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www.massbondholder.com



The Commonwealth of Massachusetts Bond Financing Programs

February 2016

Credit Review & Transaction Update

2016 Series A

2016 Refunding Series A

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TREASURER

DEBORAH B. GOLDBERG



GOVERNOR CHARLES D. BAKER



Economic Update

Wealth Measures

- 2014 Per Capita Income in Massachusetts was \$58,737, or 128% of the US average
- Second highest measure in the country for 2014

Unemployment

- Massachusetts' state unemployment rate for December 2015 was 4.7% vs. the national average of 5.0% and the December 2014 MA rate of 5.3%, representing an over-the-year change of -0.6%
- According to the Mass Exec. Office of Labor & Workforce Development, as of the December figures, the Commonwealth has added 73,800 jobs with nearly 60% of that increase coming from Professional, Scientific and Business Services and Education and Health Services. 7,100 jobs were added during the month.

Economic Output

- 2015 Real GDP compounded growth estimate for the US at 2.4%
- While 2015 MA-specific numbers are not yet available, revised data show that the Massachusetts economy grew at a faster pace than the US in all four quarters of 2015
- For the most recent quarter (Q4 of calendar year 2015), real MA GDP is estimated to have grown at an annualized rate of 1.3% vs. 0.7% for the US



Department of Revenue

Kazim P. Özyurt

Chief Economist

Director, Office of Tax Policy & Analysis



FY16 Estimate:

- 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 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
 - This rate reduction was actually certified by the Commissioner of Revenue on December 15, 2015.



FY16 Estimate:

- The General Appropriations Act (GAA) budget, approved on July 17, 2015, assumed an estimate of \$25.611B, with a growth of 2.7% actual, 3.3% baseline.
- The change from Consensus estimate of \$25.479B was due to subsequently enacted tax law and administrative changes.
 - But 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
 - A new target for the tax- and non-tax-related judgment & settlement payments in excess of \$10M each:
 - \$125M (vs. five-year average \$267M).
- On January 14th, 2016, the FY16 estimate was increase by \$140M to \$25.751 billion.



FY17 Consensus Tax Revenue Estimate \$26.86B

- FY17 revenue **hearing** - held on December 16, 2015
- On January 14, 2016, W&M Chairs and A&F Secretary **agreed** to the Consensus Estimate of \$26.86B
- Assumes growth of 4.3% from the revised FY16 estimate of \$25.751B
- Assumes capital gains tax of \$1.484B vs. cap gains tax threshold of \$1.128B
- Assumes, through a trigger process, State's personal income tax rate would be reduced from 5.10% to 5.05%, effective January 1, 2017



