
The Commonwealth of Massachusetts

March 2014 Investor Conference Call: Bi-Monthly Credit Review & Review of the FY2014-2018 Five-Year C.I.P.

March 14, 2014



Investor Conference Call Presentation Participants



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Agenda

1. Economic Update
2. Fiscal 2014 Revenue Collection Update
3. Fiscal 2014 Budget Update
4. Fiscal 2015 Budget Update
5. Big Topic: Review of the FY14-FY18 Capital Investment Plan
6. Debt & Capital Update
7. Questions



1. Economic Update



Economic Update

Wealth Measures:

- 2012 Per Capita Income in Massachusetts was \$55,976, 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 2013 annual unemployment rate average was 7.1% for MA vs. 7.4% for US
- Massachusetts state unemployment rate for January was 6.8% vs. the national average of 6.6%

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

Economic Output:

- 2012 GDP growth in MA of 2.2% versus 2.8% for the U.S.
- For the most recent quarter (Q4 of calendar year 2013), real MA GDP is estimated to have grown at an annualized rate of 5.5% vs. 2.4% for the US (revised)

Source: US Department of Commerce, Bureau of Economic Analysis; and <http://www.MassBenchmarks.org>



Economic Update

Federal Reserve Bank of Philadelphia

State Coincident Indices

As of December 2013 Data (latest release)

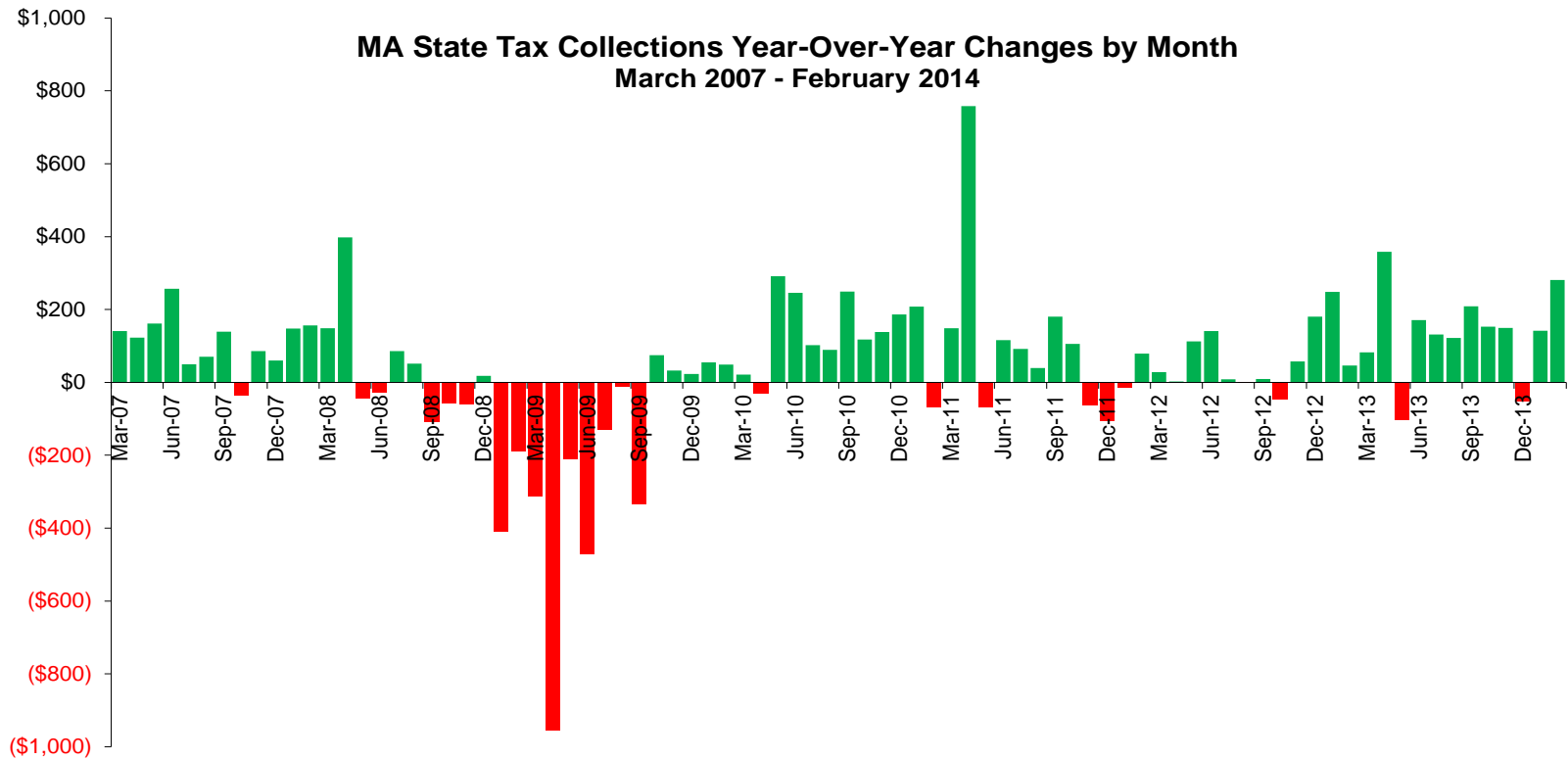
State	Current Level	(January 2013 - Dec 2013)	(January 2008 - Dec 2013)	State	Current Level	(January 2013 - Dec 2013)	(January 2008 - Dec 2013)
		12-month % Change	5-Year % Change			12-Month % Change	5-Year % Change
Alabama	132.3%	0.86%	-6.76%	Montana	165.4%	0.96%	-2.61%
Alaska	116.3%	-2.51%	-1.24%	Nebraska	164.0%	1.97%	1.44%
Arizona	184.5%	2.19%	-7.78%	Nevada	185.5%	2.13%	-18.82%
Arkansas	143.6%	1.26%	-1.88%	New Hampshire	191.9%	1.97%	3.37%
California	158.5%	2.76%	3.89%	New Jersey	154.5%	3.28%	1.95%
Colorado	183.4%	2.97%	2.56%	New Mexico	159.4%	0.42%	-7.13%
Connecticut	156.2%	3.08%	3.33%	New York	151.6%	2.33%	7.53%
Delaware	147.7%	3.76%	-3.43%	North Carolina	165.3%	3.83%	0.79%
Florida	149.1%	2.94%	-4.50%	North Dakota	206.4%	5.31%	41.13%
Georgia	170.6%	3.76%	0.47%	Ohio	143.2%	1.62%	1.41%
Hawaii	109.8%	1.80%	-4.61%	Oklahoma	153.3%	1.23%	1.81%
Idaho	198.5%	2.87%	-5.66%	Oregon	214.8%	5.11%	2.94%
Illinois	147.6%	2.65%	-0.34%	Pennsylvania	146.1%	2.96%	2.03%
Indiana	151.6%	3.95%	3.80%	Rhode Island	153.0%	2.86%	-1.09%
Iowa	146.1%	1.21%	3.71%	South Carolina	158.9%	4.34%	-0.78%
Kansas	147.2%	2.36%	-0.69%	South Dakota	163.2%	2.42%	5.57%
Kentucky	142.4%	0.47%	-1.55%	Tennessee	155.2%	2.00%	3.47%
Louisiana	131.8%	1.96%	1.50%	Texas	192.8%	3.04%	11.24%
Maine	140.4%	3.94%	-7.44%	Utah	200.4%	2.63%	5.58%
Maryland	153.4%	2.22%	-0.58%	Vermont	151.3%	2.42%	2.23%
Massachusetts	181.7%	2.49%	9.97%	Virginia	151.7%	1.32%	-0.07%
Michigan	132.6%	3.79%	-2.31%	Washington	166.5%	3.74%	0.05%
Minnesota	158.9%	2.19%	5.33%	West Virginia	166.5%	4.72%	4.54%
Mississippi	145.5%	2.45%	1.07%	Wisconsin	143.4%	2.55%	0.85%
Missouri	138.8%	2.52%	-1.80%	Wyoming	166.5%	0.60%	-0.34%
				United States	157.4%	2.79%	5.83%

