
The Commonwealth of Massachusetts

Rating Agency Update & 2013 Series C & D ("Green Bonds")
Consolidated Loans, Series B Refunding Financings

May 10, 2013



Rating Agency Conference Call Presentation Participants



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Agenda

1. Economic Update
2. Fiscal 2013 Revenue Collections Update
3. Fiscal 2013 Budget Update
4. Fiscal 2014 Budget Update
5. Federal Sequestration
6. Debt Limit & Debt Affordability Update
7. Series 2013 C & D
8. Questions



1. Economic Update



Economic Update

Wealth Measures:

- 2012 Per Capita Income in Massachusetts was \$54,687, or 128% of the US average
- Second highest measure in the country for 2012

Source: US Department of Commerce, Bureau of Economic Analysis

Unemployment:

- The 2012 unemployment rate average was 6.7% for MA vs. 8.1% for US
- As of April 2013 (based on March employment statistics), MA unemployment rate was 6.4% vs. the national average of 7.5% (April data)

Source: US Department of Commerce, Bureau of Economic Analysis; MA Dept Labor & Workforce Development

Economic Output:

- For the most recent quarter (Q1 of calendar year 2013), MA GDP is estimated to have grown at an annualized rate of 3.9% vs. 2.5% for the US

Source: US Commerce Department and <http://www.MassBenchmarks.org>



Economic Update

Federal Reserve Bank of Philadelphia

State Coincident Indices

As of March 2013 Data (latest release)

State	Current Level	(April 2012 - 2011-March 2013)	(April 2008 - March 2013)	State	Current Level	(April 2012 - 2011-March 2013)	(April 2008 - March 2013)
		12-month % Change	5-Year % Change			12-Month % Change	5-Year % Change
Alabama	129.8%	0.93%	-6.32%	Montana	160.3%	2.00%	-3.59%
Alaska	121.4%	0.24%	2.82%	Nebraska	158.1%	1.91%	-0.66%
Arizona	181.4%	1.77%	-8.51%	Nevada	182.7%	1.91%	-17.60%
Arkansas	140.3%	0.91%	-3.22%	New Hampshire	191.3%	2.17%	1.75%
California	157.9%	3.47%	2.37%	New Jersey	151.2%	3.11%	-0.09%
Colorado	180.7%	4.06%	0.54%	New Mexico	158.7%	0.54%	-7.65%
Connecticut	156.3%	2.20%	1.02%	New York	149.1%	2.29%	5.16%
Delaware	145.5%	1.50%	-6.41%	North Carolina	162.1%	3.33%	-1.69%
Florida	146.1%	2.05%	-5.38%	North Dakota	193.8%	4.88%	33.05%
Georgia	166.3%	3.17%	-2.09%	Ohio	140.3%	1.60%	-0.11%
Hawaii	105.2%	1.75%	-6.06%	Oklahoma	150.8%	0.99%	-1.04%
Idaho	200.4%	4.60%	-5.87%	Oregon	211.8%	3.87%	-0.25%
Illinois	144.4%	1.56%	-2.74%	Pennsylvania	142.1%	1.43%	-0.38%
Indiana	144.1%	2.29%	0.25%	Rhode Island	151.7%	2.81%	-1.78%
Iowa	149.4%	2.55%	2.70%	South Carolina	152.0%	3.17%	-3.80%
Kansas	142.2%	1.83%	-3.27%	South Dakota	157.5%	1.42%	2.56%
Kentucky	140.8%	1.66%	-1.40%	Tennessee	153.3%	2.76%	2.17%
Louisiana	130.6%	0.74%	0.58%	Texas	187.6%	4.21%	7.71%
Maine	135.2%	1.19%	-9.66%	Utah	199.2%	4.54%	4.50%
Maryland	149.5%	2.35%	-1.94%	Vermont	147.3%	2.72%	0.59%
Massachusetts	179.5%	3.34%	7.38%	Virginia	149.7%	1.91%	-0.74%
Michigan	127.9%	2.98%	-3.77%	Washington	156.7%	3.63%	0.90%
Minnesota	160.2%	2.82%	4.05%	West Virginia	162.2%	0.89%	-0.01%
Mississippi	142.6%	2.30%	-0.83%	Wisconsin	140.5%	1.17%	-1.42%
Missouri	134.9%	1.59%	-4.38%	Wyoming	164.0%	-0.42%	-1.79%
				United States	154.2%	2.54%	3.40%