FY16 Year-to-Date Tax Collections Update

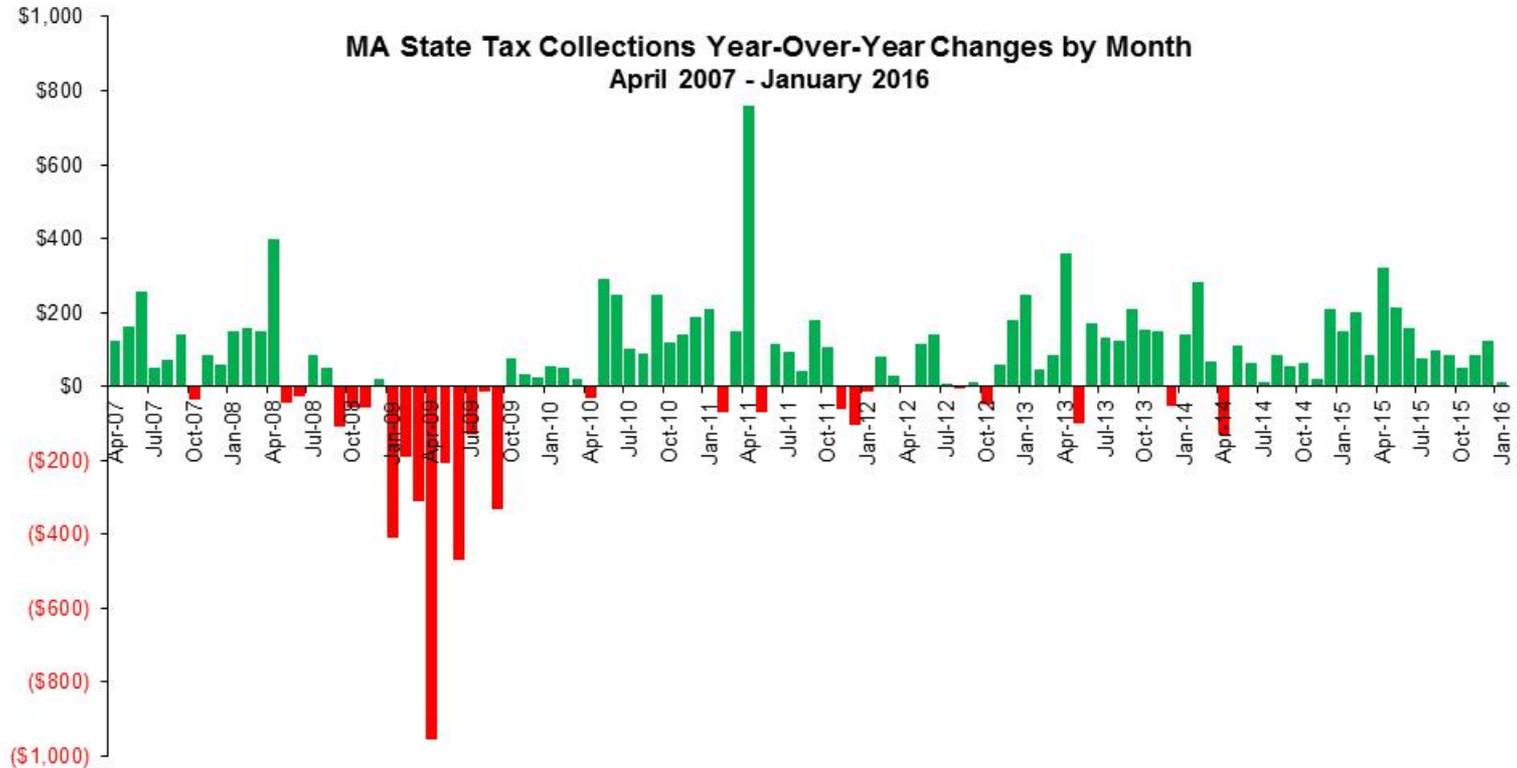
Recap of FY15 performance:

- (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

January 2016 Tax Collection Summary (in \$ millions) (Preliminary as of February 3, 2016)

	----- Month of January -----					----- FY16 Year-to-Date -----				
	01/16 Collections	01/16 v. 01/15 \$ Change	01/16 v. 01/15 Actual % Change	01/16 v. 01/15 Baseline % Change	01/16 \$ Above/(Below) Benchmark Based on FY16 Estimate of \$25.751 Billion	01/16 FY16 YTD Collections	01/16 FY16 YTD \$ Change	01/16 FY16 YTD Actual % Change	01/16 FY16 YTD Baseline % Change	FY16 YTD \$ Above/(Below) Benchmark Based on FY16 Estimate of \$25.751 Billion
Income - Total	1,788	45	2.6%	4.6%	20	8,376	299	3.7%	5.2%	20
Income Withholding	1,074	123	12.9%	10.8%	91	6,635	311	4.9%	5.8%	91
Income Est. Payments (Cash)	711	(88)	-11.0%	-4.1%	(81)	1,706	22	1.3%	1.9%	(81)
Income Returns/Bills	32	3	12.0%	12.5%	4	308	1	0.2%	16.4%	4
Income Refunds (Cash)	30	(5)	-14.1%	-14.1%	(5)	274	35	14.7%	14.7%	(5)
Sales & Use - Total	578	25	4.6%	5.4%	(6)	3,626	198	5.8%	6.5%	(6)
Sales - Regular	437	17	4.1%	4.4%	(6)	2,501	122	5.1%	5.6%	(6)
Sales - Meals	86	6	7.8%	8.5%	1	644	36	6.0%	7.5%	1
Sales - Motor Vehicles	55	2	3.5%	8.8%	(1)	482	40	9.0%	9.6%	(1)
Corporate & Business - Total	37	22	142.4%	143.4%	22	958	56	6.2%	6.3%	22
All Other	184	17	10.4%	6.7%	11	1,319	67	5.4%	4.9%	11
Total Tax Collections	2,588	110	4.4%	5.8%	48	14,279	621	4.5%	5.6%	48
<i>Tax-Related Settlements & Judgments Exceeding \$10 Million Each</i>	(NOT included in the January and YTD collections figures above. January 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)	2,588	12	0.5%	1.8%		14,306	526	3.8%	4.8%	
Corporate & Business - Total (Including tax-related settlements & judgments)	37	(2)	-4.2%	-3.8%		985	35	3.7%	3.8%	
Income Returns/Bills (Including tax-related settlements & judgments)	32	(70)	-68.6%	-68.5%		308	(73)	-19.2%	-6.2%	