2. Fiscal 2014 Revenue Collections Update



Fiscal 2014 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 has picked up since December 2012/January 2013 with the exception of two months of negative growth mostly due to temporary timing-related factors.



Fiscal 2014 Revenue Collections Update -- continued

- **FY2014**: Relatively strong revenue performance continued during the first eight months of fiscal 2014.

February 2014 Tax Collection Summary (in \$ millions) (Preliminary as of March 5, 2014)

	----- Month of February -----					----- FY14 Year-to-Date -----				
	02/14 Collections	02/14 v. 02/13 \$ Change	02/14 v. 02/13 Actual % Change	02/14 v. 02/13 Baseline % Change	02/14 \$ Above/(Below) Benchmark Based on FY14 Estimate of \$23.2 Billion	02/14 FY14 YTD Collections	02/14 FY14 YTD \$ Change	02/14 FY14 YTD Actual % Change	02/14 FY14 YTD Baseline % Change	FY14 YTD \$ Above/(Below) Benchmark Based on FY14 Estimate of \$23.2 Billion
Income - Total	524	29	5.8%	9.6%	(3)	8,242	460	5.9%	6.1%	57
Income Withholding	913	57	6.7%	7.1%	21	7,023	323	4.8%	5.0%	54
Income Est. Payments (Cash)	13	2	23.8%	23.8%	3	1,476	94	6.8%	6.9%	12
Income Returns/Bills	38	3	9.9%	10.4%	6	409	94	29.9%	30.0%	9
Income Refunds (Cash)	439	34	8.5%	4.8%	33	666	45	7.2%	7.2%	18
Sales & Use - Total	396	13	3.5%	2.6%	(12)	3,664	205	5.9%	5.6%	(19)
Sales - Regular	279	6	2.1%	0.7%	(12)	2,553	128	5.3%	4.8%	(14)
Sales - Meals	64	2	3.6%	3.6%	(1)	640	29	4.8%	4.7%	(4)
Sales - Motor Vehicles	53	5	11.6%	12.1%	1	471	48	11.3%	11.1%	(1)
Corporate & Business - Total	251	223	787.9%	870.3%	222	1,252	314	33.5%	33.4%	259
All Other	166	16	10.6%	1.8%	(0)	1,373	157	12.9%	4.3%	(9)
Total Tax Collections	1,338	281	26.6%	29.0%	206	14,531	1,136	8.5%	7.7%	288

