

Moody's: Aa1/Stable
S&P: AA+/Stable
Fitch: AA+/Stable

The Commonwealth of Massachusetts

May 2012 Credit Update & Investor Disclosure Conference Call

May 21, 2012

NetRoadshow Information:

website:	www.netroadshow.com
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Agenda

1. Disclosure Enhancements
2. Fiscal Year 2012 Update
3. Fiscal Year 2013 Budget Outlook
4. Long-Term Fiscal Policy Framework
5. Debt / Capital
6. Questions & Follow-Up

1. Disclosure Enhancements: Devoting Resources to Be a Market Leader



Disclosure Enhancements

- The Commonwealth's goal is to have the best investor disclosure and investor outreach program amongst issuers in the municipal market
- Massachusetts' disclosure practices have been very strong, but the Commonwealth is now devoting additional resources to enhance its communications with investors
 - Commonwealth was one of the first states to provide extensive disclosure to its bond investors, starting in the mid-1970's. Preparation of investor disclosure is now an integral function of state government, spread across numerous agencies and departments
 - The Commonwealth Information Statement contains all information pertinent to an investor in general obligation bonds, including:
 - Government organization, budget and financial management controls, revenues and expenditures, financial data, current and recent fiscal year information, long-term liabilities, capital investment plans, state workforce, and pending legal matters
 - The Information Statement is signed by the State Treasurer and the Secretary of Administration and Finance, and those officials also deliver to the underwriters of Commonwealth general obligation bonds a "10b-5" certificate to the effect that the documents do not contain any material misstatements or omissions
 - All disclosure documents (financial statements, annual continuing disclosure filings, official statements and information statements and supplements) are filed promptly with the Municipal Securities Rulemaking Board, through its Electronic Municipal Market Access (EMMA) system

Disclosure Enhancements (con't)

- Being a leader in disclosure means better disclosure documents, better investor website and more predictability in disclosure publications
- And focusing on investor outreach efforts
- Investor Disclosure Documents
 - Continue to re-write/improve Information Statements, enhancing sections based on investor or regulatory feedback
 - Goal is to meet all of the disclosure recommendations of the NFMA, GFOA and NABL
 - Starting in 2012, the Commonwealth has moved away from Information Statement Supplements
 - Enhanced pension liability / asset sections in 2010, 2011 & 2012
 - May 2012 pension disclosure modeled on NABL recommendations
 - Working to incorporate economic narrative, in addition to economic statistical section
 - Incorporated recommendations from "*A Plain English Handbook: How to Create Clear SEC Disclosure Documents*" (1998)
 - Developed formal schedule of disclosure releases six times per year to make disclosure more predictable: January, March, May, July, September, November
 - More voluntary filings on EMMA

Disclosure Enhancements (con't)

■ New Consolidated Investor Website

- Website dedicated solely to investor needs, data consolidated from multiple websites
- Target to go live mid-June
- Approximately 20,000 pages of downloadable information, including:
 - Debt schedules, bond authorizations, variable rate summaries, swap summaries
 - Cash flow and short-term investment reports
 - Monthly revenue reports
 - Operating & capital budgets
 - CAFRs, pension and OPEB actuarial reports
- Forward consolidated issuer financing calendar
- Disclosure and Official Statement archives
- Live links to MSRB secondary market trading activity by CUSIP numbers

Disclosure Enhancements (con't)

- Investor Communication & Outreach

- Inaugural annual investor conference December 2011
- Ongoing targeting of investors in Boston and outside region for one-on-one meetings away from financings (New York, Chicago, San Francisco)
- First state to implement regular investor conference calls
 - First investor call: Monday, May 21st
 - Regular updates of revenue, budget, capital updates, as well as one “big topic” per call
- Access to senior leadership of the state
- Continue to seek investor feedback via third party surveys
- Twitter feed for investors: @BuyMassBonds

Commonwealth of Massachusetts 2012/2013 Investor Disclosure & Conference Call Schedule			
Disclosure Update	Targeted Investor Conference Call	"Big Topic"	Participants
9-May-12	21-May-12	Disclosure Enhancements	Treasury
20-Jul-12	27-Jul-12	FY12 Revenue Review	Dept of Revenue
10-Sep-12	17-Sep-12	Review of Major Spending Categories	Admin & Finance
7-Nov-12	14-Nov-12	Review of 2012 Pension Actuarial Report	State Actuary, PERAC
7-Jan-13	14-Jan-13	State Financial Controls & Financial Statements	State Comptroller
7-Mar-13	14-Mar-13	Review of Updated 5-Year Capital Plan	Admin & Finance

