

Replay Information

Please note that a replay of the investor broadcast associated with the following slides is available. The replay can be accessed by following the link below and will be available until June 7, 2017.

<http://munios.com/live/CommonwealthMA>

A transcript of the live Q&A session conducted at the conclusion of this investor call can be found in slides immediately below.

Hardcopies of these slides as well as those of prior investor calls may also be accessed by visiting the Investor and Rating Agency Presentation Archive on the Commonwealth's investor website at:

www.massbondholder.com



Q&A Transcript

Q. Where can a more detailed breakdown of the FY17 consensus revenue forecast be found?

A. The following link provides a detailed listing of revenue by source fund:
http://www.mass.gov/bb/h1/fy17h1/brec_17/hsect1a.htm

Q. With respect to the Commonwealth's automatic income tax cut mechanism (assuming certain benchmarks are met), have those cuts been incorporated into the FY17 consensus tax revenue forecast?

A. Yes. The FY17 consensus tax revenue estimate assumes that the income tax rate reduction will take place on January 1, 2017, so that is already assumed in the figures for FY17.

Q. Should the Commonwealth's situation change, can those tax reductions be reversed or modified?

A. The automatic income tax rate decrease is a statutory provision. Any change in that mechanism would require a legislative change.



Q&A Transcript

Q. Besides the ability to make 9C cuts, does the Governor have any other extraordinary powers to reduce spending?

A. The Governor has the power of line item veto with respect to the FY17 budget. As you'd mentioned, under Section 9C, the Governor also maintains the power to unilaterally reduce allotments at any time if revenues are deemed insufficient.

Q. Could you please discuss the status of the Commonwealth's Actuarially Required Contribution for the two state retirement systems in FY16 and the plan in FY17?

A. The Commonwealth adopts a multi-year funding schedule to amortize unfunded pension liabilities. The amount required under that schedule is fully funded in the FY16 budget and we anticipate that it will be in the FY17 budget, as well. While the FY17 budget has not yet been fully enacted, the required transfer is a part of all of the budget assumptions. A more detailed discussion around this topic can be found in the "Pension and OPEB Funding" section of the Commonwealth Information Statement dated May 24, 2016.

Q. What are the current funded ratios for the two state retirement systems?

A. Based on the Actuarial Valuation as of January 1, 2015, the funded ratio for the State Employees' Retirement System is 67.5%, and the funded ratio for the Teachers' Retirement system is 54.3%. More information can be found in the "Pension and OPEB Funding" section of the Commonwealth Information Statement dated May 24, 2016.



The Commonwealth of Massachusetts Bond Financing Programs

June 7, 2016

Commonwealth Credit Review

Disclaimer

This presentation has been prepared by the Commonwealth of Massachusetts to provide summary information relative to the general obligation credit of the Commonwealth. The presentation is incomplete. The presentation is not part of the Commonwealth's Information Statement (Information Statement) and is qualified in all respects by reference to the most recently updated Information Statement that has been filed with the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access (EMMA) system.

Investment decisions relating to Commonwealth general obligation bonds and notes should be based only upon the most recently updated Information Statement and the Official Statement of the Commonwealth relating to such bonds or notes. The provision of access to this presentation does not constitute an offer to sell or the solicitation of an offer to buy any bonds or notes that may be described or mentioned in the presentation. Commonwealth bonds and notes are sold only by means of an Official Statement and through registered broker-dealers.

