

The Commonwealth of Massachusetts Bond Financing Programs

September 21, 2015
Investor Conference Call

Bi-Monthly Credit Review

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GOVERNOR CHARLES D. BAKER



TREASURER DEBORAH B. GOLDBERG



ECONOMIC UPDATE



Economic Update

Wealth Measures

- 2014 Per Capita Income in Massachusetts was \$59,182, or 128% of the US average
- Second highest measure in the country for 2014

Unemployment

- Massachusetts' state unemployment rate for August 2015 was 4.7% vs. the national average of 5.1% and the August 2014 MA rate of 5.6%, representing an over-the-year change of -0.9%
- According to the Mass Exec. Office of Labor & Workforce Development, the August numbers mark the twelfth consecutive month of job gains, with 56,500 jobs added year-to-date.
- Massachusetts' 2014 average unemployment rate was at 5.8%, below the New England average of 5.9% and the US average of 6.2%

Economic Output

- 2014 Real GDP compounded growth in MA at 2.3% vs. 2.2% for the US
- Per Capita Real GDP in 2014 was \$63,005 for Massachusetts vs. \$49,469 for the US
- For the most recent quarter (Q2 of calendar year 2015), real MA GDP is estimated to have grown at an annualized rate of 5.4% vs. 2.3% for the US



Executive Office for Administration & Finance

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Director of Finance



Fiscal Year 2016 Budget

- The FY16 budget was approved by the Governor on July 17, 2015 and included \$162.8M in vetoes
- On July 28, 2015, the Legislature passed overrides to the Governor's vetoes in the amount of \$97.9M
- The fiscal 2016 budget was approximately **\$38.2 billion**, or **3.4% greater** than fiscal 2015 estimated spending levels at the time of its approval
- Consensus tax revenue forecast for FY16 was **\$25.479 billion**, which represents **4.8% growth** over revised FY15 consensus revenue estimate
- FY16 revenue projection takes into account a prospective income tax rate reduction assuming the requisite triggers are met; whether this will go into effect may not be certain until December



Fiscal Year 2016 Outlook

- FY16 budget relies on approximately **\$600M** in one-time resources to support recurring spending, approximately half the amount used in FY15
- FY16 budget also assumes gross payroll related savings of approximately \$200M due to an early retirement incentive program (ERIP)
 - ERIP is expected to result in FY16 net payroll related savings of approximately \$109M, net of the costs of pension contributions, retiree benefit costs and a limited amount of re-hiring
 - ERIP is projected to increase the Commonwealth's annual required contribution to the pension fund by approximately \$29.2 million annually; the FY16 budget provides for this additional contribution
 - The Administration has identified approximately \$15M in additional federal revenues to partially offset the payroll related saving necessary to meet payroll savings targets
 - The Administration will take additional measures as needed to meet payroll savings targets



Fiscal Year 2016 Outlook

- The Administration regularly reviews the Commonwealth's fiscal condition throughout the fiscal year, and has a number of tools to control spending, including line item veto and so-called "9C Authority" to reduce certain allotments if projected revenues do not meet budgeted expenditures
- The Executive Office for Administration and Finance has identified potential deficiencies in the FY16 budget in the range of approximately \$200-\$250M and is closely monitoring these, as well as any other exposures that may emerge, as the fiscal year progresses
- Pursuant to state finance law, the Secretary of Administration and Finance is obligated to update or confirm the projection of budgeted revenues for FY16 on or before October 15, 2015
- The Administration will implement any gap-closing measures necessary in light of the facts and circumstances as they develop



Fiscal Control and Management Board

- Legislation was approved as part of the FY16 budget establishing a Fiscal Control and Management Board to focus specifically on improving management of the MBTA, as originally proposed by the Governor
- These budget provisions have no fiscal impact on the Commonwealth in FY16, but are expected to have a long-term beneficial impact on the management and fiscal outlook of the MBTA
- The Fiscal Control and Management Board is meeting regularly to restore the MBTA to a secure and sustainable financial path



Capital Budget Fiscal Years 16-17

- FY16 administrative bond cap was set at \$2.125 B, level with FY15 administrative bond cap and within established debt affordability measures
- Capital program in FY16 includes substantial investments in transportation, economic development, affordable housing, education, information technology, public safety equipment and facilities, other governmental facilities and assets and the environment
- Capital program includes \$395M of non-bond cap special obligation spending on rail program as well \$405M of non-bond cap spending completing major projects from the Accelerated Bridge Program
- First borrowing for the Rail Enhancement Program is expected this fall
- The Debt Affordability Committee held its first meeting for development of an affordability recommendation for FY17; report is due under statute by December 15