2. Fiscal 2013 Revenue Collections Update



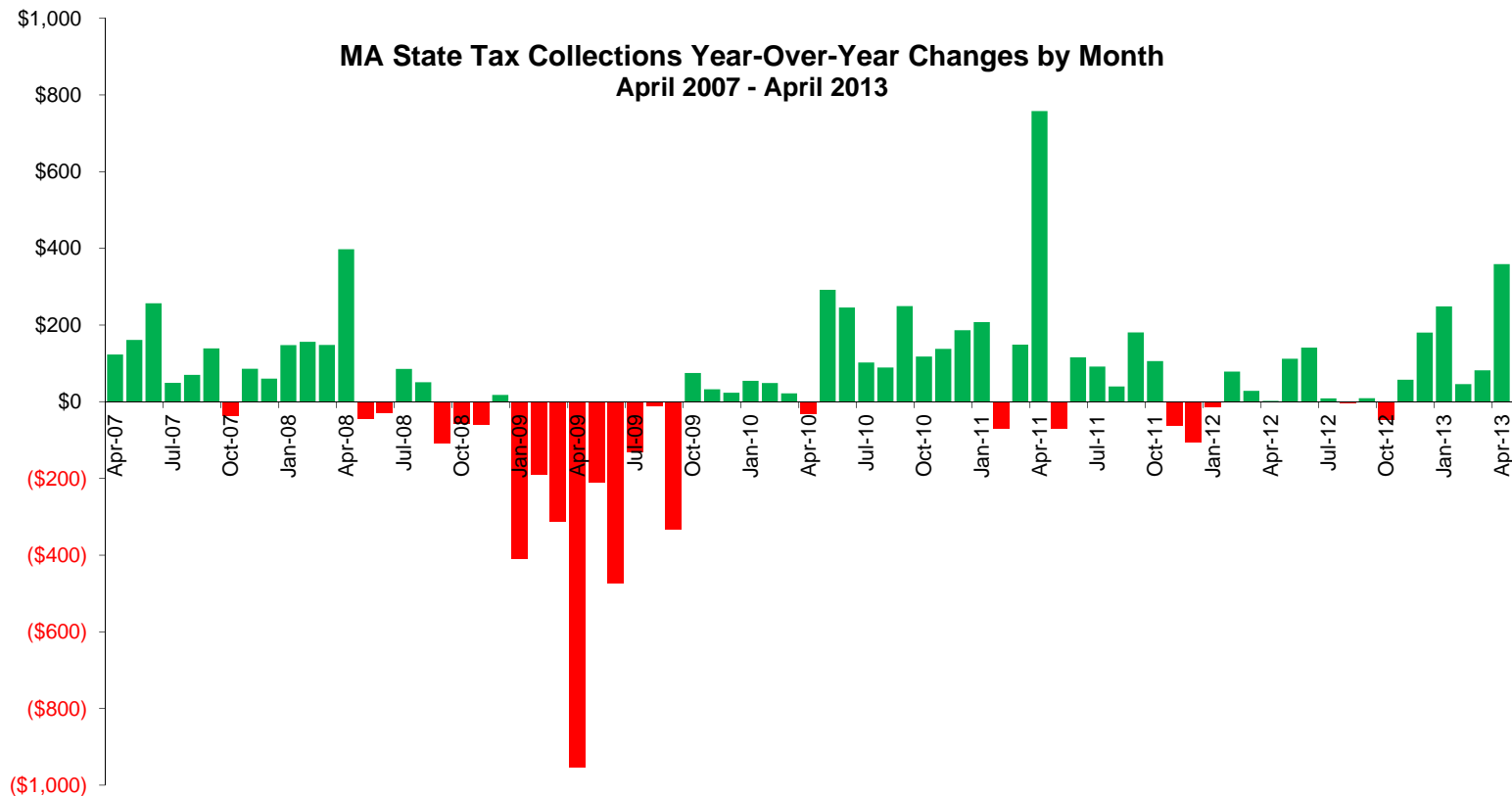
Fiscal 2013 Revenue Collections Update

- January 12, 2012 fiscal 2013 consensus tax revenue estimate of \$21.950B
- Fiscal 2013 GAA estimate of 21.011B
- December 4, 2012 revision: current estimate -- \$21.496B
- Approximately \$1.1 billion of the \$21.496B billion tax estimate is assumed to be generated from taxes on capital gains. Under state finance law, \$100 million of the projected capital gains tax revenue will be required to be deposited into the Stabilization Fund and will not be available for budgetary purposes.



Fiscal 2013 Revenue Collections Update

- Monthly year-over-year changes in collections have mostly been on the positive side since October 2009, albeit the pace of revenue growth was slow most of 2012. The growth picked up recently (December 2012/January 2013 and in April 2013).