Fiscal 2014 Revenue Collections Update -- continued

- Fiscal 2014 tax collections through February totaled approximately \$14.531 billion, an increase of \$1,136 million, or 8.5%, over the same period in fiscal 2013, \$288 million above the year-to-date benchmark based on the revised estimate of \$23.2 billion for fiscal 2014 tax collections.
- It is too early in the year for the YTD collections to be very meaningful – around 40% of revenues will be collected in the last four months of FY14.
- Nearly 72 percent of the year-to-date surplus is due to one-time **settlement-related** corporate and business tax payments received in February (\$207 mm). (Will go to the Stabilization Fund by statute)
- Income **withholding** payments came in stronger than expected. The surplus could be bonus related, which is hard to predict. **Sales tax collections** have been relatively weak, probably due to weather-related softness in taxable sales activity. **Corporate and business** tax payments have been strong, mostly due to the one-time payments mentioned above.



Fiscal 2014 Revenue Collections Update -- continued

- Year-to-date withholding totaled \$7.023 billion, up \$323 million, 4.8% actual, 5.0% baseline, \$54 million above benchmark.
- Year-to-date non-withholding income tax payments totaled \$1.22 billion, up \$137 million, \$3 million above benchmark.
- Year-to-date sales & use tax collections totaled \$3.664 billion, up \$205 million, 5.9% actual, 5.6% baseline, \$19 million below benchmark.
- Corporate and business collections totaled \$1.252 billion, up \$314 million, 33.5% actual, and 33.4% baseline, \$259 million above benchmark.



Fiscal 2014 Revenue Estimate- Background

- Fiscal 2014 Consensus Tax Revenue Estimate of \$22.334 billion was reached on January 14, 2013.
- Assumptions behind the estimate included:
 - 3.9% growth from the revised fiscal 2013 estimate of \$21.496 billion
 - A total of \$1.06 billion in capital gains tax
 - By statute, the new updated *capital gains tax threshold* was set at \$1.023 billion for fiscal 2014
- **Final fiscal 2014 tax revenue estimate of \$22.797 billion** was based on the Consensus estimate (\$22.334 billion) *plus* subsequently signed **incremental tax law and administrative changes** as a part of the July 12, 2013 GAA(*) budget, and the transportation finance bill, which was enacted on July 24, 2013.
- On October 15, 2013, the Secretary of A&F kept the \$22.797 billion estimate unchanged.
- On January 14, 2014, the Secretary of A&F revised the estimate upward to \$23.2 billion (change of \$403 million)
- DOR will continue tracking the revenues and how they perform against the revised estimate in the upcoming months.

*GAA: General Appropriation Act



Fiscal 2015 Consensus Tax Revenue Estimate

- On December 11, 2013, Consensus Revenue Hearing was held -- Considered the first step towards FY15 budgeting process.
- On January 14, 2014 -- FY15 Consensus estimate was announced -- @ \$24.337 billion
- Of this amount, \$1.170 billion is assumed to be generated from taxes on capital gains
- By statute, the new updated capital gains tax threshold was also set @ \$1.048 billion for fiscal 2015
- Approximately \$122 million of capital gains tax would be deposited into the Stabilization Fund and not be available for budgetary purposes.



Recent Developments -- Personal income tax rate reduction:

- In 2011, through a statutory certification process, it was determined that the growth in the state's inflation-adjusted baseline revenues exceeded the statutory growth thresholds
 - So, the state income tax rate **was reduced from 5.30% to 5.25%** (effective January 1, 2012)
- In 2012, it was determined that there was **not** enough growth in inflation-adjusted baseline revenues
 - Therefore, the income tax reduction of 5.25% to 5.20% was not triggered
- In 2013, the Department of Revenue went through the same certification process, and it was determined that the growth in the state's inflation-adjusted baseline revenues exceeded the statutory growth thresholds
 - So, the state income tax rate was **reduced from 5.25% to 5.20%** (effective January 1, 2014)
 - The revenue impact of this rate reduction for FY2014 would be between \$60 mm and \$70 mm (with a mid-point of \$65 mm) and the impact for FY2015 would be between \$125 mm and \$140 mm (mid-point of \$132.5 mm).

3. Fiscal 2014 Budget Update



Fiscal 2014 Budget Update

FY14 tax revenue collections, which were covered earlier in this presentation, most notable FY14 budget development.