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



TREASURER
DEBORAH B. GOLDBERG



Economic Update – Statistical Overview

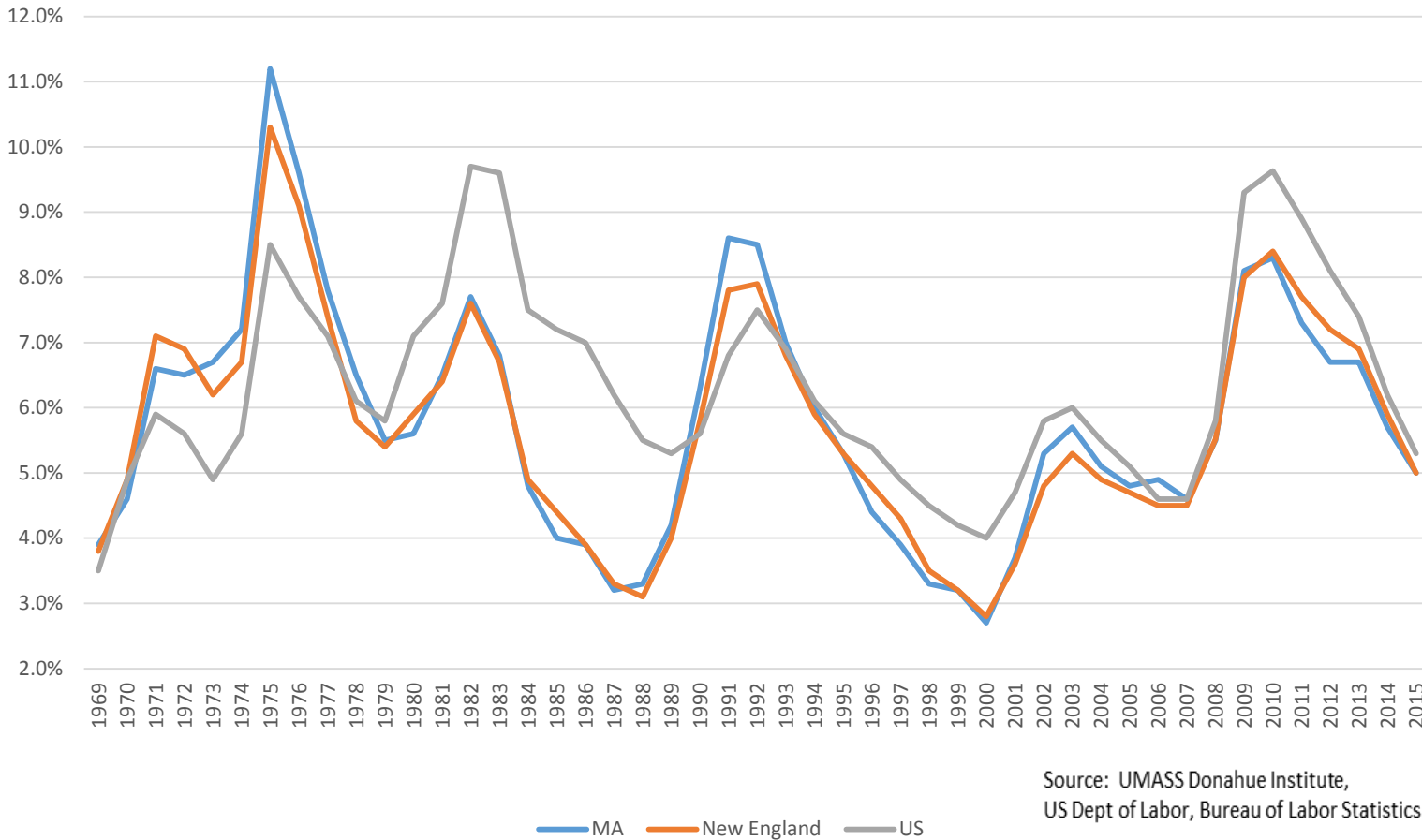
	<u>Massachusetts</u>	<u>United States</u>
<u>Population</u>		
July-15 Estimated 5-year percent change	3.5%	3.9%
<u>Personal Income, Consumer Prices, Poverty</u>		
2015 Per Capita Personal Income	\$61,032	\$47,669
2014 Average Annual Pay, All Industries	\$64,103	\$51,364
2014-15 Annual Percent Change in CPI-U	0.6%	0.1%
Jan-15 to Jan-16 Annual Percent Change in CPI-U	1.0%	1.4%
2014 Poverty Rate	11.6%	15.5%
2015 Average Weekly Earnings, Manufacturing Production	\$893	\$832
Annual Percent Change (2014-2015)	1.8%	1.3%
<u>Employment</u>		
Feb-15 to Feb-16 Percent Change in Nonfarm Employment	1.9%	1.9%
2015 Average Annual Unemployment Rate	5.0%	5.3%
Mar-16 Unemployment Rate	4.4%	5.0%
<u>Education</u>		
2013 Expenditure Per Pupil K-12, Public	\$14,515	\$10,700
2014 Percent of Adults with at least a Bachelor's Degree	41.2%	30.1%
<u>Economic Base and Performance</u>		
2013-14 Percent Change in Gross Domestic Product	2.1%	2.4%
2014-15 Percent Change in International Exports	-7.9%	-7.3%
2014-15 Percent Change in Authorized Housing Permits	17.8%	12.6%