FY16 Year-to-Date Tax Collections Update

- Revenue collections continued to grow at a moderate pace during the first seven months of FY16
- Fiscal 2016 tax collections (excluding tax related settlements and judgments exceeding \$10 million each) through January
 - totaled approximately \$14.279 billion,
 - an increase of \$621 million, or 4.5%, over the same period in fiscal 2015,
 - \$48 million above the revised year-to-date benchmark corresponding to the new FY16 estimate of \$25.751 billion.
- Most of the year-to-date surplus was due to
 - better than expected
 - withholding tax and corporate & business tax collections,which were partly offset by
 - below benchmark performances in
 - income estimated payments, and sales tax collections



FY16 Year-to-Date Tax Collections Update

- Year-to-date **withholding**: \$6.6B, +\$311M, +4.9% actual, +5.8% baseline, \$91M above benchmark. Some of the YTD increase is probably timing related.
- Year-to-date **income tax cash estimated payments**: \$1.7B, +\$22M, +1.3% actual, +1.9% baseline, \$81M below benchmark.
- Year-to-date **income tax payments with bills and returns**: \$308M, +\$1M, +0.2% actual, +16.4% baseline, \$4M above benchmark.
- Year-to-date **income tax cash refunds**: \$274M, +\$35M, \$5M below benchmark.
- Year-to-date **sales & use tax** collections: \$3.6B, +\$198M, +5.8% actual, +6.5% baseline, \$6M below benchmark.
- Year-to-date **corporate and business** tax collections: \$958M, +\$56M, +6.2% actual, +6.3% baseline; \$22M above benchmark.
- “**All Other**” tax categories (including estate tax): \$1.3B, +\$67M, and \$11M above benchmark.



Executive Office for Administration & Finance

Jennifer Sullivan

*Assistant Secretary for
Capital Finance*

Aaron D'Elia

Director of Finance



- The fiscal 2016 budget was approved by the Governor in July, 2015.
- 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 estimate, on which the budget was based, projected fiscal 2016 tax revenue growth of approximately **4.8%** over fiscal 2015.



Fiscal Year 2016 Mid-Year Adjustments

- On January 14, 2016, the Secretary for Administration and Finance revised the fiscal 2016 tax revenue estimate upwards by \$140 million, from \$25.611 billion to a revised estimate of \$25.751 billion.
- On the same day, the Governor reduced fiscal 2016 spending pursuant to Section 9C authority by \$49 million.
- The Governor also identified additional revenue solutions (non-tax) worth \$56 million.
- Tax revenue receipts through the end of January were an additional \$48 million over the revised consensus estimate.
- Based on these events and other trends and circumstances, the Executive Office for Administration and Finance currently projects that the fiscal 2016 budget is substantially in statutory balance.



Fiscal Year 2016 Outlook

- On February 12, 2016, the Governor filed a supplemental budget for fiscal 2016, including \$169.5 million in supplemental appropriations.
- The bill consists of routine mid-year appropriations for previously recognized deficiencies, including:
 - emergency assistance and shelter diversion costs (\$44 million)
 - representation of indigent defendants (\$40 million)
 - sheriffs (\$28 million)
 - collective bargaining (\$16 million)
 - settlements and judgments (\$13 million)
- Additional supplemental appropriations may be required in fiscal 2016 to close the year in statutory balance, as required under state finance law.
- The Administration will continue to monitor actual and forecasted spending and revenues, and will undertake budget-balancing measures to achieve fiscal balance as needed.



Fiscal Year 2017 Budget Overview

- The Governor filed his fiscal 2017 budget proposal on January 27, 2016.
- The fiscal 2017 budget proposal was approximately **\$39.6 billion**, or **3.5% greater** than fiscal 2016 general appropriation act spending.
- The fiscal 2017 consensus tax revenue estimate, on which the budget was based, projected tax revenue growth of approximately **4.3%** over the revised fiscal 2016 tax revenue estimate.