2. Fiscal 2012 Budget Update



Fiscal 2012 Update

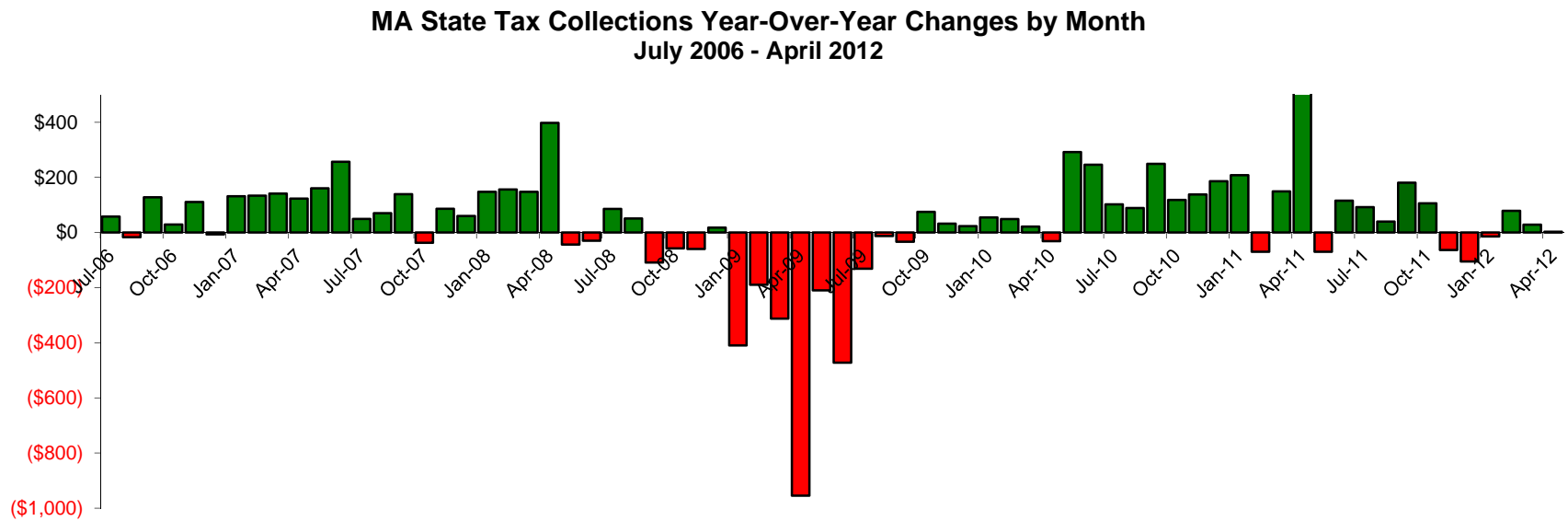
- In July 2011 Governor Patrick signed into law the FY 2012 budget, which called for \$30.597 billion in spending this year.
 - The adopted budget relied on \$449 million in non-recurring resources (A&F has revised this amount upwards to \$636 million, based on supplemental budget legislation adopted to-date and other revised assumptions).
 - The budget assumed the use of up to \$200 million in Stabilization Fund resources, leaving a projected Fund balance of \$1.18 billion at the close of FY 2012. (The adopted gaming legislation authorized that an additional \$20 million would be temporarily transferred from the Stabilization Fund to fund start-up costs, and would be repaid with the first \$20 million of casino licensing fees.)
 - The FY 2012 adopted budget assumed annual tax receipts of \$20.636 billion, up from FY 2011 collections of \$20.517 billion.
 - Based on collections through September 2011 the tax estimate was revised upwards to \$21.010 billion.
 - Through April, state tax collections have performed \$345 million above FY11, but \$180 million below the revised benchmark.
-

Fiscal 2012 Update

- In early May significant non-recurring business and corporate tax-related payments were made in amounts totaling close to \$200 million. Those payments since have been received and will be included in the May tax revenue report issued early in June.
- Based on this trend in tax revenues, updated non-tax revenue projections, updated cost projections and steps we have taken to manage the budget through the rest of the year, our budget is balanced and we expect to end the fiscal year in balance.
- In January 2012, A&F estimated FY 2012 spending at \$31.375 billion. In March we lowered this projection to \$31.174 billion, largely based on additional savings in state health care programs and reduced debt service projections.
- We have complied with the FY 2012 reform to segregate all one-time settlements in excess of \$10 million from general operating resources and deposit them into the state's rainy day fund, except for payment of a one-time \$29 million settlement. Based on receipts to-date, we anticipate at least \$390 million in one-time settlements and capital gains taxes (in excess of \$1 billion) to be deposited, resulting in a net Stabilization fund deposit in FY 2012 of \$170 million.