- The Commonwealth is currently expected to end FY15 in statutory balance with a Stabilization Fund balance of approximately **\$1.178B**; this includes a projected deposit of approximately \$50M
- Governor filed a final supplemental appropriations bill to close FY15 in July; it is currently awaiting action in the Legislature
- FY15 statewide independent audit is currently underway; final results of the fiscal year will not become available until that process is concluded



Department of Revenue

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Original FY16 Consensus Tax Revenue Estimate \$25.479B

- Consensus Revenue - **first step** towards upcoming year's budget process
- FY16 revenue **hearing** - held on January 22, 2015
- On January 30, 2015, W&M Chairs and A&F Secretary **agreed** to the Consensus Estimate of \$25.479B
- Growth: 4.8% actual, 5.8% baseline
- Capital gains tax of \$1.387B taxes vs. cap gains tax threshold of \$1.087B
 - excess \$300M would typically go to the Stabilization Fund (the final budget kept it in the General Fund - see the next slide)
- Assumed - through a trigger process State's personal income tax rate would be reduced from 5.15% to 5.10%, effective January 1, 2016



Final/Current FY16 Tax Revenue Estimate

- The current (or General Appropriations Act-**GAA**) budget was approved on July 17, 2015.
- Assumes an **estimate of \$25.611B**.
- **Growth** of 2.7% actual, 3.3% baseline.
- The **change** from Consensus estimate of \$24.479B is due to subsequently enacted tax law and administrative changes.
 - No change in cap gains tax assumption - \$1.387B vs. the threshold of \$1.087B.
....excess of \$300M would be kept in the General Fund
 - Tax- and non-tax-related judgment & settlement payments in excess of \$10M each:
 - A new target for \$100M (vs. five-year average \$267.5M).



FY16 Year-to-Date Tax Collections Update

Recap of FY15 performance:

- (Excluding “tax-related” settlements of \$215M), FY15 **tax revenues** totaled approximately **\$24.717 billion**, an increase of approximately **\$1.347 billion**, or 5.8%, over FY14, **\$391 million** above the benchmark
- In FY15, we saw a **strong growth in withholding and non-withheld (investment-related) income tax.**

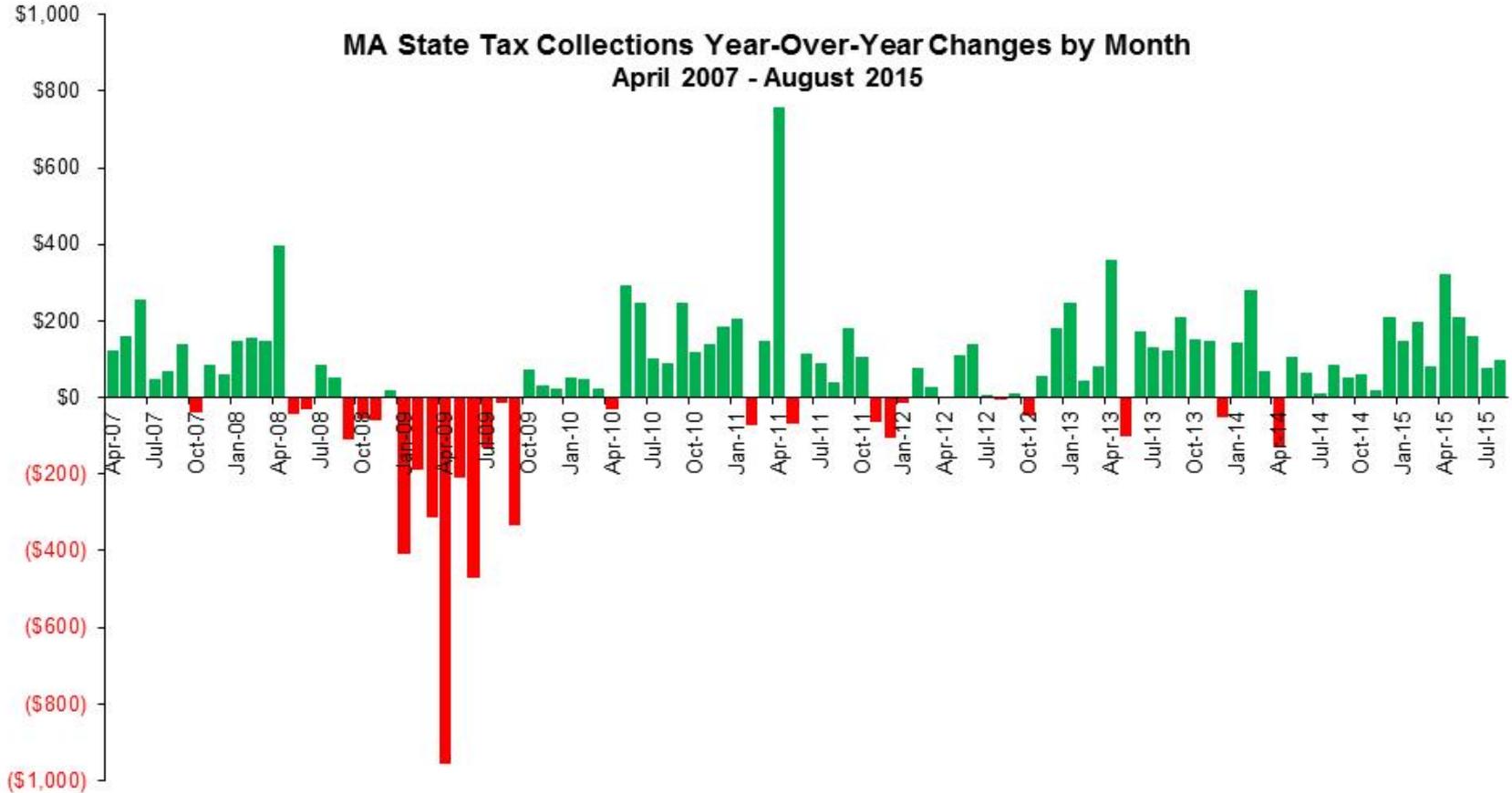
FY16 Year-to-Date revenue performance:

- Revenue collections continued to grow at a **moderate pace** during the first two months of FY16.



FY15 Year-to-Date Tax Collections Update

Monthly year-over-year changes in collections:



FY16 Year-to-Date Tax Collections Update

August 2015 Tax Collection Summary (in \$ millions) (Preliminary as of September 3, 2015)

----- Month of August -----

----- FY16 Year-to-Date -----

	Month of August					FY16 Year-to-Date				
	08/16 Collections	08/16 v. 08/15 \$ Change	08/16 v. 08/15 Actual % Change	08/16 v. 08/15 Baseline % Change	08/16 \$ Above/(Below) Benchmark Based on FY16 Estimate of \$25.611 Billion	08/16 FY16 YTD Collections	08/16 FY16 YTD \$ Change	08/16 FY16 YTD Actual % Change	08/16 FY16 YTD Baseline % Change	FY16 YTD \$ Above/(Below) Benchmark Based on FY16 Estimate of \$25.611 Billion
Income - Total	972	29	3.1%	4.4%	(6)	1,887	86	4.8%	5.0%	6
Income Withholding	947	45	5.0%	6.1%	3	1,831	114	6.7%	6.9%	30
Income Est. Payments (Cash)	21	2	7.9%	8.5%	0	50	1	2.1%	2.5%	(1)
Income Returns/Bills	33	(7)	-17.2%	-11.8%	1	66	(6)	-7.9%	-6.3%	1
Income Refunds (Cash)	30	11	58.2%	58.2%	11	59	24	69.7%	69.7%	25
Sales & Use - Total	509	29	6.0%	6.1%	6	1,058	62	6.3%	5.9%	13
Sales - Regular	341	19	5.9%	6.0%	5	718	39	5.8%	5.7%	10
Sales - Meals	98	7	7.5%	7.6%	2	193	14	7.7%	7.5%	5
Sales - Motor Vehicles	71	3	4.3%	5.0%	(1)	146	9	6.7%	5.2%	(2)
Corporate & Business - Total	49	37	314.1%	188.4%	34	97	13	15.7%	15.7%	11
All Other	199	4	2.3%	2.3%	1	360	13	3.8%	3.8%	10
Total Tax Collections	1,730	100	6.1%	6.0%	34	3,401	175	5.4%	5.4%	39



FY16 Year-to-Date Tax Collections Update

- July and August are relatively small tax collections months.
- Fiscal 2016 tax collections through August
 - totaled approximately \$3.401 billion,
 - an increase of \$175 million, or 5.4%, over the same period in fiscal 2015,
 - \$39 million above the year-to-date benchmark.
- The most of the year-to-date surplus is due to better than expected withholding payments, sales, and corporate taxes, which were partly offset by higher income tax refunds.