Fiscal Year 2017 Budget Proposal

- The fiscal 2017 budget proposal makes progress towards eliminating the structural deficit and aligning spending with recurring revenue.
- It holds MassHealth growth to 5%, a more sustainable level.
- It does not increase fees or taxes to support spending.
- It anticipates a deposit of at least \$206 million into the Stabilization Fund.
- It anticipates a reduction in the income tax rate from 5.10 to 5.05%.
- It continues investment in priorities such as addressing substance abuse, protecting vulnerable children, and supporting local aid and schools.
- We expect the legislative process to move forward on the budget in coming months and expect a general appropriation act sometime around the start of the fiscal year or a short time thereafter, in keeping with previous years.



Capital Budget Process

- The Administration is currently working on its five-year capital plan for the fiscal years 2017 through 2021.
- The Executive Office for Administration and Finance is working within the Commonwealth's existing debt affordability framework in developing the capital plan.
- In December, the Debt Affordability Committee recommended an administrative bond cap of up to \$2.190 billion.
- The fiscal 2017 capital budget is expected to be released by the end of May.



Review of the 2015 Commonwealth Pension Actuarial Valuation Report

James Lamenzo

Actuary

Public Employee Retirement Administration Commission



Retirement Systems Membership

Retirement Systems Membership

	<u>MSERS</u>	<u>MTRS</u>
Retirees and beneficiaries currently receiving benefits	57,774	62,312
Terminated employees entitled to benefits but not yet receiving them	4,340	N/A
Subtotal	62,114	62,312
Current Members	88,508	90,070
Total	150,622	152,382

Employee Contribution Rates

<u>MSERS (1)</u>			
<u>Hire Date</u>	<u>% of Compensation (1)</u>	<u>Active Members</u>	<u>% of Total Active</u>
Pre-1975	5%	884	1.0%
1975-1983	7	5,738	6.5
1984-June 30, 1996	8	20,073	22.7
July 1, 1996-Present	9	61,221	69.2
State Police 1986 - Present	12	592	0.7
Totals		88,508	100.0%

<u>MTRS (2)</u>			
<u>Hire Date</u>	<u>% of Compensation (1)</u>	<u>Active Members</u>	<u>% of Total Active</u>
Pre-1975	5%	250	0.3%
1975-1983	7	784	.9
1984-June 30, 1996	8	8,092	9.0
July 1, 1996-Present	9	14,990	16.6
July 1, 2001-Present	11	65,954	73.2
Totals		90,070	100.0%

(1) Employees hired after January 1, 1979 contribute an additional 2% of any regular compensation in excess of \$30,000 annually.

(2) Employees hired after January 1, 1979 (except those contributing 11%) contribute an additional 2% of any regular compensation in excess of \$30,000 annually. Legislation enacted in fiscal 2000 established an alternative superannuation retirement benefit program for teachers hired on or after July 1, 2001 (and others who opt in) with an 11% contribution requirement for a minimum of five years. The contribution rate for most employees hired after April 1, 2012 will be reduced to 6% after 30 years of creditable service.



Funding Schedule

- Prior to 1990, pay as you go
- Original schedule 40 years (to 2028)
- Schedule updated at least every 3 years
- In good times, schedule reduced (2018); later extended to 2023 then 2025
- In wake of 2008 loss, schedule extended to 2040 / Provides responsible relief
- Latest funding schedule adopted in January 2014 (based on valuation as of January 2013)
 - Appropriation increases of 10% each year until fiscal 2017 with 7% increases thereafter until the final amortization payment in fiscal 2036
 - Next funding schedule due early 2017 and is expected to be based on January 2016 valuation

Current Funding Schedule for Pension Obligations (in thousands) (1)

Fiscal Year	Payments	Fiscal Year	Payments
2015	\$1,793,000	2027	\$4,267,000
2016 (2)	1,972,000	2028	4,566,000
2017 (3)	2,169,000	2029	4,886,000
2018	2,321,000	2030	5,228,000
2019	2,483,000	2031	5,594,000
2020	2,657,000	2032	5,986,000
2021	2,843,000	2033	6,405,000
2022	3,042,000	2034	6,853,000
2023	3,255,000	2035	7,333,000
2024	3,483,000	2036	4,436,342
2025	3,727,000	2037	835,369
2026	3,988,000		

- (1) Excludes the impact of the early retirement incentive program adopted in fiscal 2015 and to be reflected in the January 2016 actuarial valuation.
- (2) The fiscal 2016 budget includes an additional \$29.1 million appropriation (in addition to the \$1.972 billion paid according to the schedule) to defray costs associated with the employee retirement incentive program.
- (3) Legislation approved in August 2015 mandates a fiscal 2017 appropriation of \$2,198,092,616, reflecting a \$29.1 million increase to defray costs associated with the employee retirement incentive program.