Fiscal 2013 Revenue Collections Update

April 2013 Tax Collection Summary (in \$ millions) (Preliminary as of May 3, 2013)

	----- Month of April -----					----- FY13 Year-to-Date -----				
	04/13 Collections	04/13 v. 04/12 \$ Change	04/13 v. 04/12 Actual % Change	04/13 v. 04/12 Baseline % Change	04/13 \$ Above/(Below) Benchmark Based on FY13 Estimate of \$21.496 Billion	04/13 FY13 YTD Collections	04/13 FY13 YTD \$ Change	04/13 FY13 YTD Actual % Change	04/13 FY13 YTD Baseline % Change	FY13 YTD \$ Above/(Below) Benchmark Based on FY13 Estimate of \$21.496 Billion
Income - Total	2,215.4	363.5	19.6%	20.8%	173	10,664.7	812.1	8.2%	9.4%	359
Income Withholding	794.5	0.8	0.1%	-0.7%	(36)	8,389.0	204.9	2.5%	3.6%	(8)
Income Est. Payments (Cash)	250.5	36.4	17.0%	17.4%	26	1,643.5	225.5	15.9%	16.4%	153
Income Returns/Bills	1,522.2	377.9	33.0%	32.3%	232	1,906.6	377.1	24.7%	26.1%	207
Income Refunds (Cash)	350.2	51.1	17.1%	-8.4%	49	1,278.4	1.5	0.1%	0.2%	(6)
Sales & Use - Total	445.4	11.0	2.5%	1.9%	(5)	4,272.7	68.6	1.6%	1.9%	(29)
Sales - Regular	307.8	0.5	0.2%	0.1%	(7)	2,984.4	33.5	1.1%	1.4%	(8)
Sales - Meals	74.5	2.4	3.3%	3.6%	(1)	745.9	26.0	3.6%	4.3%	(11)
Sales - Motor Vehicles	63.1	8.2	14.8%	9.8%	3	542.4	9.1	1.7%	1.3%	(10)
Corporate & Business - Total	67.8	8.5	14.3%	21.2%	8	1,718.5	60.8	3.7%	5.3%	173
All Other	137.8	(24.2)	-15.0%	-15.2%	(23)	1,489.3	(0.7)	-0.1%	0.1%	8
Total Tax Collections	2,866.4	358.8	14.3%	15.2%	153	18,145.1	940.8	5.5%	6.4%	510

Fiscal 2013 Revenue Collections Update

- **April Performance:**
- Historically April has been the largest tax collection month of the year-- *payments with income tax returns and extensions for the previous year and first income tax quarterly estimated payments for the new tax year* are due.
- April tax collections totaled \$2.866 billion, \$359 million or 14.3 percent more than the state took in last April. April collections came in \$153 M over the revised monthly benchmark.
- Strong payments with 2012 income tax returns and extensions and 2013 first quarterly estimated tax payment more than offset the shortfall in withholding, sales, and estate tax collections.

(See the table in the previous slide)



Fiscal 2013 Revenue Collections Update

- **Year-to-Date Performance:**
- Tax collections through April totaled approximately \$18.145 billion, an increase of \$941 million, or 5.5%, over the same period in fiscal 2012.
- We are now \$510 M above the revised benchmark.

Consistent with many other states, we saw a surge in

- Income tax payments with 2012 income tax returns and extensions (April),
- 2012 fourth quarter income estimated payments (December/January), and
- 2013 first quarter income estimated payments (April).

Corporate and business tax collections were also strong but it was largely driven by one-time settlement-related payments.

Surplus in these collections more than offset the shortfall in sales and **withholding** collections.



Fiscal 2013 Revenue Collections Update

- **Year-to-Date Performance:**
- **Reasons behind the year-to-date surplus:**
 - surge in investment-related earnings driven by federal tax changes (one-time);
 - capital gains and dividend income;
 - volatile revenue sources;
 - (mostly) not tied to the current economic performance;
 - one-time tax settlements
- **Withholding and sales taxes are current indicators of the economy (measuring current economic performance)**
 - Growth rate still not at the pace that was originally forecasted for FY13, but consistent with the late-2012 revenue revision
- **Caution against assuming this type of performance will continue.**
 - Borrowed from future years?
 - Capital gains tax surplus - transferred to the Stabilization fund?



3. Fiscal 2013 Budget Update



Fiscal 2013 Budget Update

- In early December, the Governor solved an estimated \$540 M tax revenue shortfall through \$225 M in 9C reductions and filing legislation with other proposed budget-balancing solutions.
- On February 15, 2013, the Governor approved legislation that included all but \$19.7 million in budget balancing provisions that he originally filed in December.
- December through April tax collections have been positive, putting year-to-date collections \$510 M above the revised tax revenue benchmark.
- So far approximately \$152 million in supplemental appropriations have been signed into law.
- On May 3, 2013 the Governor filed a \$119 million supplemental appropriations bill to provide funding for already incurred snow and ice costs, the Senate special election, etc.
- As we do every fiscal year, the Executive Office for A&F closely monitors tax receipts throughout the year and with increased diligence in the last quarter, when the largest percentage of collections is realized.
- In addition, we undergo a mid-year spending review with all agencies and implement strict year-end controls starting in April and May to limit spending and begin the close-out of the current fiscal year.
- This fiscal year is no different from previous years and based on our review of spending, including recently filed supplemental budgets, and year-to-date tax collection we are comfortable that we will end the year in balance as required by law.