On March 13th the House enacted the first FY14 supplemental appropriations bill into law. It totaled \$332 million (\$260 million after accounting for offsetting revenues) which included:

- \$46 million for homeless shelters and motel costs, \$30 million for snow and ice removal and \$20 million for the Low Income Home Energy Assistance Program (LIHEAP).
- Expectation is that Senate will enact bill on Monday.

The Executive Office for Administration and Finance is nearing the completion of its “Mid-Year Review” where the office works with state agencies and departments on updating current year spending and revenue projections.

The review will help to inform decision making with regards to the FY14 budget as we enter into the last quarter of the current fiscal year.



4. Fiscal 2015 Budget Update



Fiscal 2015 Budget Proposal

Governor Patrick filed his FY15 budget recommendation on January 22, 2014. Bottom line spending was \$36.372 billion, a 4.9% increase over FY14 estimated spending.

House of Representatives and Senate usually release their versions in April and May with Conference report typically issued in June.

On March 13, 2014 the House and Senate agreed to a “Local Aid Resolution”.

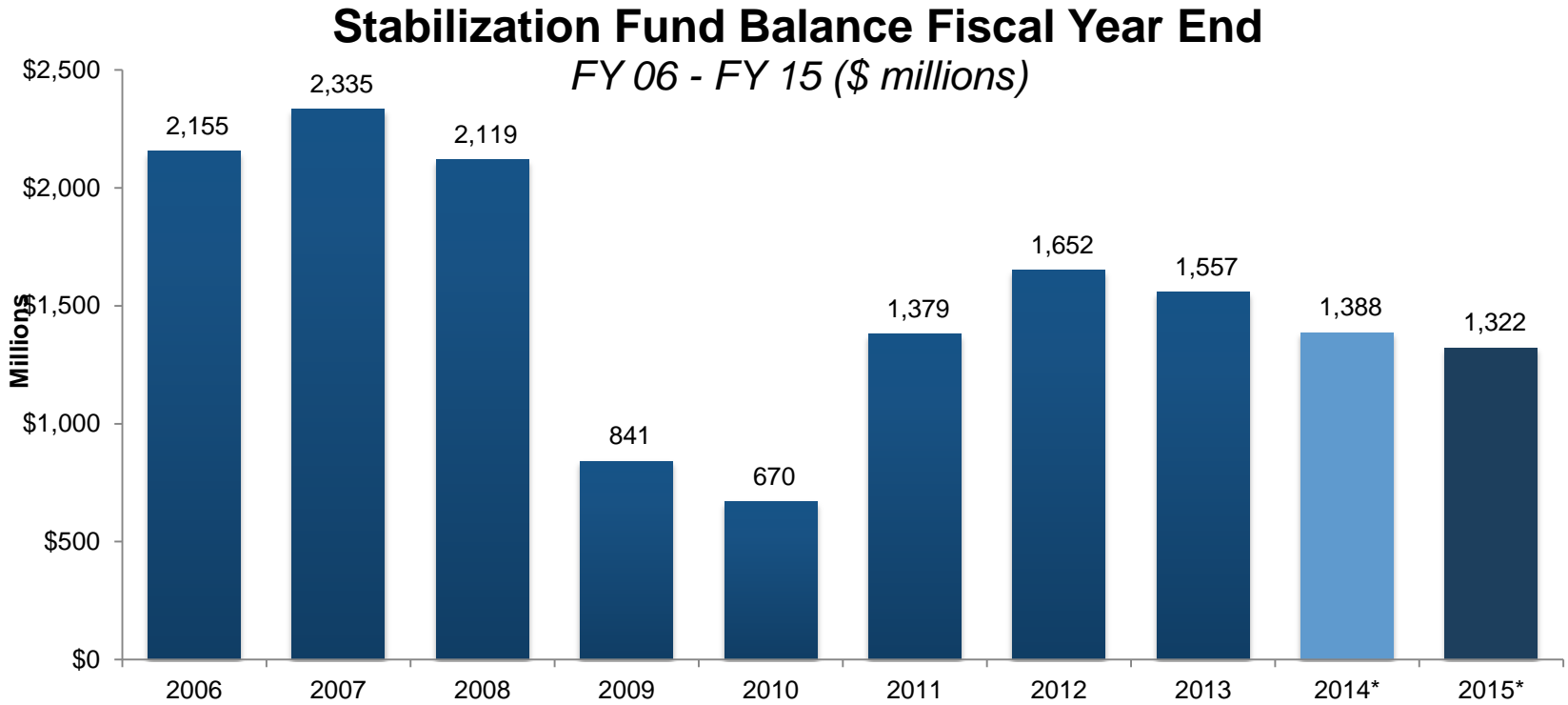
- This represents commitment by the two branches to provide an additional \$100 million in Chapter 70 funding (education local aid) and \$25 million for “unrestricted local aid” in their respective budgets.
- The increase to Chapter 70 is consistent with what the Governor provided in his FY15 budget recommendation.

