
The Commonwealth of Massachusetts

Credit Update & 2013 Series E Consolidated Loan

July 24, 2013



Rating Agency Conference Call Presentation Participants



Commonwealth of Massachusetts

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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.

The information set forth herein includes information obtained from non-Commonwealth sources that are believed to be reliable, but such information is not guaranteed as to accuracy or completeness and is not to be construed as a representation by the Commonwealth. All information and expressions of opinion herein are subject to change without notice. The Commonwealth undertakes no obligation to provide any additional information or to update any of the information or the conclusions contained herein or to correct any inaccuracies that may become apparent.

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, including, in particular, current adverse global financial market and economic conditions, what actually happens may be different from what is set forth in such forward-looking statements. Forward-looking statements are indicated by use of such words as "may," "will," "should," "intends," "expects," "believes," "anticipates," "estimates" and others.



Agenda

1. Economic Update
2. Fiscal 2013 Revenue Collections Update
3. Fiscal 2013 Budget Close
4. Fiscal 2014 Budget Update
5. Transportation Financing
6. Debt / Capital & Series 2013 E
7. 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 July 2013 (based on June employment statistics), MA unemployment rate was 7.0% vs. the national average of 7.6% (July 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. 1.8% for the US

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



Economic Update

Federal Reserve Bank of Philadelphia

State Coincident Indices

As of June 2013 Data

State	(July 2012-June 2013)	(July 2008-June 2013)	State	(July 2012-June 2013)	(July 2008-June 2013)
	12-month % Change	5-Year % Change		12-Month % Change	5-Year % Change
Alabama	2.31%	-3.72%	Montana	2.45%	-0.96%
Alaska	-2.01%	-0.22%	Nebraska	1.73%	0.66%
Arizona	2.14%	-6.61%	Nevada	1.41%	-16.04%
Arkansas	1.02%	-1.96%	New Hampshire	4.00%	4.47%
California	2.85%	3.04%	New Jersey	3.38%	1.18%
Colorado	3.53%	1.34%	New Mexico	0.89%	-6.93%
Connecticut	3.09%	2.17%	New York	2.89%	5.95%
Delaware	2.29%	-4.72%	North Carolina	2.96%	-0.59%
Florida	1.76%	-3.59%	North Dakota	2.97%	32.79%
Georgia	3.21%	-0.29%	Ohio	1.62%	1.75%
Hawaii	2.06%	-3.10%	Oklahoma	1.60%	0.27%
Idaho	4.08%	-4.32%	Oregon	3.67%	1.20%
Illinois	1.80%	-1.16%	Pennsylvania	2.12%	0.82%
Indiana	2.27%	2.24%	Rhode Island	2.14%	-1.86%
Iowa	2.49%	3.33%	South Carolina	2.72%	-1.86%
Kansas	1.51%	-2.29%	South Dakota	2.62%	4.80%
Kentucky	1.20%	-0.22%	Tennessee	2.52%	3.15%
Louisiana	1.56%	0.43%	Texas	3.67%	8.15%
Maine	1.47%	-7.33%	Utah	3.17%	4.65%
Maryland	1.86%	0.97%	Vermont	2.21%	1.12%
Massachusetts	2.62%	7.73%	Virginia	1.65%	-0.04%
Michigan	3.13%	-0.82%	Washington	3.48%	0.12%
Minnesota	2.60%	4.05%	West Virginia	2.65%	1.14%
Mississippi	3.10%	1.07%	Wisconsin	2.01%	-0.31%
Missouri	2.41%	-2.79%	Wyoming	0.82%	-1.69%
United States				2.64%	4.41%