Source: UMASS Donahue Institute



Economic Update – Unemployment

Average Annual Unemployment Rate
Massachusetts, New England, and United States



Source: UMASS Donahue Institute,
US Dept of Labor, Bureau of Labor Statistics

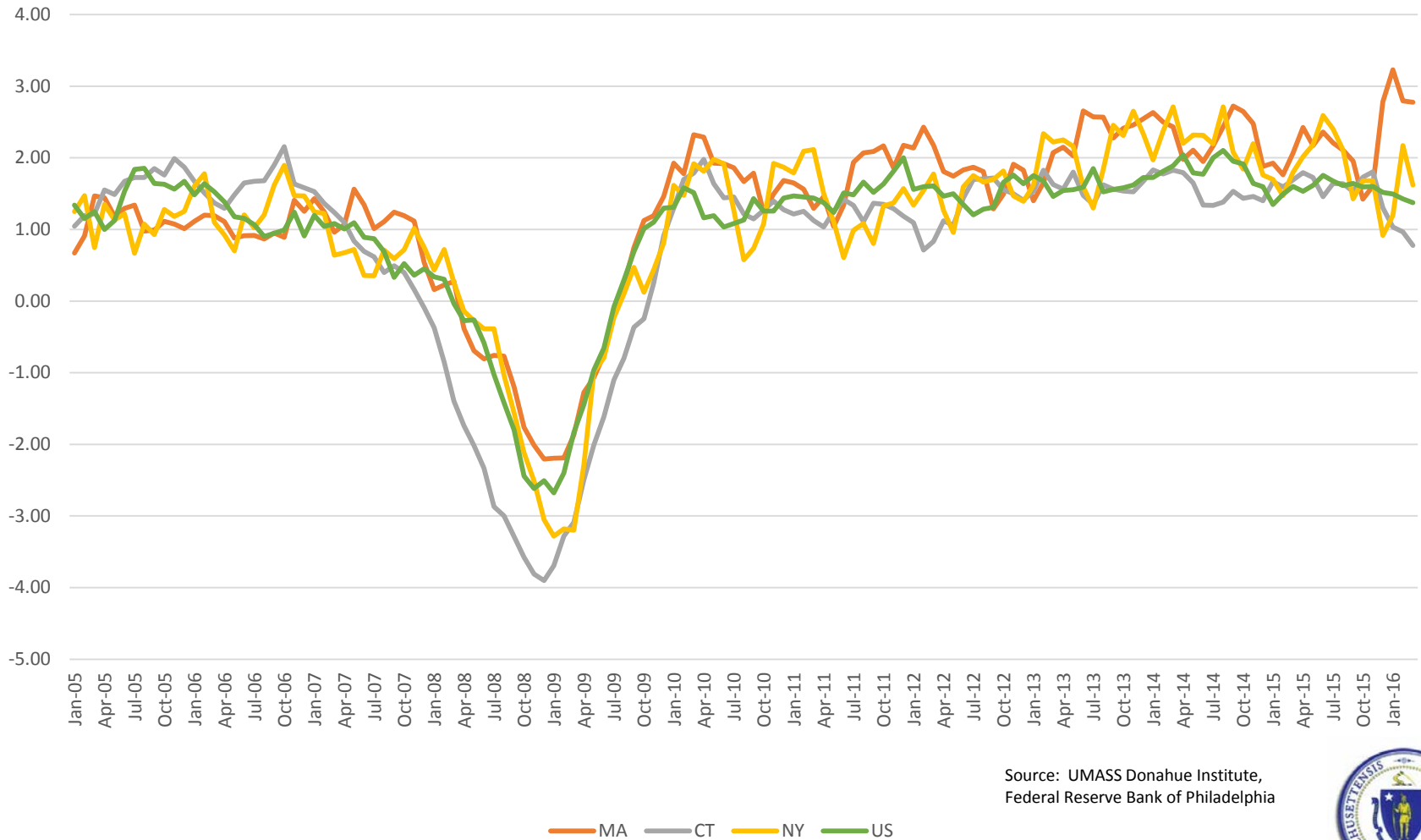
MA New England US