Several other items in the FY15 budget that have been agreed upon:

- Baseline FY15 tax estimate, otherwise known as “Consensus Tax Revenue Estimate”, of \$24.337 billion.
 - Agreed to by all three branches on January 14, 2014. Represents a 4.9% increase over FY14 revised estimate.
- FY14 Pension Appropriation of \$1.793 billion. Agreed to during the consensus revenue process.



Stabilization Fund Balance



* Projected



5. Big Topic: Review of FY14-18 Capital Investment Plan



FY2014-2018 Capital Investment Plan

- **Statewide, five-year capital plan.** The plan coordinates capital expenditures by state agencies and authorities that are funded primarily with Commonwealth debt, third party payments and federal reimbursements.
- **Maintaining a large inventory of capital assets.** The Commonwealth makes targeted capital investments in improving capital assets and supporting economic growth, including:
 - Transportation infrastructure;
 - State facilities - higher education buildings, courts, correctional facilities, and state hospitals;
 - Energy and Environmental resources - parks, open space, dams;
 - State-supported public housing and private affordable housing development; and
 - Community and economic development investments - local roads and bridges, public library construction and targeted local infrastructure grants.
- **Checks on Bond-Funded Capital Spending.** Massachusetts has a series of controls on capital spending sanctioned by the State Constitution:
 - The Legislature authorizes the issuance of bonds to support capital spending.
 - The Statutory Debt Limit for FY14 is \$18.820 B in FY14. This limit increases 5% annually.
 - The Governor determines the amount and timing of any authorized borrowing to fund capital investments.
 - At the request of the Governor, the State Treasurer issues the bonds to borrow the funds.
 - The Governor approves the use of the borrowed funds by agencies to pay for authorized and budgeted capital projects.



FY2014-2018 Capital Investment Plan

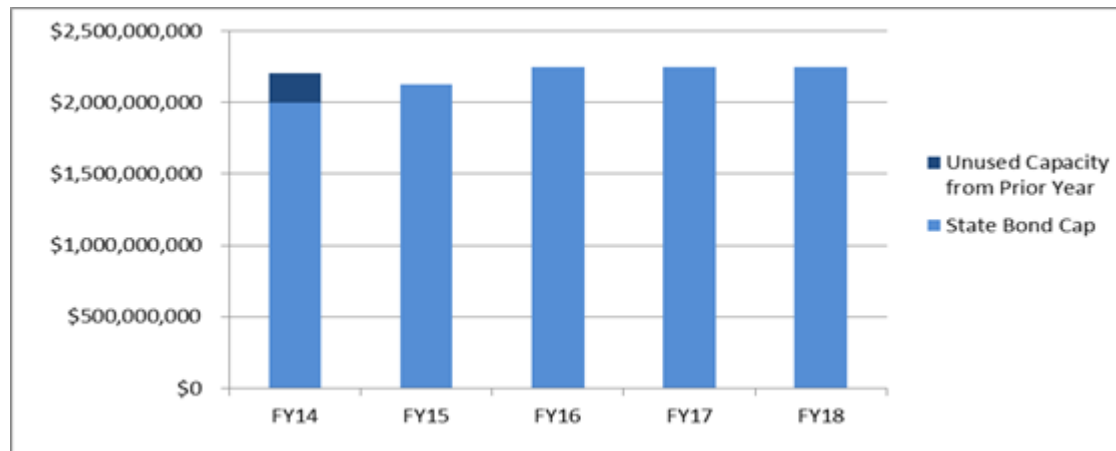
- **Capital Plan Development.** As with the prior plans, the Administration engaged in a diligent, fiscally responsible and comprehensive process for developing this five-year capital investment plan. Demand for capital improvements far exceeds affordable funding capacity, and thus many worthy projects will not receive funding.
- **Committed Funding.** Over 80% of the bond-funded proceeds are needed to fund previously-made commitments, including ongoing construction contracts, investments needed to leverage necessary federal funds, legal commitments and personnel needed to carry out capital programs.
- **Year-Round Capital Spending Review.** A&F works with capital agencies to continually review capital spending to ensure that we are using our limited investment capacity efficiently.



FY2014-2018 Capital Investment Plan

- Limit on Borrowing, from all sources. The Administration limits bond-funded capital expenditures, known as the “bond cap.”
 - Bond cap determination is based on the Debt Affordability Analysis and policies in which A&F sets the annual borrowing limit at an amount sized to keep debt service within 8% of budgeted revenues
- FY14 bond cap is \$2 billion with an additional \$205 million in unused capacity from the prior fiscal year.
- The Administration has conservatively constrained the bond cap in FY17 and FY18 at the FY16 level.