2. Fiscal 2013 and 2014 Revenue Collections Update



Fiscal 2013 Revenue Update

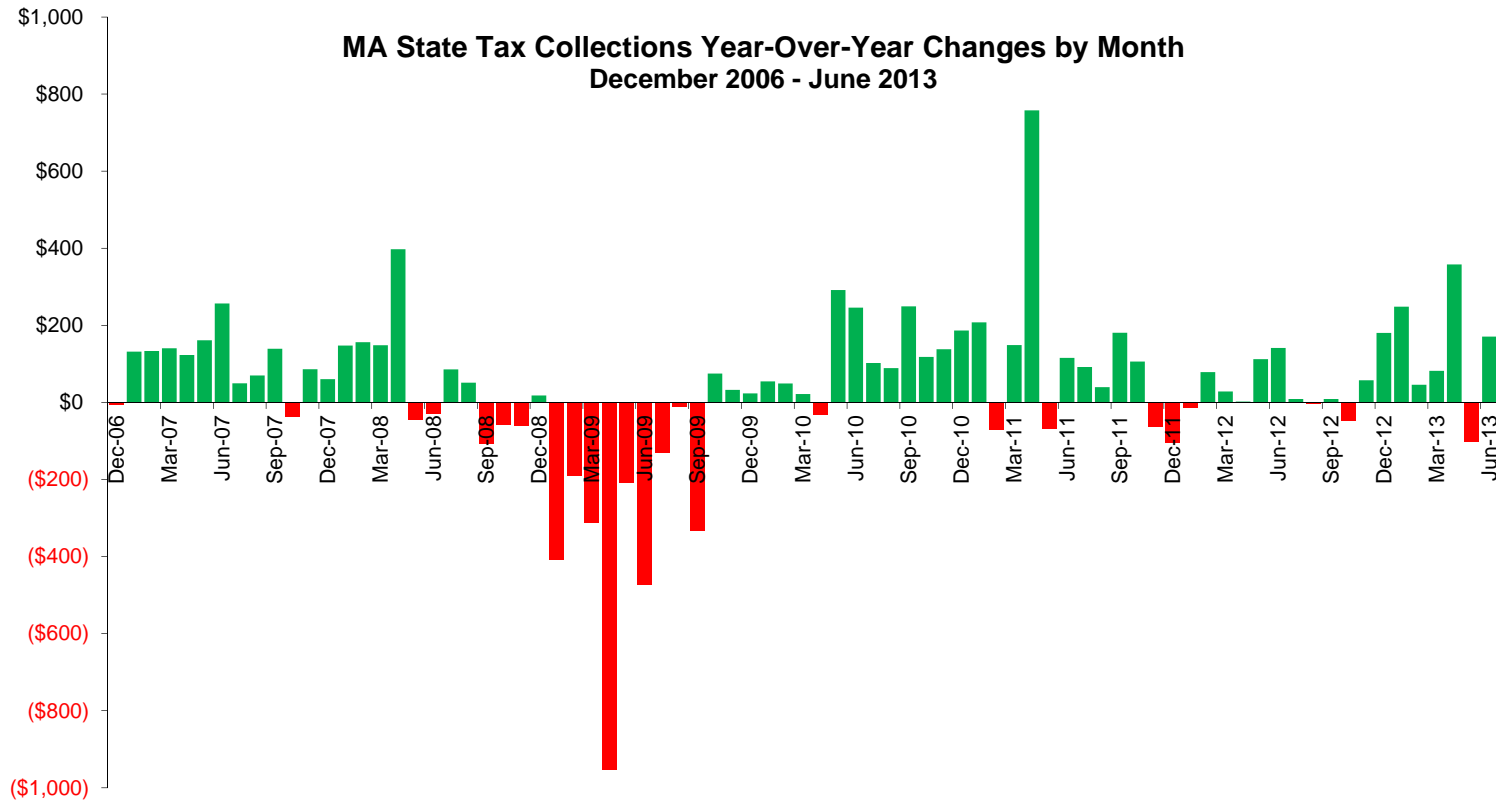
Fiscal 2013 Estimate:

- 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 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 through June 2013).