State Tax Revenue Collections Update

- Through April, state tax collections have performed \$345 million above FY11, but \$180 million below the revised benchmark.



Source: Executive Office for Administration and Finance.

3. Fiscal Year 2013 Outlook



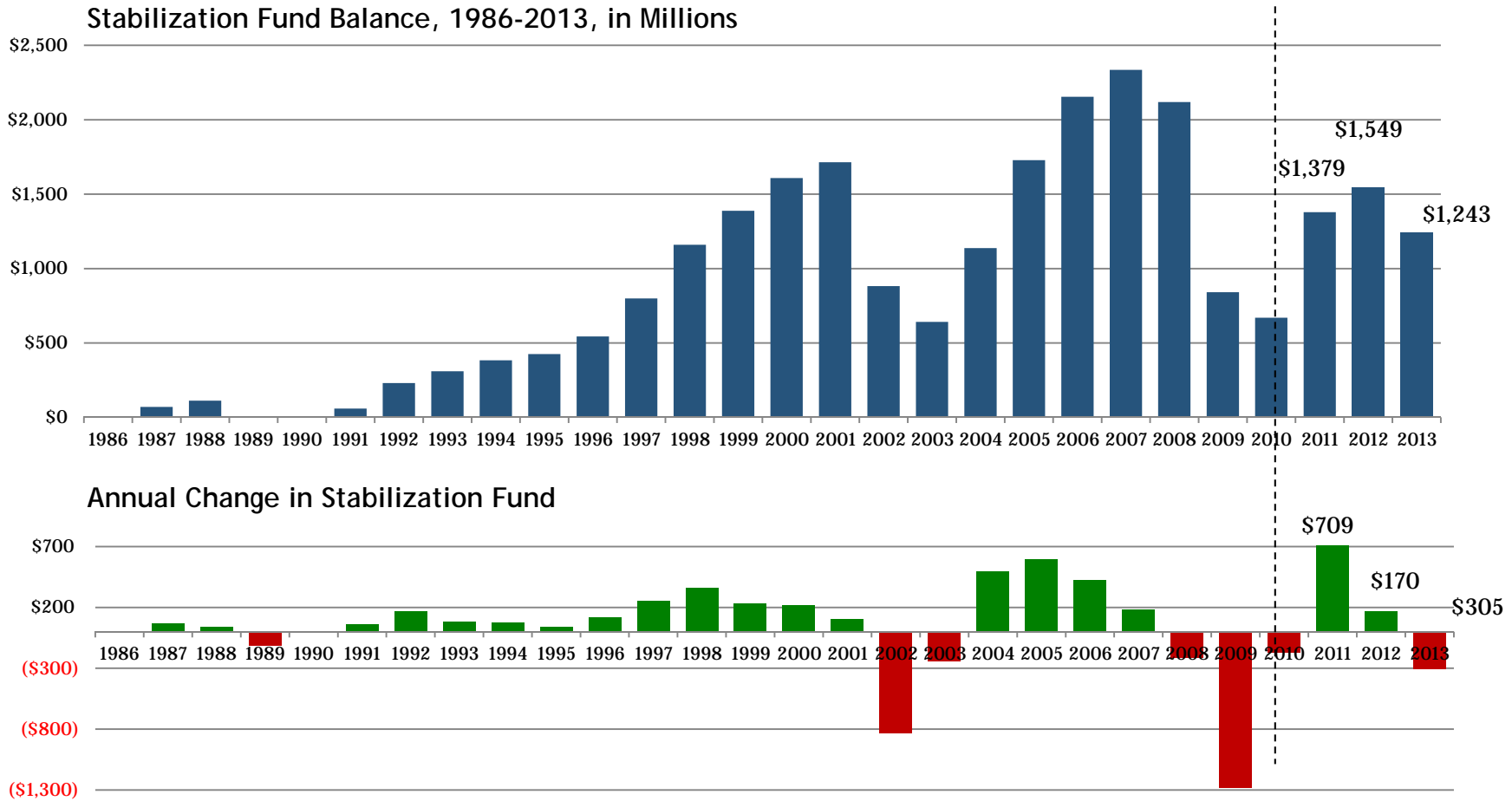
Fiscal 2013 Budget Update

- The Governor's January 2012 budget recommendation for FY 2013 (House 2) called for \$32.310 billion in spending.
- The budget assumed a modest amount of new revenues, \$260 million, largely generated from eliminating sales tax exemptions on candy and soda and increasing the taxes on cigarettes and other tobacco products.
- The Governor's budget proposal relies on \$526 million in one-time resources, which is down from \$636 million currently assumed in FY 2012.
- House 2 continued the Administration's efforts to reform major state programs including legal services for indigent persons, services and assistance provided to homeless families, operation and management of state facilities and other assets and