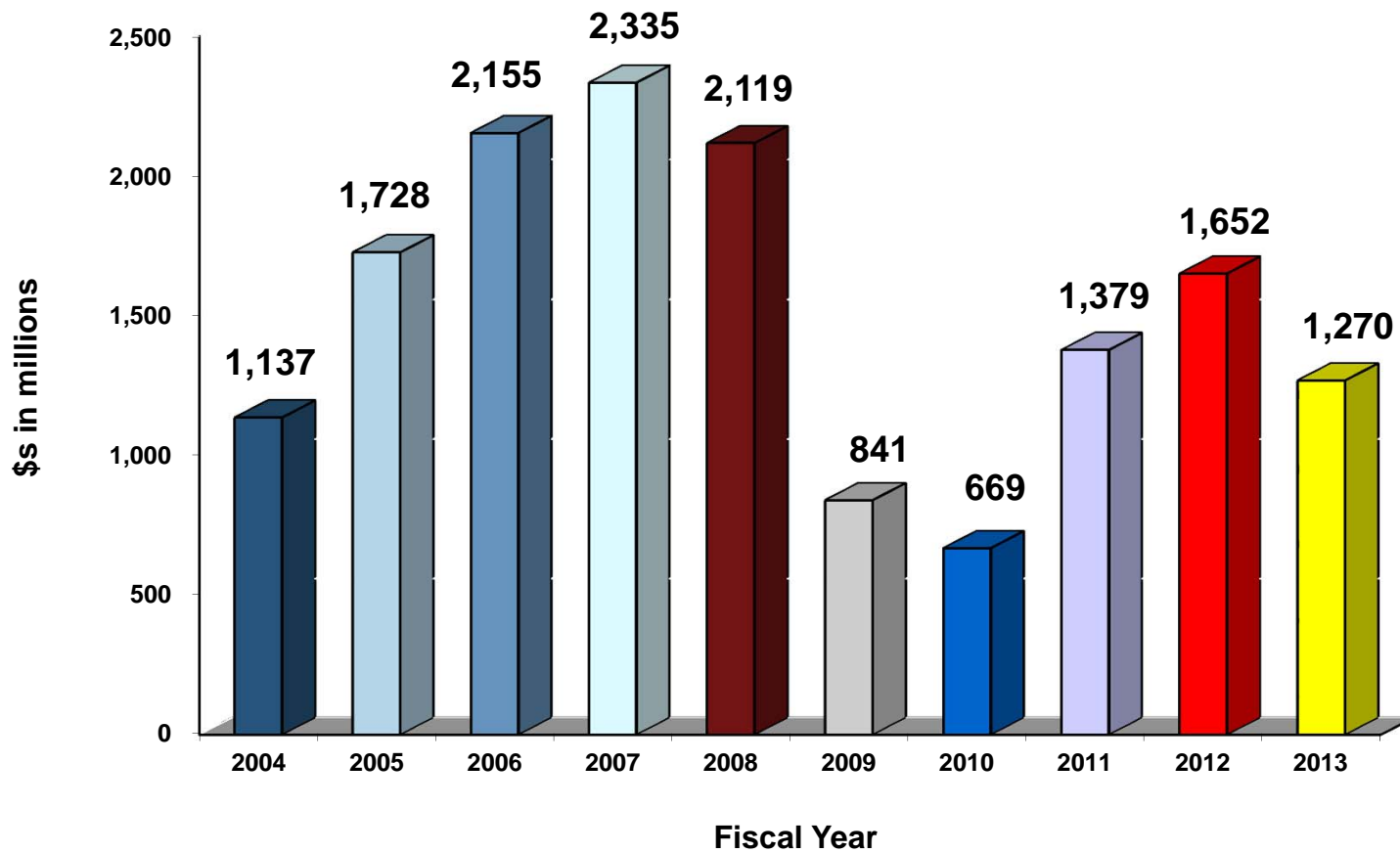
Fiscal 2013 Budget Update - Reserves

- The fiscal 2012 estimates released by the National Association of State Budget Officers (NASBO) in June 2011, together with the results reported in the Commonwealth's fiscal 2012 Statutory Basis Financial Report, indicate that Massachusetts's Stabilization Fund balance of \$1.652 billion is estimated to be the third highest reserve fund balance in the nation in absolute size
- After accounting for the additional withdrawals from the Fund in fiscal 2013 the projected ending balance would be \$1.270 billion, one of the highest in the nation.
- This is a direct of result of prudent budget management by the Administration and Legislature, fiscal 2012 was the second year in a row that had a year-on-year increase.
- In addition, two recently passed amendments to state finance law have also helped to increase the balance of the state's reserves
 - A provision that requires the deposit of any one-time settlements greater than \$10 million to the Stabilization Fund resulted in a \$375 million being added to the fund in fiscal 2012.
 - A provision that requires any tax revenue from capital gains that exceeds \$1 billion in a fiscal year is to be deposited into the Stabilization Fund is projected to result in a \$90 million deposit into the fund in fiscal 2013.