Fiscal 2013 Revenue Update

- Fiscal 2013 Tax Collections:** Preliminary fiscal 2013 tax revenues totaled approximately \$22.123 billion, an increase of approximately \$1.009 billion, or 4.8%, over fiscal 2012, \$627 million above the revised benchmark.

June 2013 Tax Collection Summary (in \$ millions)

	----- Month of June -----					----- FY13 Year-to-Date -----				
	06/13 Collections	06/13 v. 06/12 \$ Change	06/13 v. 06/12 Actual % Change	06/13 v. 06/12 Baseline % Change	06/13 \$ Above/(Below) Benchmark Based on FY13 Estimate of \$21.496 Billion	06/13 FY13 YTD Collections	06/13 FY13 YTD \$ Change	06/13 FY13 YTD Actual % Change	06/13 FY13 YTD Baseline % Change	FY13 YTD \$ Above/(Below) Benchmark Based on FY13 Estimate of \$21.496 Billion
Income - Total	1,296	61	5.0%	5.9%	9	12,831	919	7.7%	8.7%	367
Income Withholding	859	25	3.0%	4.1%	(2)	10,015	248	2.5%	3.5%	(21)
Income Est. Payments (Cash)	442	47	12.0%	12.4%	28	2,106	273	14.9%	15.4%	180
Income Returns/Bills	45	(4)	-8.2%	-7.4%	(10)	2,113	403	23.6%	24.7%	211
Income Refunds (Cash)	50	6	13.9%	14.3%	6	1,408	10	0.7%	0.8%	3
Sales & Use - Total	454	13	2.9%	4.4%	5	5,164	105	2.1%	2.4%	(12)
Sales - Regular	315	6	1.9%	2.7%	1	3,596	51	1.5%	1.7%	(1)
Sales - Meals	80	4	4.9%	6.8%	1	901	32	3.7%	4.5%	(11)
Sales - Motor Vehicles	58	3	5.9%	10.1%	3	667	21	3.2%	3.2%	(1)
Corporate & Business - Total	491	56	12.9%	13.1%	38	2,262	(58)	-2.5%	-1.0%	225
All Other	224	40	22.0%	22.2%	37	1,867	43	2.3%	2.5%	48
Total Tax Collections	2,464	171	7.4%	8.3%	89	22,123	1,009	4.8%	5.6%	627

Fiscal 2013 Revenue Update

- **Fiscal 2013 Revenues: \$627M Above Benchmark Performance:**
- **Withholding and sales taxes**
 - These taxes are current indicators of the economy -- measure the current economic performance
 - Both fell slightly below the revised benchmark (-\$21M and -\$12M, respectively)
 - Both grew very modestly (3.5%, and 2.4%, respectively); growth rate still not at the pace that was originally forecasted for FY13, but consistent with the late-2012 revenue revision
- **Tax settlements in excess of \$10M (One-time).**
 - totaled \$134M in fiscal 2013 (*explains \$109M out of the total \$225M corporate and business tax surplus since December 2012*);
 - (by statute) transferred to the Commonwealth's Stabilization Fund*



Fiscal 2013 Revenue Update

- **Fiscal 2013 Revenues: \$627B Above Benchmark Performance** (*continued from prior slide*):
- **Surge in investment-related (capital gains, dividend) income**
 - driven by federal tax law change
 - volatile/not easy to predict revenue source; one-time
 - (mostly) not tied to the current economic performance
 - capital gains tax surplus of **\$368M** (\$1.468M actual vs. \$1.1B bench. estim.)
 - by statute, the excess of \$1B (\$468M) would go to the *Stabilization Fund*
- One-time estate-tax payment in excess of \$30M
- Caution against assuming this type of performance will continue in the near future.