Fiscal 2013 Budget Update

- In addition, the Governor's budget relied on further efforts to limit growth in health care spending and other reductions and cost controlling measures across state government.
- On April 25th the House adopted its version of the FY 2013 budget, which called for \$32.455 billion in spending next year.
- The House budget rejected \$191 million of the \$260 million in new revenues proposed by the Governor. This was offset by the use of \$110 million from the suspension of the statutory carry-forward and \$225 million in increased non-tax revenues.
- The House budget assumes \$683 million in non-recurring resources.
- The Senate will release its budget on May 16 and will adopt a final version a week later.

Projected Stabilization Fund Balance



(1) FY 2012 assumes \$200 M in Stabilization Fund Transfer to the General Fund, \$414 M of settlements revenue deposited into the Stabilization Fund, \$4.75 M of taxes on capital gains in excess of \$1 billion, \$20 M used for start-up gaming costs and \$29 M for one-time settlement costs for Ambulatory Payment Group.
 (2) FY 2013 assumes \$400 M draw from Stabilization Fund to the General Fund, offset by \$95 M in capital gains proceeds in excess of \$1 B.

3. Long-Term Fiscal Policy Framework



Long-Term Fiscal Policy Framework

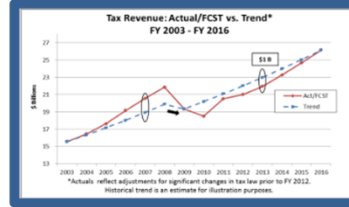
Policy Goals

- **Structural balance** - Budgetary spending should be based on a sustainable level of revenue, excluding fluctuations that can occur as a result of the economic cycle. The Long-Term Fiscal Policy Framework articulates policies to ensure structural balance, including policies around appropriate use of one-time resources and deposits into the stabilization fund.
- **Sustainable spending growth** - It is critical that spending growth be managed at a level that is consistent with revenue growth. The achievement of this goal will require policies to continue to contain health care cost growth in order to sustain funding for vital government services in the future.
- **Disciplined management of long-term liabilities** - This is necessary to protect future generations by preventing the costs associated with debt and unfunded retirement benefit obligations from crowding out other government services and investments in the future. This Long-Term Fiscal Policy Framework summarizes existing policies for long-term debt, successful efforts to manage pension liabilities, and emphasizes the need to address retiree health care costs.

Long-Term Fiscal Policy Framework

Our model is based on best practice, and developed in consultation with top economists

Commonwealth of Massachusetts Long-Term Fiscal Policy Framework Long-Term Tax Revenue



FY13 - FY17

Macro Assumptions

	Scenario 1 Base Case	Scenario 2 Structural Balance	Scenario 3 Sustained Growth
Long-Term Macro Assumptions			
Inflation ¹	2.30%	2.30%	2.30%
Real Growth ²	2.20%	2.10%	2.10%
Massachusetts Gross State Product (MA GDP)	4.4%	4.4%	4.4%
Tax Revenue ³			
- FY13	4.5%	4.5%	4.5%
- FY14 - FY16	6.0%	6.0%	6.0%
- FY17	4.4%	4.4%	4.4%
Excess Health-Care Cost Growth ⁴			
- FY13	2.0%	0.0%	2.0%

1. A.B.T. and CPIA estimates based on FY 2014 - FY 2015 US Urban CPI (Bureau of Economic Analysis), MA Urban CPI for Boston (Global Insight), MA Urban CPI for Boston (Global Insight), MA Urban CPI for Boston (Global Insight), and Boston Urban CPI (New England Economic Project).
2. A.B.T. estimates based on long-term projections from leading economists.
3. Data based on OMB estimates. "OMB's 2013 Long-Term Budget Outlook" Chapter 3, June 2013.