The Commonwealth of Massachusetts - Reserves

**Stabilization Fund Balances
by Fiscal Year**



4. Fiscal 2014 Budget Update



Fiscal 2014 Budget Update - Transportation Finance Bills

- House and Senate revenue bills raise revenues principally for transportation, not other purposes
- Common elements of bills:
 - Increases in gas taxes (3 cents indexed), corporate taxes and tobacco taxes
 - Redirecting motor vehicle sales tax to transportation
 - MassDOT/MBTA additional “own source” revenue targets
- Senate bill also provides additional transportation revenue by redirecting UST revenue to transportation and adding new fees for utility rights of way
- Key issues for Patrick-Murray Administration:
 - Amount of revenue: Senate meaningfully higher
 - Reliability of revenue: Bills expect more “own source” revenue notwithstanding constraints on savings tools and fee-raising capacity
 - Bills do not raise meaningful revenues for new education investments
- Differences between the House and Senate versions of the transportation bill will be reconciled by a legislative conference committee.



Fiscal 2014 Budget Update - Continuing Challenges

FY 2014			
	Governor's Budget	House Budget	Variance
Total New Tax Revenue in FY14	1,191	425	766
Total New Tax Revenue in Budget	943	186	757
Rainy Day Fund Draw	400	350	50
Bottle Bill	24	0	24
Total			831

- The House budget spent ~\$835 M less than the Governor's budget. The revenue differences identified above are the principal drivers of this variance.
- Senate budget is expected to be released on Wednesday, May 15th.



5. Federal Sequestration



Federal Sequestration

- In March, the President signed a spending bill that maintains most of the \$85 B in cuts mandated under sequestration
- Most large federal grant programs have experienced a 5% annual cut. The sequester was implemented in the second half of FFY 13, resulting in much larger cuts on a percentage basis. Examples include:
 - Less than 5% cuts - Women, Infants and Children (WIC), Byrne Justice Assistance, State Homeland Security Grant
 - Greater than 5% cuts – EPA Drinking Water Revolving Funds, Unemployment Insurance State Administration
- Examples of other cuts include:
 - Furloughs at some federal agencies
 - End to extended unemployment benefits (12.8% impact in MA)
 - Possible reductions to park services
- Some programs were preserved including: Child Nutrition, SNAP, TANF, Foster Care, Homeless Assistance, Child Health Insurance, Medicaid Vendor payments
- Remaining areas will see modest increases from FY 2013 (2.9% cumulative increase) from FY 2013, largely due to collective bargaining and Chapter 257. Most of these accounts would continue to operate at service levels below those provided in FY 2008



Federal Sequestration - Impact on Massachusetts

- While state agency grants will see some cuts, the primary impact on the Commonwealth is a wider and slower economic impact over the next 12-18 months
- The major cuts impact the defense industry federal contractors, medical device manufacturing, life sciences research in our universities, and our academic medical centers
- To evaluate this impact on jobs and human services, A&F assembled a Sequestration Task Force with representatives from the Federal Reserve, UMass Donahue Institute, the defense industry, academia and the high tech sector
- The Task Force stresses that Massachusetts will need to maintain our competitive and innovation industries to counter this impact
- The President has proposed a FFY 14 budget that repeals sequestration, but also provides for additional revenues and selected cuts to be implemented



6. Debt Limit & Debt Affordability Update



Debt Limit & Debt Affordability Update

- Chapter 29, Section 60A defines debt subject to the debt limit in terms of *net proceeds* (the amount actually borrowed, net of discount or premium), not *face or principal value* of debt (the amount that must be repaid):
 - There is hereby established a direct debt limit for the commonwealth which shall apply to any direct bonds issued whose issuance would cause the sum of the principal amounts of all direct bonds issued by the commonwealth and then outstanding to exceed the limit set herein...and provided, further, *that the principal amount of bonds issued at a discount shall be the original net proceeds of such bonds.*
- Net proceeds is defined as:
 - Direct Debt = Principal amount - cost of issuance - discount + premium
- This net proceeds definition was followed in the bond Official Statements (O.S.) and financial statements through 2010



Debt Limit & Debt Affordability Update

- However, starting with the FY2011 column shown in the bond prospectuses, the calculation of direct debt outstanding changed from *net proceeds* to principal or face value of outstanding debt. This is debt outstanding according to Generally Accepted Accounting Principals, or GAAP. This was an error in the calculation, as the statutory debt limit was, and continues to be, calculated differently from GAAP.
- Because the Commonwealth has issued debt with aggregate net premiums, aggregate net proceeds of debt outstanding is higher than principal or face value, since premiums are added to principal to arrive at aggregate net proceeds.
 - As a result, *statutory* debt outstanding subject to the debt limit was understated by \$278 million as of the end of FY11, \$391 million as of the end of FY12, and \$417 million as of April 2013 in the bond prospectuses.