Fiscal 2014 Revenue Estimate

- **Fiscal 2014 Consensus Tax Revenue Estimate of \$22.334B**
 - Agreed on January 14, 2013
 - Assumed 3.9% growth from the revised fiscal 2013 estimate of \$21.496B
 - Assumed \$1.06B in capital gains tax
 - By statute, the new updated capital gains tax threshold was set at \$1.023B for fiscal 2014

- **Fiscal 2014 GAA Tax Revenue Estimate of \$22.452B (*)**
 - Consensus estimate *plus* subsequently signed incremental tax law and administrative changes as a part of the GAA budget (July 12, 2013)
 - Delay of FAS 109 deductions (\$45.9M)*
 - Amazon agreement (\$36.7M)*
 - Tax enhancements-administrative and technical provisions (\$35M)*

(*) Revenues projected to be raised by the transportation finance bill are not included in the \$22.452B GAA figure (The Legislature is expected to consider the veto during the week of July 22, 2013).



3. Fiscal 2013 Budget Update



Fiscal 2013 Budget Update

- In July 2012 Governor Patrick signed into law the fiscal 2013 budget, which called for \$32.509 billion in spending.
- Fiscal 2013 estimated spending is \$32.535 billion, less than a 1% increase over what was signed into law in the beginning of the fiscal year.
- After factoring in authorized withdrawals (\$550 million) and statutorily required deposits (\$499 million) the net withdrawal from the Commonwealth Stabilization Fund is projected to be \$51 million in fiscal 2013.
- Statutorily required deposits represent deposits of tax settlements and judgments in excess of \$10 million (\$78 million) and capital gains revenues in excess of the fiscal 2013 threshold (\$421 million).
- The recently signed fiscal 2014 budget provides that \$85 million of a potential fiscal 2013 surplus is to go to a handful of one-time items, such as the Massachusetts Community Preservation Trust Fund (\$25 million), Massachusetts Life Sciences Investment Fund (\$19.5 million) and to the Housing Stabilization Trust Fund (\$10 million).
- The Governor typically files “year-end” supplemental budget legislation in mid-to-late July with Legislature enacting such legislation in the fall.



4. FY2014 Budget Update



Fiscal 2014 Budget Update

- On July 12, 2013 Governor Patrick signed into the law the FY 2014 budget, totaling \$33.667 billion after accounting for \$435.4 million in vetoes and accompanying fiscal 2014 legislation proposed by the Governor that included \$40.0 million in supplemental appropriations.
- This equates to approximately 3.5% growth over Fiscal Year 2013 spending levels.
- Approximately \$417.1 million of the line item vetoes (\$240 million to transportation line items and \$177.1 million to unrestricted general government aid) is to ensure that the budget is in balance in light of the currently unresolved status of the transportation finance legislation which raises revenue to support transportation and other budget needs.
- Governor Patrick also amended an outside section in the budget to expand the “bottle bill” to include bottled water and non-carbonated soft drinks, which would generate an estimated \$22 million in fiscal 2014.
- This additional revenue when combined with the \$18.3 million in non-transportation and unrestricted general government aid vetoes would provide sufficient resources to support the \$40 million fiscal 2014 supplemental budget legislation.