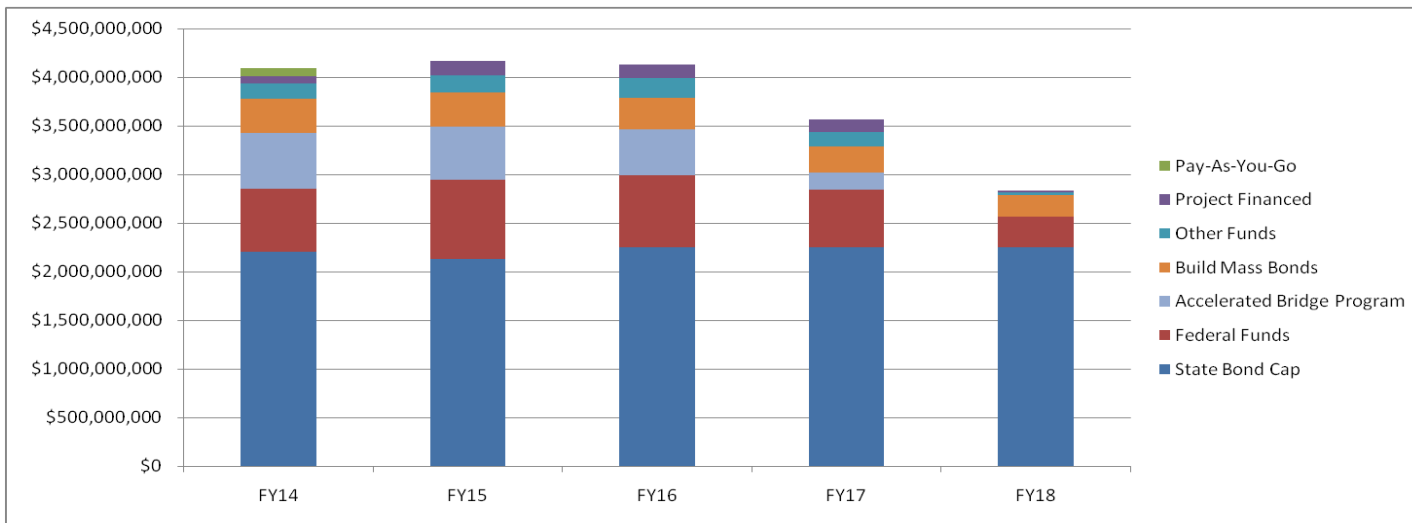
FY14-18 Capital Investment Plan
Total Bond Cap



FY2014-2018 Capital Investment Plan

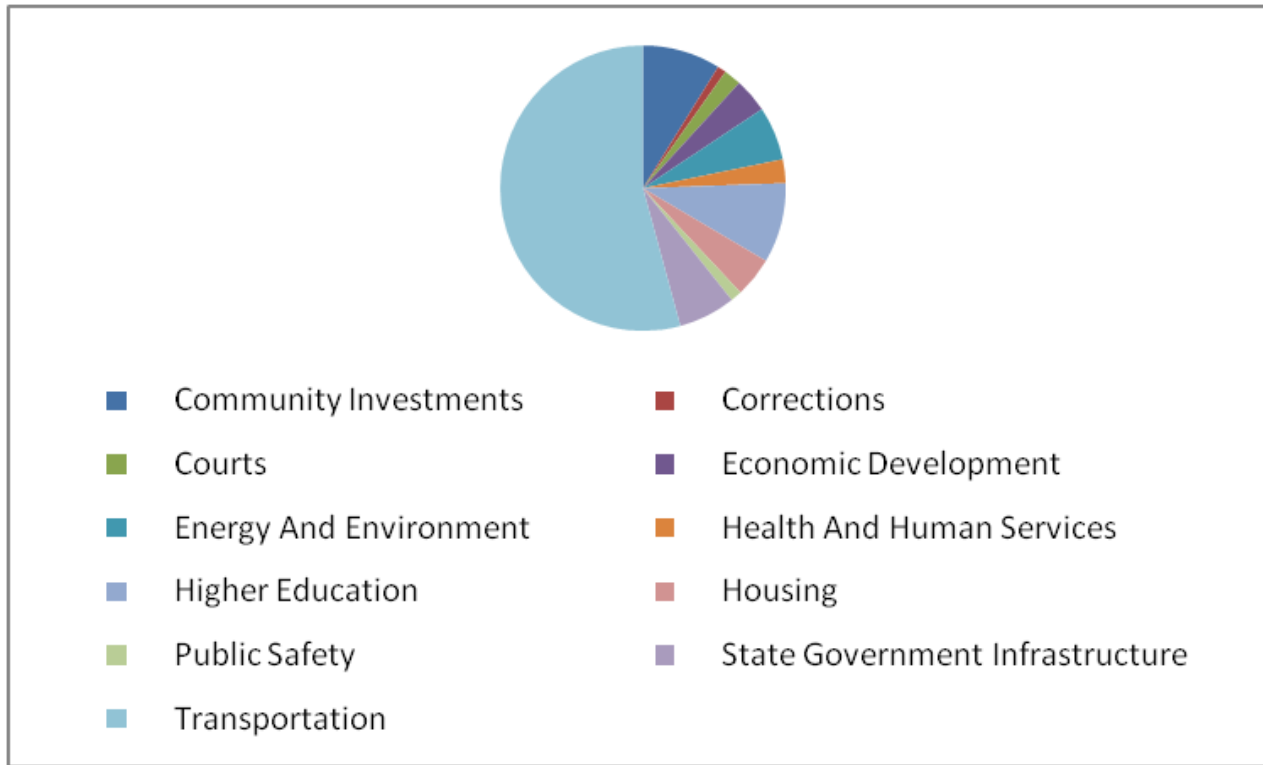
- **Total Capital Spending.** The Administration's Capital Investment Plan also reports on other sources of funding for the capital budget, the largest of which is federal funds, primarily to reimburse transportation infrastructure improvements.