Debt Limit & Debt Affordability Update

Corrected Calculation of Statutory Direct Debt Outstanding as of FY11, FY12 and 4/30/2013

	<u>Fiscal 2011</u> <u>(6/30/2011)</u>	<u>Fiscal 2012</u> <u>(6/30/2012)</u>	<u>4/30/2013</u>
Direct Debt Subject to Debt Limit Currently in O.S. (Face value, incorrect definition)	16,291,254	16,713,406	16,932,941
Direct Debt Subject to Debt That Should be in O.S. (Net proceeds, correct definition)	16,569,617	17,104,393	17,349,666
Difference Between Current and Corrected Calculations	278,363	390,987	416,725



Debt Limit & Debt Affordability Update

Problem

- When the debt limit was lowered as part of the state finance law re-write in July 2012 (effective January 1, 2013) to align it with statutory debt outstanding, the statutory debt outstanding starting point for calculating the 5% annual debt limit growth rate was understated due to the incorrect calculation. As a result, after the correction is made to the statutory debt outstanding calculation and debt outstanding increases, the debt limit may not accommodate the current capital plan and planned borrowing will bump up against the debt limit if a technical correction is not made.



Debt Limit & Debt Affordability Update

- Potential Solution (see next slide for text of proposal)
- Leave the debt limit *amount* unchanged, but change the *statutory definition* of direct debt outstanding from net proceeds to principal or face value of debt. This would align the definition with the debt outstanding value used by the Legislature when it set the debt limit in the state finance law rewrite, as the value provided to the Legislature was principal outstanding. It would also measure debt outstanding in accordance with Generally Accepted Accounting Principals.
- This is the recommended solution arrived at after consultation with Commonwealth Bond counsel, Commonwealth Disclosure Counsel, Administration and Finance and the State Treasury.



Debt Limit & Debt Affordability Update

Text of Proposed Technical Correction

- SECTION A. The first sentence of the second paragraph of section 60A of chapter 29 of the General Laws, as appearing in section 112 of chapter 165 of the acts of 2012, is hereby amended by striking out the words “the principal amount of bonds issued at a discount shall be the original net proceeds of such bonds” and inserting in place thereof the following words:- for purposes of this section, the principal amount of bonds issued and outstanding shall be used in making such calculations.
- SECTION B. Section A shall take effect as of January 1, 2013.



Debt Limit & Debt Affordability Update

- The new Massachusetts Capital Debt Affordability Committee has held its first meeting
- Committee is charged with measuring debt levels for the Commonwealth and some of its component units
- Work of the Committee will include determining debt metrics and peer states for comparisons
- Voting members of the Committee include:
 - Glen Shor, Secretary for Administration & Finance
 - Steven Grossman, Treasurer & Receiver General
 - Richard Davey, Secretary for Transportation
 - Martin Benison, State Comptroller
 - Jeita Phillips, Former House Ways & Means Budget Director - Appointed by the Governor
 - Akash Deep, Finance Professor at Harvard - Appointed by the Treasurer
 - Phil Shapiro, CFO Babson College - Appointed by the Treasurer
- Committee work plan is to meet monthly
- Report due to the Governor and Legislature by September 10, 2013



7. Debt / Capital



Debt / Capital

- 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
- For Fiscal 2013, the STO executed one new-money General Obligation borrowing in Q1, one in Q2, and two in Q3 (including one taxable financing) totaling \$1.295 bn in bond proceeds
- To continue funding capital budget needs, the STO is selling \$475 mm of tax-exempt G.O. bonds at the end of May
- The STO is also evaluating a large refunding opportunity
- Bonds will be sold on a negotiated basis
 - First negotiated fixed-rate transaction in more than two years
- Potentially first advance refunding in more than 5 years for the Commonwealth
- Unused Bond Cap (amounts not borrowed) will be pushed into FY14 to continue funding the state's capital plan
- The STO does not expect to issue bonds for the Accelerated Bridge Program in FY2013