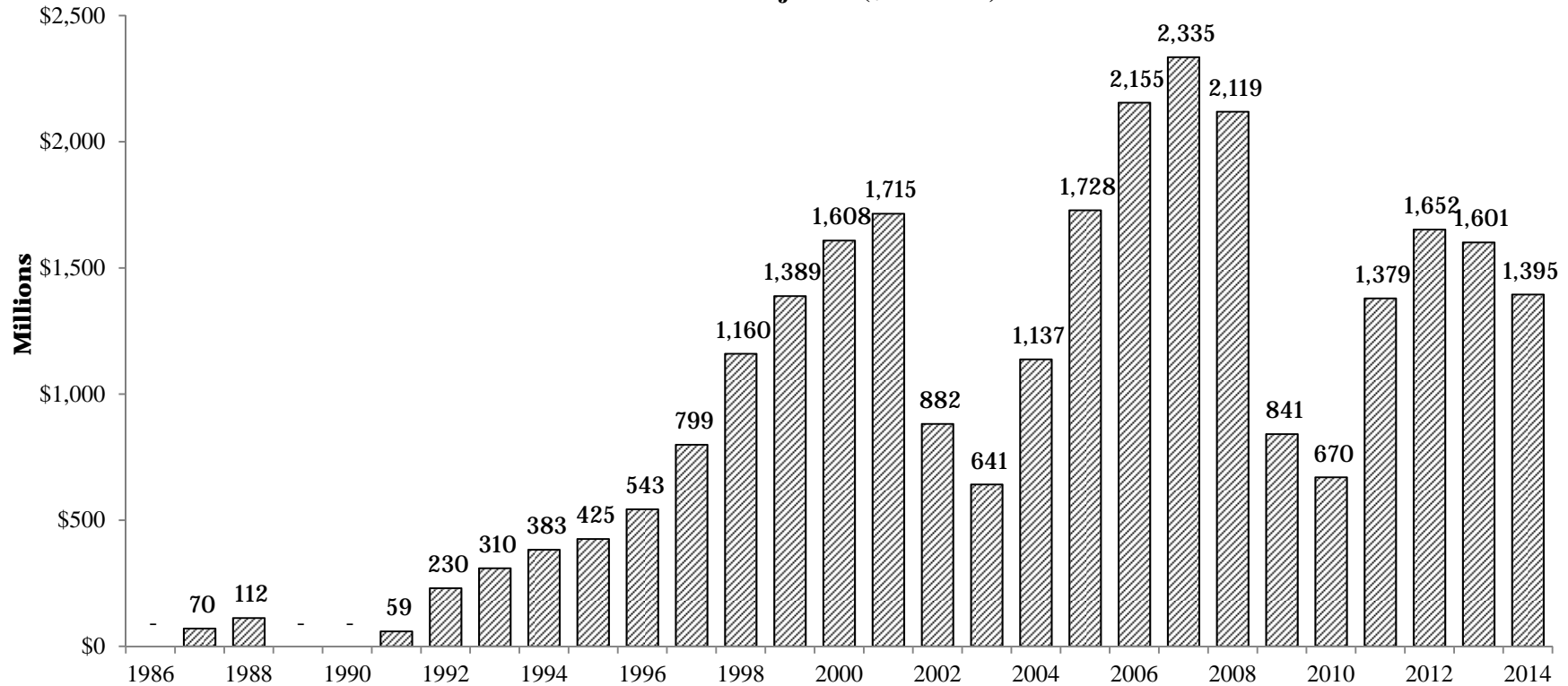
Fiscal 2014 Budget Update

- Total one-time resources adopted in the budget totaled \$696 million, less than the fiscal 2013 assumption of \$920 million.
- Fiscal 2014 one-time resources include:
 - a \$350 million withdrawal from the Stabilization Fund
 - using debt service reversions instead of tobacco settlement proceeds to fund the scheduled fiscal 2014 OPEB fund deposit (\$51 million)
 - redirecting \$35 million in projected one-time tax settlements and judgments to the General Fund that would otherwise be statutorily required to be deposited to the Stabilization Fund.
- The net Stabilization Fund withdrawal, after accounting for projected deposits of capital gain revenues and tax settlements, is \$207 million.
- The fiscal 2014 Stabilization Fund ending balance, based on fiscal 2013 year-to-date deposits and withdrawals and those assumed in the fiscal 2014 budget, is projected to be \$1.395 billion.