FY14-18 Capital Investment Plan - Total All Sources



FY2014-2018 Capital Investment Plan

FY14-18 Capital Investment Plan - Total All Sources



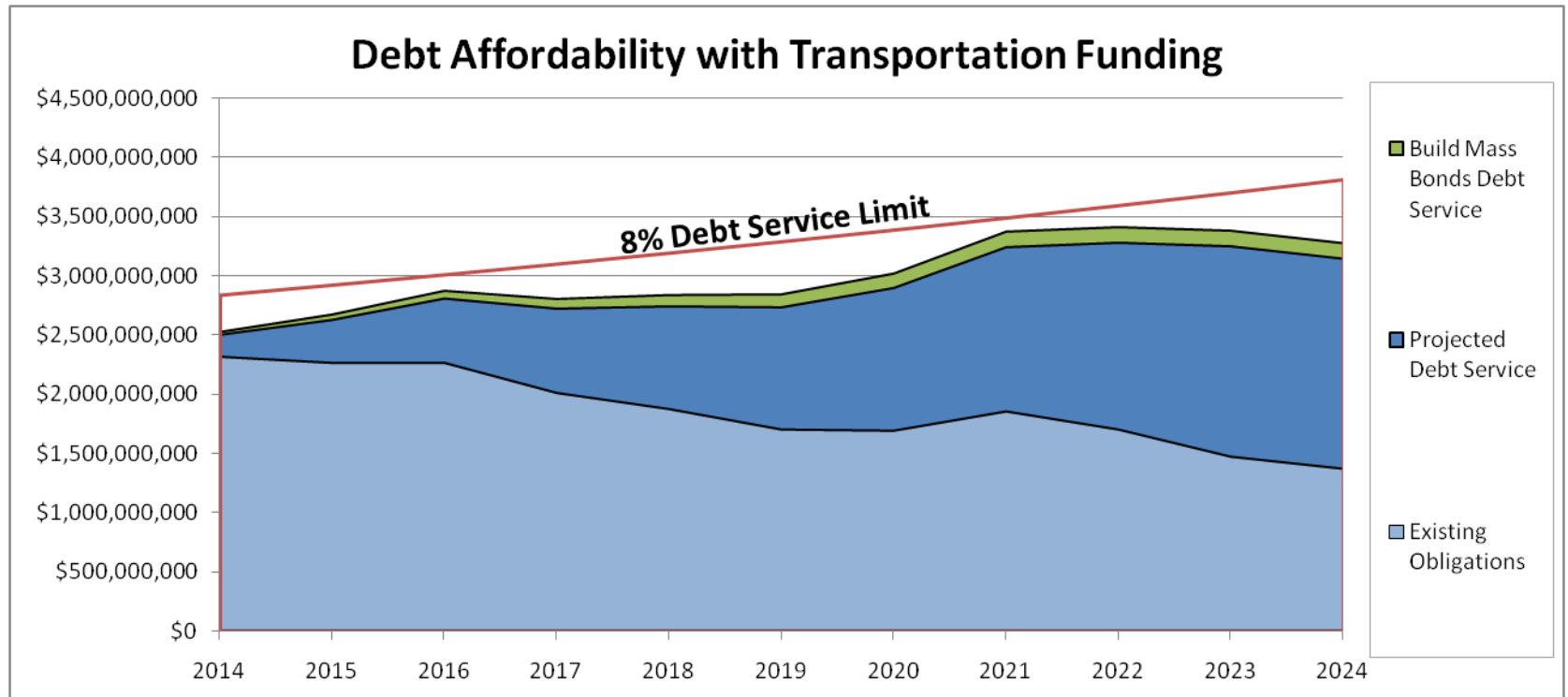
FY2014-2018 Capital Investment Plan

- Build Mass Bonds. In July 2013, the Legislature enacted a transportation finance bill which dedicates \$753 M (preliminary estimate) in additional annual resources to transportation by fiscal 2018.
- The \$753 M would be generated by increasing the motor fuels tax by 3¢ and indexing it to the rate of inflation (\$158 M), mandating a combination of: reforms; efficiencies; increases in fares, fees and tolls at MassDOT and the MBTA (\$354 M); 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 (\$115 M); dedicating the revenue from the existing underground storage tank fee to transportation (\$85 M); and requiring a transfer from the General Fund (\$40 M).
- Pending legislative approval of a proposed transportation bond bill, these funds will help support an additional eight-year, \$2.1 B investment in transportation infrastructure, contingent on capital spending capacity under the statutory debt limit. This additional funding will provide the Commonwealth with a transportation system in a state of good repair and ready to meet the needs of a 21st Century economy. Build Mass Bonds, if approved by the Legislature, will support this spending and will be financed through this newly dedicated revenue approved in the transportation finance legislation enacted on July 24, 2013.