Commonwealth Actuarial Valuation Results (in millions)

- January 1, 2015 report released August 28, 2015
 - Available on the website www.mass.gov/perac

Dollars in millions	1/1/13	1/1/14	1/1/15
Total Normal Cost	\$1,372	\$1,428	\$1,590
Employee Contributions	<u>\$1,058</u>	<u>\$1,100</u>	<u>\$1,158</u>
Net Normal Cost	\$ 314	\$ 328	\$ 431
Actuarial Liability	\$71,866	\$74,937	\$81,535
Assets (Actuarial Value)	<u>\$43,517</u>	<u>\$45,894</u>	<u>\$48,106</u>
Unfunded Actuarial Liability (UAL)	\$28,348	\$29,043	\$33,429
Increase in UAL	1/12 – 1/13	1/13 – 1/14	1/14 – 1/15
Change in Assumptions *	\$1,640	\$218	\$3,458
Asset loss/(gain)	2,778	(957)	(610)
Other loss/(gain) on AL, increasing amortization basis	<u>325</u>	<u>1,434</u>	<u>1,538</u>
Total Increase in UAL	\$4,743	\$695	\$4,386

* The January 1, 2015 actuarial valuation reflected a decrease in the investment return assumption from 8.0% to 7.75%. Prior to January 1, 2013 valuation, an 8.25% investment return assumption was used. For the January 1, 2013 and January 1, 2014 valuations, an 8.0% investment return assumption was used. The January 1, 2015 actuarial valuation also reflected a fully generational mortality assumption that takes into account all expected future mortality improvements (increasing life expectancy).



Actuarial Assumptions

- Adopted 8.0% investment return assumption in 1/13 valuation (previously 8.25%)
- Adopted 7.75% for 1/15 valuation
 - \$1.8 billion increase in UAL
- Recommended assumption for 1/16 valuation is 7.50%
- Adopted fully generational mortality assumptions in 1/15 valuation
 - \$1.7 billion increase in UAL
 - 2-dimensional table reflects both calendar year and age
 - Mortality improvement gradually reflected since 2011 – static projections
 - Final step to fully generational
 - Most recent analysis of retiree mortality – 1/12-1/15
 - RP-2014 table used for Teachers'
 - RP-2000 table better match for State experience
- Other assumptions determined by experience studies
 - State and Teachers' studies completed (released in 2014)



Office of the State Comptroller

Thomas Shack

Comptroller

Howard Merkowitz

Deputy Comptroller



Comptroller's Obligation

- M.G.L. c. 7A – Independent and apolitical overseer of the Commonwealth's fiscal administration;
- As part of this responsibility we oversee the financial audits of the Commonwealth
- More information is available at: www.mass.gov/ctr



- On February 16, 2016, the Comptroller released an interim FY15 Draft Unaudited Financial Report in lieu of the FY15 CAFR;
- The report is complete in all material respects;
- We expect to issue the final FY15 CAFR once corresponding financial reports are available from MassDOT and the MBTA



Why the Delay?

- MBTA Retirement Fund (MRF) is a private trust which receives substantial public funds and must report assets and liabilities to the MBTA but is not controlled by the Commonwealth;
- MBTA audited financial statements utilized by MassDOT and the MassDOT audited financial statements utilized by the Commonwealth in its CAFR;
- June 2015, issues raised by external investigative group relative to the value of certain MRF pension-related assets and the accuracy of the calculation of its liabilities;
- December 2015, the Fund's board of directors engaged an independent firm to investigate these allegations, and that investigation is continuing.



Expected Outcomes

- It is not known when the internal investigation will be concluded;
- Once the investigation is complete and audited, MRF should issue its audited financials to the MBTA;
- MBTA will issue its audited financial statements, MassDOT will issue its audited financial statements and the Commonwealth will issue the FY15 CAFR.