Economic Update – Coincident Index

Coincident Index

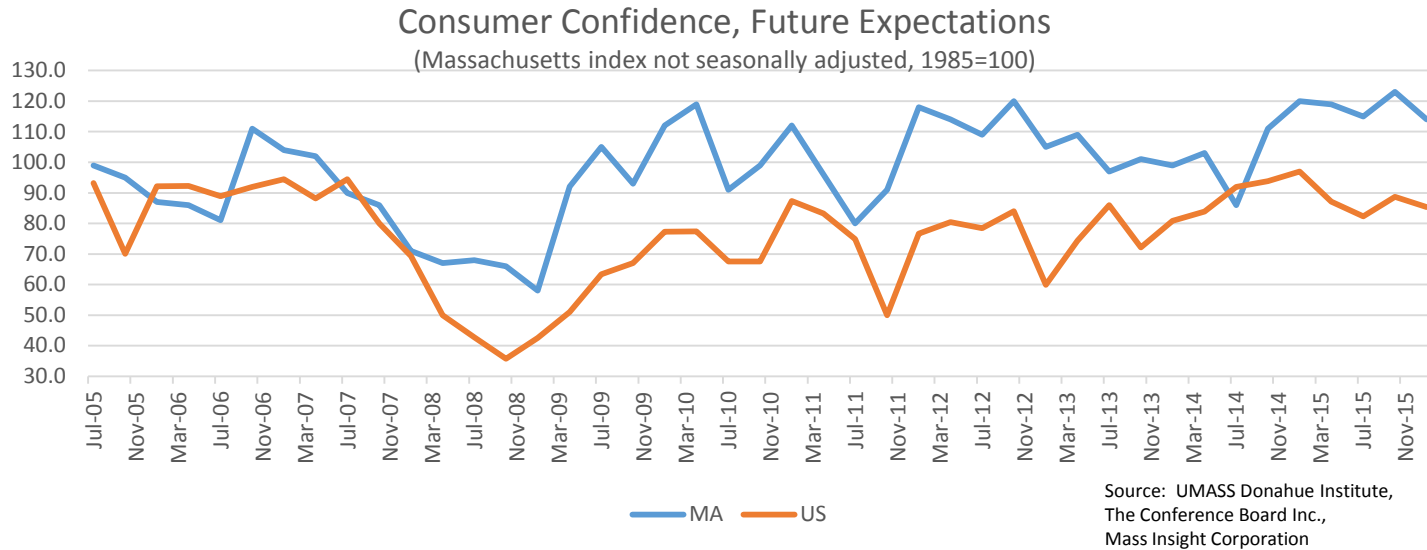
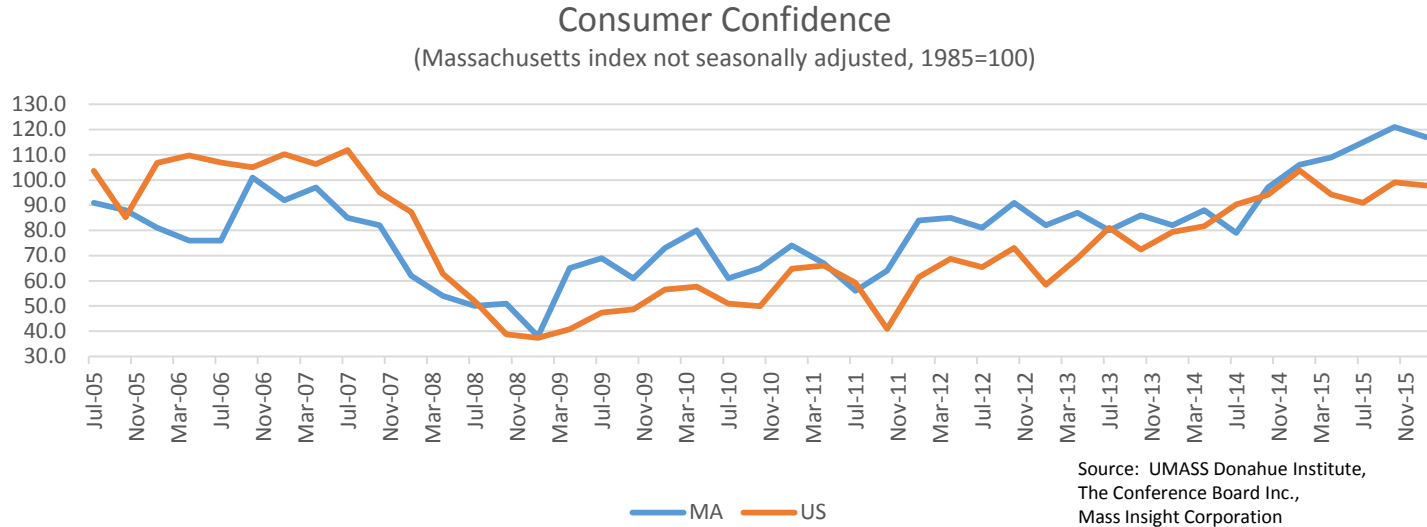
Index is comprised of Non-farm payroll, Average hours worked (manufacturing), Unemployment Rate, and Salary disbursements deflated by consumer price index