Debt / Capital

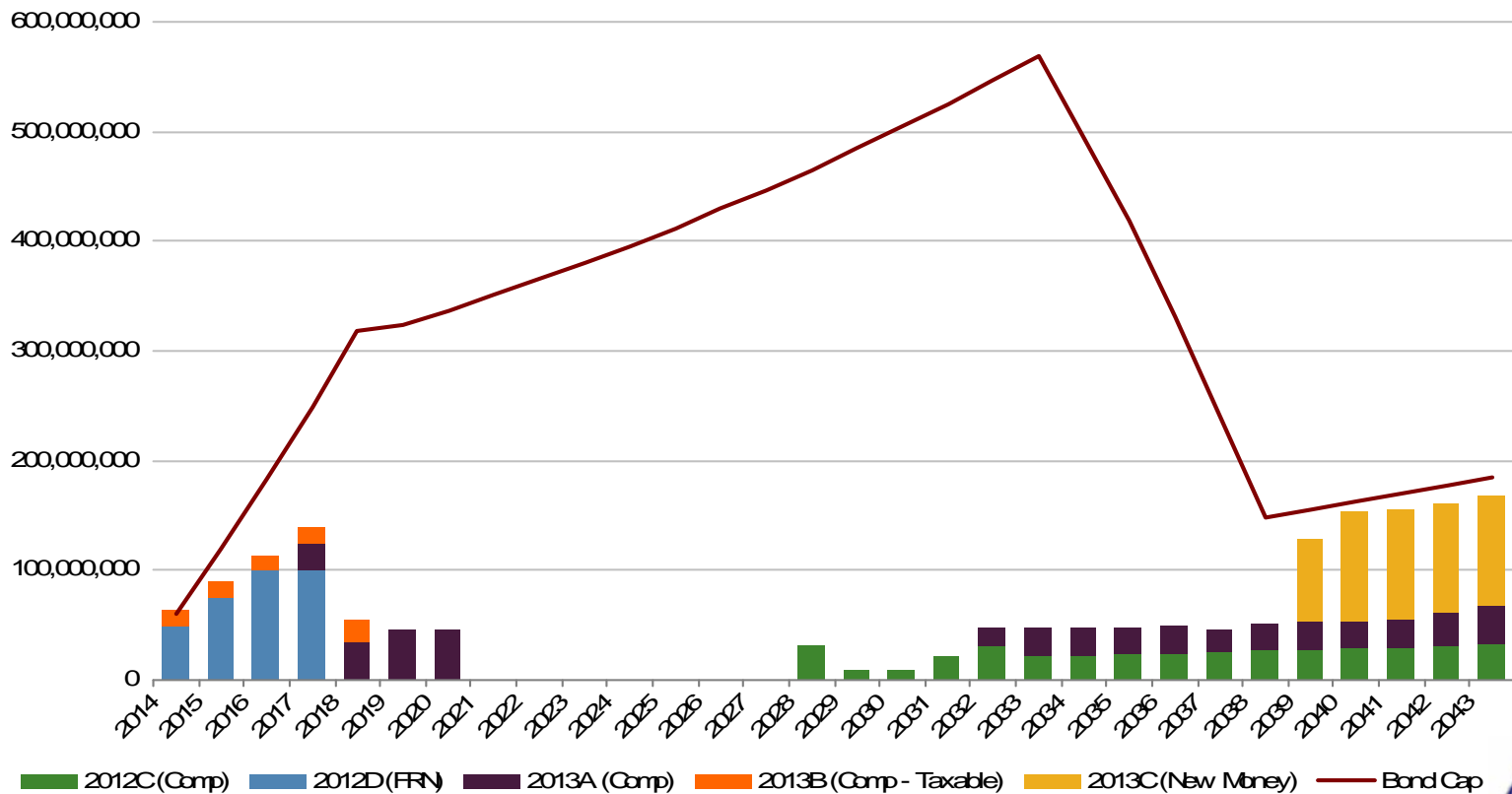
- For the new-money bonds, the STO's primary goal is to continue to finance as much of the Commonwealth long borrowing needs as possible while long-term interest rates remain near historic lows
- 30-year MMD has only been lower than the current rate 2.70% of the time when looking at rates going back to 1996.
- The 30-year MMD (2.89%) is slightly lower than the 30-year UST (2.993%) - ratio of 96.5%, one year ago this ratio was 100.9%
 - 30-year MMD average since 01/1996 = 4.70%
 - 30-year MMD average since 01/2008 = 4.06%
 - 30-year MMD average since 01/2011 = 3.53%
 - 30-year MMD average since 01/2012 = 3.01%
- If ratings are received on 5/16, the STO will mail the POS on 5/17



Debt / Capital

- Despite the longer duration of the Series 2013 C bonds, the maturities are being structured within A&F's proposed capital structure used for its internal debt affordability analysis