The Commonwealth of Massachusetts - Reserves

**Stabilization Fund Balance Fiscal Year End
1986 - 2014 Projected (\$ millions)**



5. Transportation Finance Legislation



Transportation Finance Legislation

- The fiscal 2014 budget, as enacted by the Legislature, relies upon approximately \$439 million in new tax revenues included in the transportation finance legislation, the bulk of which the Legislature does not specifically dedicate to transportation:
 - Increasing the motor fuels tax by 3¢ and indexing it to the rate of inflation (\$95 million)
 - Increasing the excise tax on tobacco products (\$144 million)
 - Applying the sales tax to computer systems design services and to the modification of prewritten software (\$150 million)
 - And making certain changes to the corporate excise (\$50 million).
- \$240 million of the \$439 million would go to transportation to support:
 - Elimination of the MBTA's fiscal 2013 deficit (\$115 million)
 - Forward Funding of the Regional Transit Authorities (\$78 million)
 - To support moving MassDOT operating costs off of the capital budget and certain transportation service enhancements (\$47 million)
- The School Building Authority, as a function its sales tax funding formula, would receive \$22.5 million of the additional tax revenue, with the remainder (\$177 million) supporting other budgetary purposes.



Transportation Finance Legislation

- On June 26, 2013, the Legislature enacted transportation finance legislation projected to raise \$805 million in additional annual resources for transportation by fiscal 2018 by:
 - The aforementioned 3¢ increase and indexing of the gas tax (\$157 million),
 - Mandating a combination of reforms, efficiencies and increases in fares, fees and tolls at MassDOT and the MBTA (\$354 million),
 - Shifting motor sales tax collections currently dedicated to the General Fund to the Commonwealth Transportation Fund while also redirecting the 0.385% of regular and meals sales tax that is currently dedicated to the Commonwealth Transportation Fund to the General Fund (\$170 million),
 - Dedicating the revenue from the existing underground storage tank fee to transportation (\$84 million)
 - Requiring a transfer from the General Fund (\$40 million).



Transportation Finance Legislation

- The Governor returned the legislation to the Legislature with an amendment that would offset the amount of revenue lost from the scheduled discontinuance of the western turnpike tolls in calendar 2017 with an increase in the gas tax. The provision would only be triggered if and to the extent the toll revenues are reduced.
- The revenue loss should the western turnpike tolls come down in calendar 2017 is estimated to be \$135 million.
- On July 18, 2013 the Legislature rejected the Governor's amendment and returned essentially the same bill to the Governor.
- The Governor vetoed the bill the following day.
- The Legislature is expected to consider the veto this week (week of July 22nd).



6. Debt & Capital Update



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 2014, the STO is preparing to borrow \$3.162 bn in FY14
- This is broken down by the following:
 - \$2.48 bn General Obligation bonds (\$2 bn Bond Cap, \$151.9 mm project financing, and \$330 mm carried over from FY13)
 - \$680.4 mm Special Obligation bonds for the Accelerated Bridge Program (CTF bonds and GANs)
- The STO has completed its FY14 Plan of Finance, which outlines the expected schedule, structure and sizing of each new-money borrowing in the fiscal year
- To continue funding capital budget needs, the STO is selling \$600 mm of tax-exempt G.O. bonds at the end of July
- Bonds will be sold on a competitive basis
- The STO expects to issue bonds for the Accelerated Bridge Program in October 2013



Debt / Capital

- For 2013 Series E G.O. 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
- Even though long-term rates have moved significantly higher since the beginning of May, interest rate levels in the 20 year to 30 year range remain below historic averages
- The STO continues to structure new-money borrowings to meet two objectives:
 - To follow the preferred principal amortization structure as outlined in the Executive Office for Administration & Finance's Five Year CIP & Debt Affordability Plan; and
 - To smooth debt service repayment schedules as much as possible to create a stable cash flow for the Commonwealth
- The structuring of principal is being done over the five-year span of the current capital plan
- So if/when the yield curve rises and/or steepens over the five-year period, the STO will structure future bond financings with much shorter durations, including floating rate bonds
- If the yield curve declines and/or flattens, the STO will look to extend duration through the issuance of more long fixed-rate bonds



Debt / Capital

- The \$600 mm Series 2013 E borrowing structures \$80 mm of bonds from 2023 to 2026
- The long borrowing includes \$520 mm in borrowing from 2032 to 2043
- Bonds will be sold on a competitive basis
- Bonds are being structured with an 8-year call

This Preliminary Official Statement and the information contained herein are subject to completion, amendment, deletion or withdrawal. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of any offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.