Source: UMASS Donahue Institute, Federal Reserve Bank of Philadelphia



Economic Update – Consumer Confidence



Department of Revenue

Kazim P. Özyurt

Chief Economist

Director, Office of Tax Policy & Analysis



FY16 Year-to-Date Tax Collections Update

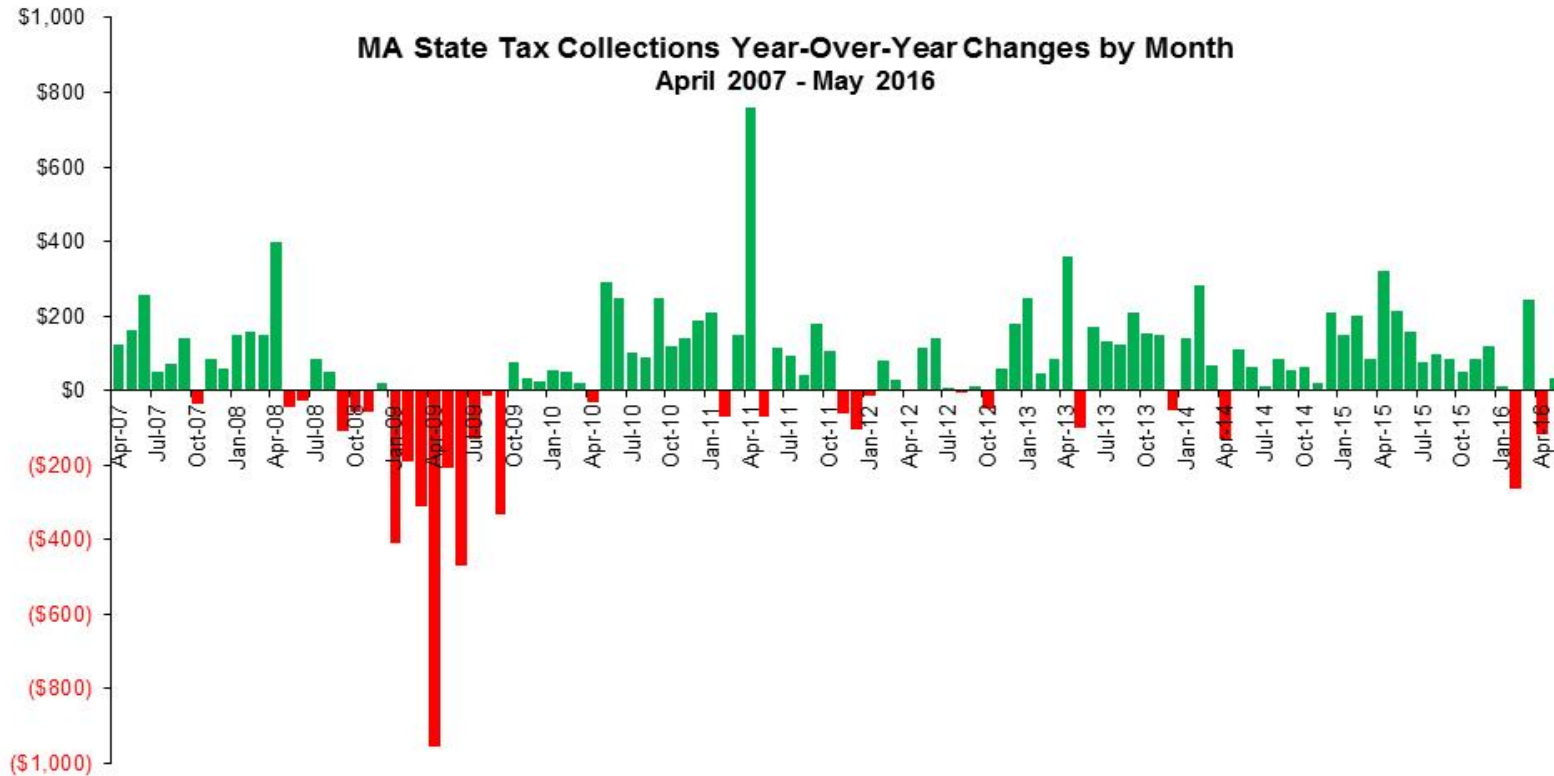
Recap of FY15 performance:

- (Excluding “tax-related” settlements of \$215M), FY15 tax revenues totaled approximately \$24.717 billion, an increase of approximately \$1.3 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 Tax Collections Update

Monthly year-over-year changes in collections:



FY16 Year-to-Date Tax Collections Update

May 2016 Tax Collection Summary (in \$ millions) (Preliminary as of June 3, 2016)