Statutory Basis Financial Report (SBFR)

- Budgetary basis – cash receipts and expenditures, including two months account payable and receivable period; excludes trust funds and most activity of so-called business-type activities such as unemployment and the Institutions of Higher Education
- Also excludes “component units” such as Massachusetts School Building Authority (MSBA), some of the Massachusetts Department of Transportation (MassDOT), and Massachusetts Development Finance Agency (MassDevelopment)
- SBFR determines whether the budget is balanced according to state finance law. Determines the calculation of the “consolidated net surplus” and the end of year transfer to the Stabilization Fund



Comprehensive Annual Financial Report (CAFR) – Fund Perspective

- Similar focus to the SBFR in terms of fund coverage, but also includes trust funds not covered in the SBFR, and MSBA is incorporated into the statements as a blended component unit
- Purpose is to measure a government's ability to meet obligations from currently available resources
- Uses a “modified accrual” basis of accounting, which is GAAP compliant, and takes into account short-term accruals (within one year). No long-term accruals or capital assets, depreciation, or adjustment for pension or OPEB liabilities



CAFR Government-Wide Perspective

- Treats government according to accounting rules similar to private business
- Includes business-type activities such as Unemployment Insurance and the Institutions of Higher Education within the Commonwealth's net position (formerly net assets)
- Full accrual accounting for long-term assets and liabilities, including long-term debt, pensions, OPEB, capital assets, and compensated absences
- Includes so-called "component units" such as MassDOT, Health Insurance Connector, and the Water Pollution Abatement Trust that have a close relationship to the Commonwealth



FY2015 Financial Results – Statutory Basis

- FY15 operating gain of \$120 million in the budgeted funds
- Budgeted fund ending balance of approximately \$1.571 billion
- Total budgeted fund revenue increased by \$2.775 billion, or 6.2%
- Budgeted fund tax revenue up \$1.352 billion, or 6.2%, from FY14, due to continued strong growth in the Massachusetts economy as well as an increase in capital gains taxes.
- Total budgeted fund expenditures and other uses totaled \$38.116 billion, up \$2.231 billion, or 6.2%
 - Medicaid expenditures totaled \$13.655 billion, up \$1.754 billion, or 14.7% due to increased enrollment resulting from the federal Affordable Care Act (ACA) and shifting of enrollees to the Medicaid program due to problems with the Health Connector web site



FY2015 Financial Results – Statutory Basis (continued)

- Debt service up \$68 million, or 3.2%, with growth attributable mainly to borrowing for the Commonwealth's road and bridge program
- Between 6/30/14 and 6/30/15, number of FTEs grew by 1,300 to 87,760, but on June 30, 2015 approximately 2,478 employees took advantage of an early retirement program, so as of July 1, 2015, the number of FTEs was lower by that amount.
- Net increase of \$4 million in Stabilization Fund balance in FY15 -- \$140 million was withdrawn early in FY15 per the FY15 enacted budget, but \$144 million was deposited during the fiscal year, including \$124 million due to the year-end surplus



FY2015 Financial Results – Statutory Basis (continued)

FY15 Stabilization Fund Activity (in \$ Thousands)

Stabilization Fund Balance as of July 1, 2014	\$1,248,435
Transfer to General Fund per FY15 Enacted Budget	(140,000)
Certain Lottery Withholding Taxes	487
Reimbursement of Gaming Startup Costs from Casino Licenses	20,000
FY15 Surplus Deposited in Stabilization Fund	123,507
Stabilization Fund Balance as of June 30, 2015	<u>\$1,252,429</u>



New GASB Pension Accounting Standards

- In June 2012, the Governmental Accounting Standards Board (GASB) issued two new pension accounting standards, GASB 67 and GASB 68
 - Statements relate to reporting and accounting for defined benefit pension plans only, and do not address how plans are to be funded
- GASB 67, *Financial Reporting for Pension Plans*, effective with FY14 CAFR, makes changes to valuation methods and reporting requirements for defined benefit pension plans (e.g., the Commonwealth's Pension Reserves Investment Fund, or PRIT)
 - GASB 67 was implemented in FY14 CAFR



New GASB Pension Accounting Standards

GASB 68, Accounting and Financial Reporting for Pensions, effective for FY15 CAFR, affects the way governments account for and report defined benefit pension plans

- Requires full amount of unfunded liability (“net pension liability”) to be brought onto the Commonwealth’s balance sheet; that liability was \$24.532 billion not including Higher Education and Unemployment Insurance)
- Previously, only the “net pension obligation” – the cumulative Annual Required Contribution (ARC) shortfall – was recorded as a liability – that liability was \$2.219 billion in FY14
- Net pension liability is now be based on market value of assets, rather than using an asset smoothing methodology



FY2015 Financial Results – GAAP Basis (Unaudited Draft CAFR)