FY2014-2018 Capital Investment Plan

- **FY14-18 Debt Affordability Analysis.** The Debt Affordability Analysis in the FY2014-2018 Capital investment Plan showed that the Commonwealth's projected debt service would be well within the 8% limit.



FY2014-2018 Capital Investment Plan

- **Patrick Administration Capital Achievements.** The following is a select representation of the many capital plan achievements:
 - First-Ever Debt Affordability Policy - The Patrick Administration developed and published the first-ever debt affordability policy, which has been positively reviewed by credit rating agencies.
 - First-Ever Five-Year Capital Investment Plan - The Administration published the first-ever comprehensive and transparent five-year capital investment plan based on the new debt affordability policy.
 - Bond Bills - After publication of its first five-year capital investment plan in the summer of 2007, the Governor filed a series of multi-year bond bills authorizing over \$16 B in capital investments.
 - Completion of Key Projects - A number of important new capital projects and programs have been initiated and completed by the Administration, including: the new Worcester Recovery Center project, the Emerging Technologies and Innovation Center at the Lowell campus of the University of Massachusetts, new courthouses in Taunton, Salem and Fall River and many more.
 - Accelerated Bridge Program - The Administration, working with the Legislature and the Treasurer, developed the \$3 B Accelerated Bridge Program which reduced the number of structurally-deficient bridges by nearly 20 percent and created 17,000 construction jobs throughout the state.
 - Integrated Facilities Management - The Administration has taken steps to improve maintenance and accessibility of state facilities through the Division of Capital Asset Management's (DCAMM) Integrated Facilities Management (IFM) initiative. Funding in the capital budget is dedicated for small capital maintenance and repair projects as facilities become integrated into DCAMM's management portfolio.
 - Accelerated Energy Program - In this capital investment plan, the Patrick Administration has reaffirmed its commitment to energy efficiency through the continued funding of the Accelerated Energy Program (AEP). Modeled on the highly-successful Accelerated Bridge Program, and using the innovative funding mechanism of the Clean Energy Investment Program (CEIP) as well as assistance from energy utilities, the Accelerated Energy Program will "green" 700 sites in 700 working days.

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
- The original capital plan called for borrowing of \$2.85 bn
- However, the state's capital plan for FY2014 is being reduced by approximately \$400 mm due to slower than projected capital spending based on the most recent review of the capital budget
- In terms of future issuance, the STO expects to issue general obligation bonds in two separate sets of transactions:
 - First, the state is launching its MassDirect Notes program for retail investors
 - Program starts Monday, March 17th and will include sales every month through to August
 - Initially sized at \$250 mm
 - Second, the Commonwealth is preparing for a \$500 mm to \$750 mm G.O. bond sale targeted for Wednesday, May 28th
 - Bonds may be sold in some form of variable rate structure



Debt / Capital

- The May transaction being worked on now by the Commonwealth is likely to include bonds sold in variable rate mode
- The Commonwealth is working now to determine the exact variable rate mode for the bonds to be issued
- A variable rate transaction is part of the Plan of Finance for FY2014, like it was in FY2013
- The Commonwealth's long-term financing plan is to follow an Asset Liability Management financing strategy
- The goal is to reduce risk on the Commonwealth's balance sheet by creating a natural hedge between debt liabilities and cash assets
- This is a long-term plan that the state will build towards over multiple years, depending on market conditions, the size of cash balances, and the structures of variable rate bonds available to provide a hedge
- The Commonwealth's ALM strategy will likely be detailed more on the May investor conference call



Disclosure Enhancements: Investor Communication

- 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
- Today’s call represents the second live investor call for 2014
- We are planning to hold our second investor call in mid-May
 - Big Topic for the May call will be a review of the state’s debt portfolio

Commonwealth of Massachusetts 2014 Investor Disclosure & Conference Call Schedule

Disclosure Update	Targeted Investor Conference Call	"Big Topic"	Participants
15-Jan-14	24-Jan-14	Review of FY 2013 Financial Statements	State Comptroller
7-Mar-14	14-Mar-14	Review of Five-Year Capital Plan	Admin. & Finance
7-May-14	14-May-14	Review of the Debt Portfolio	Treasury
18-Jul-14	25-Jul-14	Review of FY14 Revenue Collections	Dept. of Revenue
8-Sep-14	15-Sep-14	Review of Major Spending Categories	State Budget Director
7-Nov-14	14-Nov-14	Review of Pension Actuarial Report	State Actuary / PERAC

7. Questions & Follow-Up



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