	----- Month of May -----					----- FY16 Year-to-Date -----					FY16 Full Year Benchmark	
	05/16 Collections	05/16 v. 05/15 \$ Change	05/16 v. 05/15 Actual % Change	05/16 v. 05/15 Baseline % Change	05/16 \$ Above/(Below) Benchmark Based on FY16 Estimate of \$25.751 Billion	05/16 FY16 YTD Collections	05/16 FY16 YTD \$ Change	05/16 FY16 YTD Actual % Change	05/16 FY16 YTD Baseline % Change	FY16 YTD \$ Above/(Below) Benchmark Based on FY16 Estimate of \$25.751 Billion	FY16 Full Year Benchmark	\$ Needed to Reach FY16 Full Year Benchmark
Income - Total	1,026	(60)	-5.6%	-1.6%	(101)	13,048	39	0.3%	1.7%	(376)	14,868	1,820
Income Withholding	911	(4)	-0.4%	3.7%	(53)	10,537	330	3.2%	4.7%	(12)	11,484	947
Income Est. Payments (Cash)	22	(0)	-1.8%	0.0%	0	2,027	(1)	-0.1%	0.8%	(97)	2,638	611
Income Returns/Bills	181	(50)	-21.6%	-16.7%	(36)	1,979	(141)	-6.6%	-6.3%	(161)	2,215	236
Income Refunds (Cash)	88	6	7.7%	15.0%	12	1,493	151	11.2%	11.2%	108	1,465	(28)
Sales & Use - Total	505	16	3.3%	1.2%	(27)	5,520	278	5.3%	5.3%	(72)	6,162	642
Sales - Regular	345	11	3.3%	1.0%	(16)	3,797	169	4.7%	4.6%	(46)	4,226	429
Sales - Meals	89	7	7.9%	5.0%	(2)	968	63	6.9%	7.5%	0	1,070	102
Sales - Motor Vehicles	72	(2)	-2.2%	-1.9%	(9)	755	46	6.5%	6.1%	(26)	867	112
Corporate & Business - Total	116	35	42.7%	53.9%	41	2,002	107	5.7%	6.3%	66	2,484	482
All Other	221	44	24.6%	22.7%	37	2,064	149	7.8%	7.3%	71	2,237	173
Total Tax Collections	1,868	34	1.8%	4.0%	(50)	22,634	573	2.6%	3.4%	(311)	25,751	3,117

Tax-Related Settlements & Judgments Exceeding \$10 Million Each (NOT included in the May and YTD collections figures above. May and YTD benchmarks DO NOT assume such large settlements and judgments exceeding \$10 million each).

0.0

26.9

Total Tax Collections (Including tax-related settlements & judgments)	1,868	34	1.8%	4.0%		22,661	417	1.9%	2.7%			
Corporate & Business - Total (Including tax-related settlements & judgments)	116	35	42.7%	53.9%		2,029	25	1.2%	1.8%			
Income Returns/Bills (Including tax-related settlements & judgments)	181	(50)	-21.6%	-16.7%		1,979	(215)	-9.8%	-9.4%			

Note: Detail may not add to total due to rounding and other technical factors.



FY16 Year-to-Date Tax Collections Update

- Though Revenue growth slowed down in recent months.
- Year-to-Date – moderate growth.
- Excluding tax related settlements and judgments exceeding \$10 million each:
 - YTD through May total: \$22.6 billion.
 - +\$573 million, or 2.6%, from the same period in fiscal 2015.
 - \$311 million below the YTD benchmark.
 - lower than expected
 - non-withheld income tax collections,
 - higher refunds, as well as
 - sales tax collections (regular and motor vehicle),

(partly offset by)
 - above benchmark performances in
 - corporate and business tax collections and
 - other tax categories



FY16 Year-to-Date Tax Collections Update

- Year-to-date **withholding**: \$10.5B, +\$330M, +3.2% actual, +4.7% baseline, \$12M below benchmark.
- Year-to-date **income tax cash estimated payments**: \$2.0B, -\$1M, -0.1% actual, +0.8% baseline, \$97M below benchmark.
- Year-to-date **income tax payments with bills and returns**: \$2.0B, -\$141M, -6.6% actual, -6.3% baseline, \$161M below benchmark.
- Year-to-date **income tax cash refunds**: \$1.5B, +\$151M, \$108M above benchmark.
- Year-to-date **sales & use tax** collections: \$5.5B, +\$278M, +5.3% actual, +5.3% baseline, \$72M below benchmark.
- Year-to-date **corporate and business** tax collections: \$2.0B, +\$107M, +5.7% actual, +6.3% baseline; \$66M above benchmark.
- **“All Other”** tax categories (including estate tax): \$2.1B, +\$149M, and \$71M above benchmark.



Executive Office for Administration & Finance

Rachel Madden

Undersecretary

Catharine Hornby

*Assistant Secretary and
Budget Director*

Jennifer Sullivan

*Assistant Secretary for Capital
Finance*

Heath Fahle

Finance Director



Fiscal Year 2016 Budget and Mid-Year Corrections

Budget

- The fiscal 2016 budget was signed by the Governor on July 17, 2015 and provided for spending of approximately \$38.2 billion, or 3.4% greater than fiscal 2015 estimated spending levels.
- The Governor vetoed \$162 million in line item and outside section spending.
- The fiscal 2016 budget created net operating savings of over \$100 million annually by reducing state workforce through a voluntary retirement incentive program.
- On July 28, 2015, the Legislature passed overrides to the Governor's vetoes in the amount of \$97.9 million.