Governmental Funds – Fund Perspective

- Balance in the Governmental Funds was \$5.305 billion, an increase of \$686 million from FY14
- FY15 governmental fund revenues and other financing sources totaled \$60.659 billion, an increase of \$3.449 billion, or 6.0%, from FY14
- FY15 governmental fund expenditures and other financing uses totaled \$59.973 billion, an increase of \$2.512 billion, or 4.4% from FY14



FY2015 Financial Results – GAAP Basis (Unaudited Draft CAFR) (Continued)

- The MSBA fund balance of \$1.521 billion is blended into the Commonwealth's fund statements. Primary difference between the statutory basis balance and the CAFR governmental funds perspective is the balance in the MSBA and in trust accounts
- Medicaid expenses increased by 7.5% due to increased enrollment, rate adjustments and utilization. (The difference from budgetary fund and CAFR Medicaid growth rates – 14.7% vs. 7.5% -- has to do mainly with non-budgeted fund Medicaid accounts related to universal health care.)



Government-Wide Perspective

- “Net Position” of the Commonwealth’s primary government was negative \$49.561 billion (i.e., liabilities exceeded assets), an increase of \$2.171 billion in the net deficit excluding the impact of GASB 68
- Net position for governmental activities (i.e., excluding business-type activities) was negative \$54.853 billion. In addition to the \$24.5 billion net pension liability and \$5.6 billion OPEB liability, net position is negative primarily because Commonwealth has financed assets owned by other entities
 - \$6.128 billion net liability for debt and grant liabilities for local school systems through MSBA
 - MassDOT currently has an unaudited positive net position of \$24.789 billion mainly due to assets paid for by the Commonwealth



FY2015 Financial Results – Government-Wide Perspective (Unaudited Draft CAFR) (Continued)

- In FY15, approximately \$2.2 billion of the Commonwealth's \$2.8 billion in capital spending was for assets that are not owned by the Commonwealth, including:
 - \$1.1 billion in FY15 for transportation assets, \$8.6 billion since FY05
 - \$176 million in FY15 for Higher Education Institutions, \$1.4 billion since FY05 (Higher Education is part of primary government, but not included in governmental activities)
- \$349 million in FY15 for transportation assets owned by cities and towns, \$2.4 billion since FY05
- \$488 million in non-transportation assets owned by cities, and quasi-public entities, \$4.3 billion since FY04



Review of Fiscal 2015 Financial Statements

Governmental Funds - Statutory to GAAP - Fund Perspective and to Governmental Net Position (Amounts in millions)

Governmental Funds - Statutory Basis, June 30, 2015

Budgeted fund balance	\$ 1,570.7	
Non-budgeted special revenue fund balance	2,125.3	
Capital projects fund balance	<u>(524.9)</u>	
Governmental Fund Balance - Statutory Basis, June 30, 2015		3,171.1
Plus: Expendable Trust and Similar Fund Statutory balances that are considered Governmental Funds for GAAP reporting purposes		567.3
Less: Massachusetts Department of Transportation Funds		<u>(1,289.5)</u>
Adjusted Statutory Governmental fund balance		2,448.9
Short term accruals, net of allowances and deferrals for increases /(decreases):		
Taxes, net of refunds and abatements	1,967.1	
Tobacco Settlement Agreement receivable	122.0	
Medicaid	(517.0)	
Other short term accruals:		
Assessments and other receivables	268.1	
Amounts due to authorities and municipalities, net	(673.2)	
Claims, judgments and other risks	(11.8)	
Amounts due to health care providers and insurers	(30.5)	
Workers' compensation and group insurance	(145.2)	
Compensated absences	(11.1)	
Other accruals, net	<u>366.4</u>	
Net increase to governmental fund balances	1,334.8	
Massachusetts School Building Authority fund balance	<u>1,521.5</u>	
Total changes to governmental funds		<u>2,856.3</u>
Governmental fund balance (fund perspective)		5,305.2



Review of Fiscal 2015 Financial Statements

Governmental Funds - Statutory to GAAP - Fund Perspective and to Governmental Net Position (Amounts in millions) (continued)