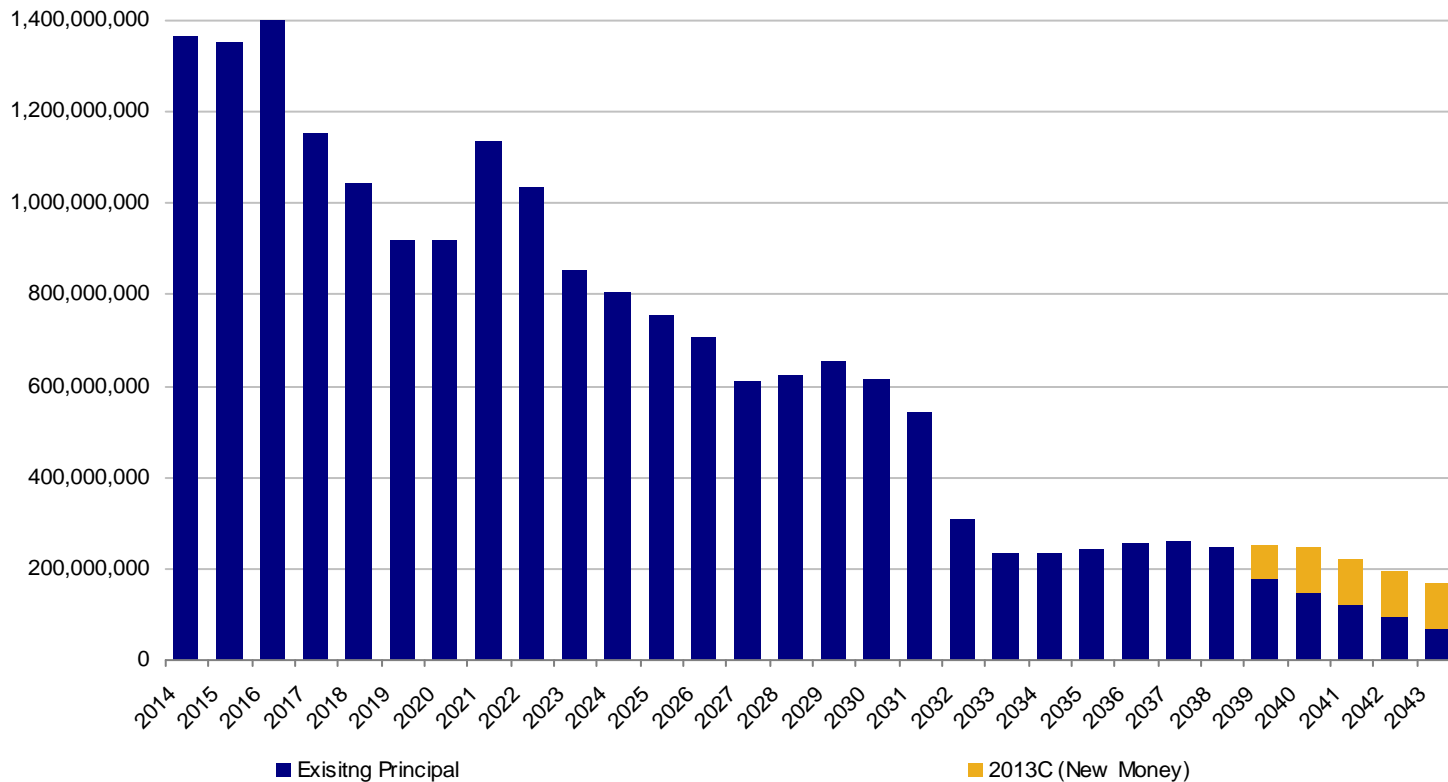
Actual FY2013 New-money Borrowing & Pro Forma Series 2013 C New Money Issuance within 5-Year Capital Plan



Debt / Capital

- Despite the longer duration of the Series 2013 C bonds, the maturities are being structured within A&F's proposed capital structure used for its internal debt affordability analysis

Outstanding G.O. Principal & Pro Forma Series 2013 C New Money Issuance



Debt / Capital

- Aside from new-money considerations, the STO continues to monitor refunding opportunities
- Refundings are evaluated and based on the STO's new refunding guidelines
- The most recent refunding analysis, based on current market conditions, indicates that the Commonwealth could save more than \$68 mm by selling \$638.1 mm in refunding bonds (preliminary and subject to change)
- On a PV basis, the projected savings are estimated at \$61.5 mm
- Savings would be taken on a uniform basis in fiscal years 2014 through 20126
 - Roughly \$5 to \$7 mm in savings per fiscal year
- No maturities extended or restructured; looking for opportunities to shorten the debt through the refunding structure
- Weighted average refunding efficiency is 94%

Disclosure Enhancements

Investor Communication & Outreach

- The Commonwealth will continue to hold live investor calls approximately one week after each disclosure update
 - Regular updates on the economy, revenues, budgets, forward calendar/ capital plans, as well as one “big topic” per call
 - Access to senior leadership of the state
- Twitter feed for investors: @BuyMassBonds

Next disclosure & call:

Commonwealth of Massachusetts 2013 Investor Disclosure & Conference Call Schedule			
Disclosure Update	Targeted Investor Conference Call	"Big Topic"	Participants
9-Jan-13	11-Jan-13	Review of FY 2012 Financial Statements	State Comptroller
7-Mar-13	15-Mar-13	Review of New Investor Website	Treasury
7-May-13	14-May-13	Review of the Five-Year Capital Plan / Debt Portfolio	A&F / Treasury
22-Jul-13	29-Jul-13	Review of FY13 Revenue Collections	Dept. of Revenue
9-Sep-13	16-Sep-13	Review of Major Spending Categories	State Budget Director
7-Nov-13	14-Nov-13	Review of Pension Actuarial Report	State Actuary / PERAC

8. Questions & Follow-Up