Revenues

- The fiscal 2016 consensus tax revenue estimate of \$25.479 billion (\$21.396 billion available to the budget after required transfers), on which the budget was based, projected fiscal 2016 tax revenue growth of approximately 4.8% over fiscal 2015.
- On October 15, 2015, the Administration reduced the non-tax revenue estimate by \$145 million.
- On January 14, 2016, the Administration revised the tax revenue estimate upwards by \$140 million, from \$25.611 billion (inclusive of post consensus tax changes) to a revised estimate of \$25.751 billion.

Mid-Year Budget Balancing Measures

- Also on January 14, 2016, the Governor reduced fiscal 2016 spending by \$49 million and identified additional revenue solutions (non-tax) worth \$56 million.



Fiscal Year 2016 Outlook

- Massachusetts, like other similarly situated states, has experienced volatility in withholding and a softer than anticipated spring filing season. Current projections indicate total tax revenue will likely be below benchmarks for fiscal 2016.
- Tax revenues through the end of May were \$311 million below the revised benchmarks on a year-to-date basis.
- We believe the principal reasons for this were:
 - Lower than anticipated investment-related income on business and individuals, which drove higher than expected refunds and lower than expected payments with returns and estimated payments.
 - Relatively weak end of calendar year 2015 bonus season for higher wage earners.
- We have identified solutions to address the revenue shortfall by reducing spending and other measures, including the following:
 - Monitoring of and restrictions on spending, payroll caps, transfers to the General Fund of un-needed trust funds, acceleration of departmental and federal revenue collections.
- The Executive Office for Administration and Finance does not currently project a draw on Stabilization Fund reserves will be necessary to balance the fiscal 2016 budget.
- Should additional shortfalls be identified, the Secretary for Administration and Finance will pursue additional measures to reduce spending and eliminate the budget gap in order to end the fiscal year in balance.



Fiscal Year 2017 Budget Process

Consensus Revenue

- The consensus tax revenue estimate for fiscal 2017 is \$26.86 billion, which represents 4.3% growth over the revised (through January 2016) fiscal 2016 consensus tax revenue estimate.
- Revenues are closely monitored for trends and other variances from projections.
- The Secretary is consulting with the Department of Revenue and with independent economists for advice on whether fiscal 2016 tax revenue collections are the result of trends that will continue into fiscal 2017.

Governor's Budget Submission

- The Governor filed the fiscal 2017 budget recommendation on January 27, 2016, providing for a total of \$39.559 billion in state spending, a 3.5% increase over the fiscal 2016 budget.
- The budget did not withdraw from the Stabilization Fund and proposed a deposit of \$206 million in capital gains tax receipts into the Fund, based on revenue assumptions contained in the consensus tax revenue estimate.

House and Senate Budgets

- The House approved its budget on April 27, 2016 and provides \$39.540 billion in spending.
- The Senate approved its budget on May 26, 2016 and provides \$39.558 billion in spending.
- Both budgets are supported by the same consensus tax revenue estimate as the Governor's budget, neither propose a withdrawal from the stabilization fund, and both anticipate a deposit of \$206 million into the fund.



Fiscal Year 2017 Capital Budget

Overview

- The Commonwealth's five-year capital plan for fiscal 2017-2021 provides for \$10.95 billion in bond cap spending over five years, or \$2.19 billion per year over the five-year period.
- Fiscal 2017 bond cap is an increase of \$65 million, or 3%, over bond cap established for fiscal 2016.

Affordability

- This amount is consistent with the recommendation of the Debt Affordability Committee, a statutorily established committee of government and outside experts.
- The Commonwealth's capital plan is subject to an overall limit constraining growth to not more than \$125 million per year and debt service to no greater than 8% of budgeted revenues.
- Under this level of capital spending, debt service is not expected to exceed 7% of budgeted revenues through 2027, based on the Commonwealth's debt affordability analysis and assuming conservative tax revenue growth of 3% per year.

Priorities

- The five-year capital plan focuses on maintenance and modernization of existing assets. Approximately 72% of spending was directed to repair and preservation, only 28% targeted toward growth opportunities.
- The capital plan prioritizes community investments, affordable housing, strategic economic development initiatives, workforce skills and basic infrastructure to support the Commonwealth's ecosystem for growth and foster long-term health of the state's economy, laying the groundwork for future success.



