kenny S&P Evaluation Services, a division of Kenny   Information Systems, Inc. as Evaluator.

* Filed herewith.

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KENNY S&P EVALUATION SERVICES
A Division of Kenny Information Systems, Inc.
65 Broadway
New York, New York, 10006-2511
Telephone 212/770-4000

Smith Barney Shearson
Incorporated
1345 Avenue of the Americas
New York, NY 10105

RE:Tax Exempt Securities Trust
Series 294

Gentlemen:

We have examined the post-effective Amendment to the Registration Statement File No. 33-25798 for the above-captioned trust. We hereby acknowledge that Kenny S&P Evaluation Services, a division of Kenny Information Systems, Inc. is currently acting as the evaluator for the trust. We hereby consent to the use in the Amendment of the reference to Kenny S&P Evaluation Services, a division of Kenny Information Systems, Inc. as evaluator.

In addition, we hereby confirm that the ratings indicated in the above-referenced Amendment to the Registration Statement for the respective bonds comprising the trust portfolio are the ratings currently indicated in our KENNYBASE database.

You are hereby authorized to file a copy of this letter with the Securities and Exchange Commission.

Sincerely,

F.A. Shinal
Senior Vice President

Chief Financial Officer

tru:l-31

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CONSENT OF COUNSEL

The consent of counsel to the use of their name in the Prospectus included in this Post-Effective Amendment to the Registration Statement ("Post-Effective Amendment") is contained in their opinion filed as Exhibit 3.1 to the Registration Statement.

CONSENT OF INDEPENDENT AUDITORS

We consent to the use of our report dated January 25, 1994 included herein and to the reference to our firm under the heading "AUDITORS" in the prospectus.

KPMG PEAT MARWICK

New York, New York
January 27, 1994

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the registrant, Tax Exempt Securities Trust, Series 294, certifies that it meets all the requirements for effectiveness of this Post-Effective Amendment pursuant to Rule 485(b) under the Securities Act of 1933 and has duly caused this Post-Effective Amendment to be signed on its behalf by the undersigned thereunto duly authorized, in the City of New York, and State of New York on the 27th day of January, 1994.
Signatures appear on pages II-3 and II-4.

A majority of the members of the Board of Directors of Smith Barney Shearson Incorporated have signed this Post-Effective Amendment pursuant to Powers of Attorney authorizing the person signing this Post-Effective Amendment to do so on behalf of such members.

These Powers of Attorney were filed with the Securities and Exchange Commission under the Securities Act of 1933 with the Registration Statement of Tax Exempt Securities Trust, Appreciation Series 7, Registration No. 2-78499 and with the Registration Statement of Tax Exempt Securities Trust, Series 110, Intermediate Term Series 15 and Short-Intermediate Term Series 13, Registration Nos. 2-97179, 2-95591 and 2-96184, respectively, with the Registration Statement of Tax Exempt Securities Trust, Series 284, Amendment No. 2, Registration No. 33-22777, with the Registration Statement of Tax Exempt Securities Trust, Series 295, Amendment No. 1, Registration No. 33-26376, and with the Registration Statement of Tax Exempt Securities Trust, Series 335, Amendment No. 1, Registration No. 33-37952.

A majority of the members of the Board of Directors of Kidder, Peabody & Co. Incorporated have signed this Post-Effective Amendment pursuant to Powers of Attorney authorizing the person signing this Post-Effective Amendment to do so on behalf of such members. These Powers of Attorney were filed with the Securities and Exchange Commission under the Securities Act of 1933 as an exhibit to the Registration Statement of Tax Exempt

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Securities Trust, Series 303, Post-Effective Amendment No. 1, Registration No. 33-28378.

TAX EXEMPT SECURITIES TRUST

BY SMITH BARNEY SHEARSON INC.

By

(George S. Michinard, Jr.)

By the following persons,* who constitute a majority of the directors of Smith Barney Shearson Incorporated:

Steven D. Black
James S. Boshart III
Robert K. Difazio
James Dimon
Robert Druskin
Toni A. Elliot
Lewis L. Glucksman
John B. Hoffman
A. Richard Janiak, Jr.
Robert Q. Jones
Robert B. Kane
Jeffrey B. Lane
Thomas A. Maguire
Howard D. Marsh
William J. Mills II
John C. Morris
A. George Saks
Bruce D. Sargent
Melvin B. Taub
Jacques S. Theriot
Stephen J. Treadway
Paul Underwood
Philip M. Waterman, Jr.

By

(George S. Michinard, Jr.
Attorney-in-Fact)

* Pursuant to Powers of Attorney previously filed.

TAX EXEMPT SECURITIES TRUST

By Kidder, Peabody & Co. Incorporated

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By

(Gilbert R. Ott, Jr.)

By the following persons*, who constitute a majority of the directors of Kidder, Peabody & Co. Incorporated:

Edward A. Cerullo

Michael A. M. Keehner

John M. Liftin

James A. Mullin

Richard W. O'Donnell

Thomas F. Ryan, Jr.

By

(Gilbert R. Ott, Jr.
Attorney-in-Fact)

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* Pursuant to Powers of Attorney previously filed.

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