RATING AGENCY DRAFT 07/24/13

OFFICIAL NOTICE OF SALE AND PRELIMINARY OFFICIAL STATEMENT DATED JULY 24, 2013

NEW MONEY ISSUE - BOOK-ENTRY-ONLY

In the opinion of Edwards Wildman Palmer LLP, Bond Counsel, based upon an analysis of existing law and assuming, among other matters, compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under the Internal Revenue Code of 1986. Interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Under existing law, interest on the Bonds and any profit made on the sale thereof are exempt from Massachusetts personal income taxes, and the Bonds are exempt from Massachusetts personal property taxes. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. See "TAX EXEMPTION" herein.

THE COMMONWEALTH OF MASSACHUSETTS



\$600,000,000*
General Obligation Bonds
Consolidated Loan of 2013, Series E

Dated: Date of Delivery

Due: As shown on the inside cover hereof

The Bonds will be issued by means of a book-entry-only system evidencing ownership and transfer of the Bonds on the records of The Depository Trust Company, New York, New York ("DTC"), and its participants. Details of payment of the Bonds are more fully described in this Official Statement. The Bonds will bear interest from their date of delivery and interest will be payable on March 1, 2014 and semiannually thereafter on September 1 and March 1 and at maturity, calculated on the basis of a 360-day year of twelve 30-day months. The Bonds are subject to redemption prior to maturity as more fully described herein.

The Bonds will constitute general obligations of The Commonwealth of Massachusetts (the "Commonwealth"), and the full faith and credit of the Commonwealth will be pledged to the payment of the principal of and interest on the Bonds. However, for information regarding the statutory limit on state tax revenue growth, see "SECURITY FOR THE BONDS" (herein) and the Commonwealth Information Statement (described herein) under the heading "COMMONWEALTH REVENUES AND EXPENDITURES - Limitations on Tax Revenues."

The Bonds are offered when, as and if issued and received by the original purchasers, and subject to the unqualified approving opinion as to legality of Edwards Wildman Palmer LLP, Boston, Massachusetts, Bond Counsel. Certain legal matters will be passed upon for the Commonwealth by Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., Boston, Massachusetts, Disclosure Counsel. Public Resources Advisory Group is acting as financial advisor to the Commonwealth in connection with the issuance of the Bonds. Settlement of the issue is expected at DTC in New York, New York, on or about August 7, 2013.

The Bonds are offered on a competitive sale basis as described herein under "COMPETITIVE SALE OF BONDS" and pursuant to the Official Notice of Sale dated July 24, 2013 and attached hereto as Appendix D.

July __, 2013

* Preliminary, subject to change.



Debt / Capital

- The STO continues to focus on a number of debt management priorities in FY14:
 - Assisting with the completion of the Commonwealth first-ever statutorily-required debt affordability analysis (per the new Capital Debt Affordability Committee)
 - Continue to coordinate debt management decisions with asset management decisions to optimize the state's balance sheet from an Asset Liability Management perspective to reduce interest rate risk
 - Proactively looking for areas where counterparty risk can be reduced through the replacement of existing counterparties who've been downgraded
 - Within the interest rate swap portfolio, this includes replacing Citi and Bank of America Merrill Lynch as swap counterparties
 - Re-constituting the Commonwealth's Commercial Paper Program
 - Ensuring the Commonwealth's operating cash position remains sufficient and robust through timely cash-flow borrowing
 - New local aid distribution schedule
 - Continue to diversify the Commonwealth's investor base, diversifying its capital structure
 - Continue to strive to be a leader in investor disclosure in the municipal marketplace



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



7. Questions & Follow-Up