Office of the State Treasurer

Debt / Capital Presentation

Sue Perez

*Assistant Treasurer
for Debt Management*

Drew Smith

*Deputy Assistant Treasurer
for Debt Management*



Financing Update

- 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 the January call, the Commonwealth issued \$1.1 billion 2016 Series A and Refunding Series A tax-exempt GO Bonds as well as \$300 million 2016 Series B and C direct placements with TD and State Street.
- **2016 Series A and Rfdg A - \$1,110,950,000 tax-exempt GO Bonds**
 - Bonds issued to fund the Commonwealth's FY16 capital investment spending needs as well as to advance refund certain existing debt for savings
 - Sold on a negotiated basis in January 2016 with Bank of America acting as senior manager
 - Series A \$600 million maturing 2018 – 2046, Avg Life of 17.6 yrs, All-In-TIC of 3.607%
 - Rfdg Series A \$511 million maturing 2016 – 2033, Avg Life of 10.5 yrs, All-In-TIC of 2.482%, resulting in \$66.1 million in PV savings (11.8% of refunded par)



Financing Update

- **2016 Series B and C - \$300,000,000 tax-exempt GO Multi-Modal Bonds**
 - Resulting from a competitive solicitation for the 2006B Direct Placement remarketing, the Commonwealth took advantage of aggressive rates to place new money LIBOR-based bonds.
 - Series B \$100 million placed with TD Bank, mandatory tender of April 1, 2021, final maturity April 1, 2036
 - Series C \$200 million placed with State Street, mandatory tender of April 1, 2021, final maturity of April 1, 2046
 - The Commonwealth remains committed to fully disclosing all Direct Purchase and Bank Loan agreements both on EMMA as well as the massbondholder.com website
 - The Commonwealth remains committed to using this type of instrument to the extent that it is prudent and offers low cost of capital while assisting in diversifying the debt portfolio and eliminating certain other risks common to other variable rate instruments



Upcoming Transactions*

Plan of Finance *

Month	Par Amount	Structure		Credit	
May 2016	\$200 M	LIBOR Index Bonds (2006B Bonds)	Remarketing	GO	Direct Placement
May 2016	\$300 M	LIBOR Index Bonds	New Money	GO	Direct Placement
June 2016	\$500 M	Fixed-Rate Tax Exempt	New Money	GO	Competitive
June/July 2016	\$200 M	Green Taxable/Tax Exempt	New Money	GO	Negotiated
June/July 2016	\$400 - \$600 M	Fixed-Rate Tax Exempt	Refunding	GO	Negotiated
July 2016	\$200 M	SIFMA Bonds (2014 D1)	Remarketing	GO	Negotiated
August 2016	\$200 M	Fixed-Rate Tax Exempt GANS (ABP)	New Money	CTF	Negotiated
August 2016	\$250 - \$400 M	Fixed-Rate Tax Exempt Rail Enhancement Program	New Money	CTF	Negotiated
August 2016	\$200 M	SIFMA Bonds (2013 Refunding A 2014 Refunding E)	Refunding (Roll)	GO	Competitive
August/Sept 2016	\$500 - \$600 M	Fixed-Rate Tax Exempt	New Money	GO	Competitive
Sept/Oct 2016	\$1.0 - \$1.2 B	Revenue Anticipation Notes	New Money	GO	Competitive

*Preliminary and subject to change



Issuance Timeline*

- The Commonwealth expects to price its 2016 Series D and E Bonds on June 9
- Current Information Statement and Preliminary Official Statement available at www.massbondholder.com

June						
Su	Mo	Tu	We	Th	Fr	Sa
			1	2	3	4
5	6	7	8	9	10	11
12	13	14	15	16	17	18
19	20	21	22	23	24	25
26	27	28	29	30		

Competitive Sale	June 9
Closing Date	June 22

* Preliminary, subject to change

Questions, please contact:

Office of State Treasurer Division of Debt Management

Sue Perez
Assistant Treasurer
sperez@tre.state.ma.us
(617) 367-3900 ext. 816

Drew Smith
Deputy Assistant Treasurer
dsmith@tre.state.ma.us
(617) 367-3900 ext. 493



Debt/Capital

- Today's call represents the second investor call of 2016
- The Commonwealth will continue to hold investor calls approximately one week after each disclosure update throughout 2016
- For more information on the Commonwealth's financing programs, please contact either Sue Perez or Drew Smith

Sue Perez

Assistant Treasurer for Debt
Management

(617) 367-3900 ext. 816

sperez@tre.state.ma.us

Drew Smith

Deputy Asst. Treasurer for Debt
Management

(617) 367-3900 ext. 493

dsmith@tre.state.ma.us

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QUESTIONS