Governmental fund balance (fund perspective)	5,305.2
Plus: Capital assets including infrastructure, net of accumulated depreciation	4,602.3
Deferred revenue, net of other eliminations	556.1
Long term accruals:	
Net pension liability	(24,532.0)
Net deferred (inflows) / outflows of resources related to pension	(1,141.9)
Post employment benefits other than pensions cumulative over / (under) funding	(5,605.0)
Environmental remediation liability	(208.0)
Massachusetts School Building Authority debt and school construction payables	(7,690.2)
Long term debt, unamortized premiums and deferred losses on debt refundings	(24,853.1)
Compensated absences	(566.2)
Capital leases	(42.9)
Accrued interest on bonds	(367.8)
Other long term liabilities	(309.9)
Total governmental net position (entity wide perspective)	\$ (54,853.4)



Financial Information on Comptroller's and Related Web Sites

Topic

- Statutory Basis Financial Report
- Comprehensive Annual Financial Report
- Pension Actuarial Valuations
- OPEB Actuarial Valuations
- Workers Comp Actuarial Valuations
- Stabilization Fund History

Web HotLink

- <http://www.mass.gov/osc/publications-and-reports/financial-reports/sbfr.html>
- <http://www.mass.gov/osc/publications-and-reports/financial-reports/cafr-reports.html>
- <http://www.mass.gov/perac/pubdir/commvalreport.htm>
- <http://www.mass.gov/osc/publications-and-reports/financial-reports/opeb.html>
- <http://www.mass.gov/osc/publications-and-reports/financial-reports/opeb.html>
- <http://www.mass.gov/osc/research-and-statistics/commonwealth-stabilization-fund.html>



Office of the State Treasurer

Debt / Capital Presentation

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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 November call, the Commonwealth issued \$550 million 2015 Series D and E tax-exempt GO Bonds and \$250 million under its standard SIFMA Roll program
- 2015 Series D and E - \$550 million tax-exempt GO Bonds
 - Bonds issued to fund the Commonwealth's FY16 capital investment spending needs
 - Sold on a competitive basis in December 2015
 - Series D \$150 million maturing 2026 – 2035, 8 bids received, awarded to Morgan Stanley, All-In-TIC of 3.089%
 - Series E \$400 million maturing 2036 – 2045, 8 bids received, awarded to Bank of America Merrill Lynch, All-In-TIC of 3.693%
- SIFMA Floating Rate Notes – 2015 Refunding Series B & C
 - Series B \$125 million direct placement note with JP Morgan, maturing Feb. 1, 2018, priced at 48 bp spread to SIFMA
 - Series C \$125 million direct placement note with JP Morgan, maturing Feb. 1, 2019, priced at 55 bp spread to SIFMA
 - SIFMA refinancing program crafted to achieve savings on prior bonds while maintaining attached swap contracts
 - Each year a portion of maturing notes roll to match original sinking fund redemption schedule



2016 Series A and Refunding Series A

Upcoming Deal

- March 2nd (retail order period) and March 3rd (institutional pricing) with a closing scheduled for March 17th
- The deal will include both refunding and new money components.
- The transaction will be sold on a negotiated basis with Bank of America Merrill Lynch and Wells Fargo acting as Book-Running Senior Manager and Co-Lead Manager, respectively.
- Both firms and the included syndicate members were selected from the Commonwealth's list of prequalified underwriters using an RFR procurement process

Bank of America Merrill Lynch

Citigroup

Barclays

Fidelity

Loop Capital

JP Morgan

Ramirez

Wells Fargo

Morgan Stanley

Raymond James

RBC

Rice



2016 Series A and Refunding Series A*

	2016 Series A	2016 Rfdg Series A
Credit	G.O.	G.O.
Component	New Money	Refunding
Par	\$600 Million	\$501 Million
Type	Fixed Rate	Fixed Rate
Maturities	2018-2046	2016-2033
First Interest Payment	9/1/2016	7/1/2016
First Principal Payment	3/1/2018	7/1/2016
Redemption	8 Year Call	10 Year Call
Tax Status	Tax-Exempt	Tax-Exempt
Pricing	March 2-3	March 2-3
Expected Delivery	March 17	March 17

* Preliminary, subject to change

- The new money bonds will fund the Commonwealth's FY16 capital investment plan spending needs.
- The refunding component makes use of the Commonwealth's stated refunding guidelines to generate significant savings to be stretched across all years.



Issuance Timeline*

- The Commonwealth expects to begin pricing of its 2016 Series A and Refunding Series A Bonds March 2-3
- Current Information Statement and Preliminary Official Statement available at www.massbondholder.com

March						
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	31		

Negotiated Pricing	March 2-3
Closing Date	March 17

* Preliminary, subject to change

Questions, please contact:

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Debt/Capital

- Today's call represents the first 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

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QUESTIONS