FY16 Year-to-Date Tax Collections Update

- Year-to-date **withholding**: \$1.831B, +\$114M, +6.7% actual, +6.9% baseline, \$30M above benchmark.
- Year-to-date **income tax cash estimated payments**: \$50M, +\$1M, +2.1% actual, +2.5% baseline, \$1M below benchmark.
- Year-to-date **income tax payments with bills and returns**: \$66M, -\$6M, -7.9% actual, -6.3% baseline, \$1M above benchmark.
- Year-to-date **income tax cash refunds**: \$59B, +\$24M, \$25M above benchmark.
- Year-to-date **sales & use tax** collections: \$1.058B, +\$62M, +6.3% actual, +5.9% baseline, \$13M above benchmark.
- Year-to-date **corporate and business** tax collections: \$97M, +\$13M, +15.7% actual & baseline; \$11M above benchmark.
- **“All Other”** tax categories: \$360M, +\$13M, and \$10M above benchmark.



Other Tax-Related Topics

- Personal income tax rate reduction process
 - growth triggers;
 - 5.3% to 5.15% so far;
 - could go down to 5.0% in the future:
.....for next year's trigger (5.15 o 5.10%), first two tests passed.
- Capital Gains Tax Certification Process:
 - Capital gains tax thresholds
 - Excess goes to the Stabilization Fund*
- Settlements and Judgments Payments (\$10M+ Each) Certification Process:
 - Settlements/judgments thresholds
 - Excess goes to the Stabilization Fund*

*Suspended for FY15 and FY16



Office of the State Treasurer

Debt / Capital Presentation

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Financing Update

Year to Date

- The State Treasurer's Office (STO) continues to issue debt periodically to fund the state's capital budget, following the guidelines of the Executive Office for Administration & Finance's (A&F) Debt Affordability Analysis.
- Since July 1, 2015, the Commonwealth has issued two series of bonds in one transaction:
 - \$250 million 2015 Series C (New Money)
 - \$702 million 2015 Refunding Series A
- Notably, the transaction featured a leaner, meaner syndicate than in years past
 - 8 firms in total
 - Senior managed by BAML with Siebert as co-lead manager
 - Allowed for better coverage of the syndicate, with niche areas assigned to each member
- The refunding made use of the Commonwealth's refunding guidelines, modified to capture the most efficient refunding candidates and producing savings for Massachusetts taxpayers
 - Net PV savings of \$54.6 million
 - Budgetary savings of \$73.2 million
 - Percentage savings of refunded bonds at 7.58%



Upcoming Deals

Revenue Anticipation Notes

- The Commonwealth will be pricing its annual Revenue Anticipation Notes tomorrow, September 22, 2015
- The RANs issuance is a function of the Commonwealth's cash flow management efforts, allowing for greater flexibility in consideration of the cyclical nature of revenue collections
- The \$1.2 billion transaction will consist of three tranches of \$400 million each
 - Series A: \$400 million maturing on April 27, 2016
 - Series B: \$400 million maturing on May 25, 2016
 - Series C: \$400 million maturing on June 22, 2016
- As has been the case for the last two years, the minimum bid size will remain at \$25 million, a lesser amount than in earlier RANs transaction, in hopes of providing greater bidder access and enhancing competition
- The transaction is scheduled to close on September 29, 2016
- The Preliminary Official Statement and Notice of Sale can be found here: <http://bit.ly/1Lo3Vev>



Upcoming Deals

Commonwealth Transportation Fund Bonds

- While structure of the deal and specifics are still being developed, the Commonwealth has selected Citi to lead its 2015 Series A Commonwealth Transportation Fund (CTF) Bonds transaction
- This issuance will represent the first issuance of CTF bonds for projects not related to the Accelerated Bridge Program (ABP).
- The expected issuance of CTF-backed non-ABP bonds were discussed with investors and rating agencies during last year's ABP transactions
- The transaction is expected to be issued in a par amount ranging between \$300 - \$500 million in support of various rail-related projects
- The bonds are tentatively being distinguished as the Commonwealth's "Rail Enhancement Program" (REP) bonds
- Whatever the final structure, the Commonwealth places a priority on ensuring continued high levels of coverage and maintaining its AAA bond rating
- The bonds are currently expected to price in late October 2015



Debt/Capital

- Today's call represents the third investor call of 2015
- The Commonwealth will continue to hold live investor calls after each disclosure update throughout 2015
- For more information on the Commonwealth's financing programs, please contact either Sue Perez or Drew Smith

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QUESTIONS