Revenue / Spending Growth

Category	13/14	14/15	15/16	16/17	17/18
Revenue Growth Assumptions - Base Case	4.5%	6.0%	6.0%	6.0%	4.4%
Spending Growth Assumptions - Base Case	4.5%	6.0%	6.0%	6.0%	4.4%

Five Year Model

FISCAL YEAR 2013 - 2018	SUMMARY				
	2013	2014	2015	2016	2017
REVENUE					
Individual Income Tax	1,800	1,800	1,800	1,800	1,800
Corporate Tax	900	900	900	900	900
Other Tax Revenue	300	300	300	300	300
TOTAL REVENUE	3,000	3,000	3,000	3,000	3,000
EXPENDITURES					
Individual Income Tax Expenditures	1,800	1,800	1,800	1,800	1,800
Corporate Tax Expenditures	900	900	900	900	900
Other Tax Expenditures	300	300	300	300	300
TOTAL EXPENDITURES	3,000	3,000	3,000	3,000	3,000
NET SURPLUS/DEFICIT	0	0	0	0	0

Caseload Forecasting*

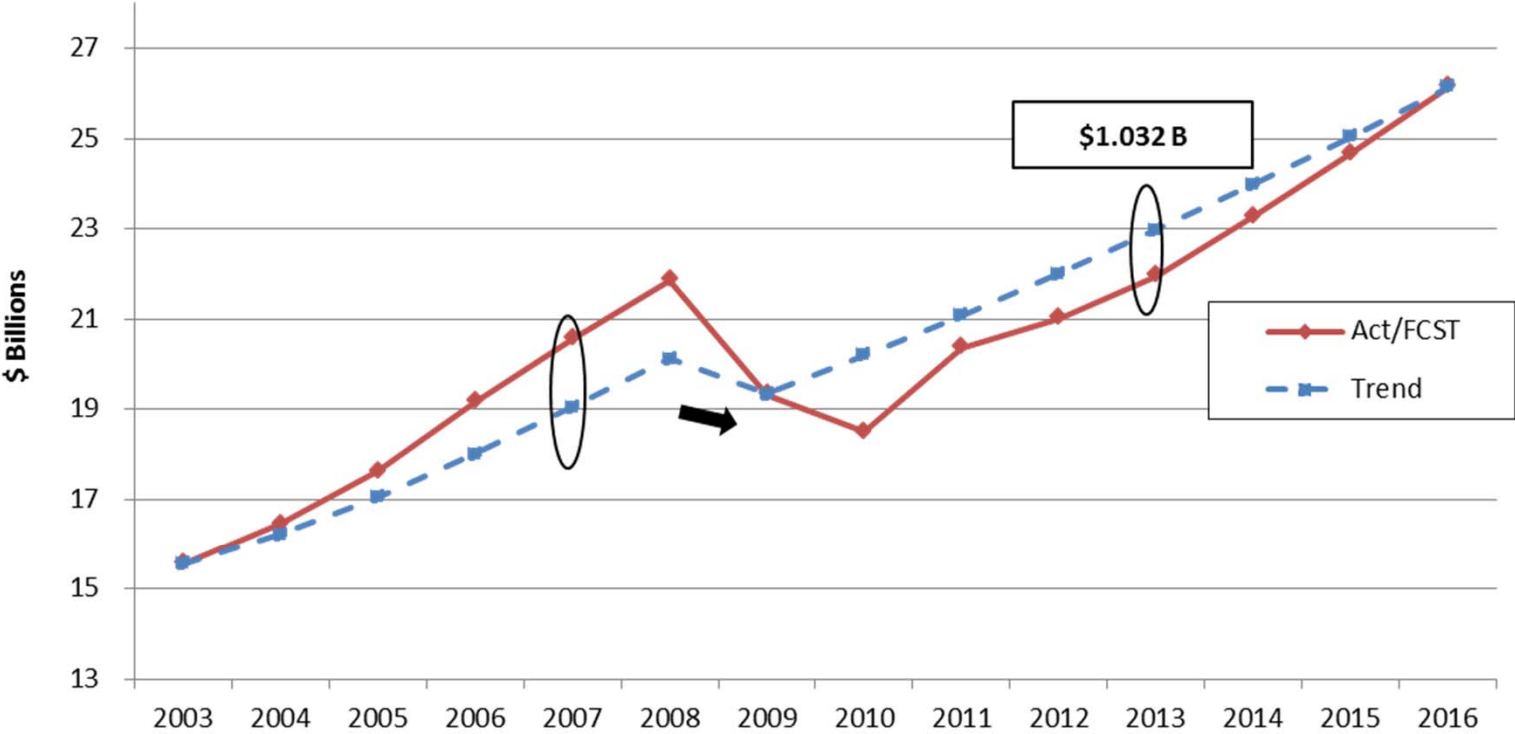
Category	2013	2014	2015	2016	2017
MA					
MA State Government	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
MA Local Government	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
TOTAL	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000

*Caseload Forecasting is part of the existing budget process and will be enhanced for purposes of FY 2014 budget development. Refer to Section 4 for more detail.

Long-Term Fiscal Policy Framework

Tax Revenue Forecast

Tax Revenue: Actual/FCST vs. Trend*
FY 2003 - FY 2016



*Actuals reflect adjustments for significant changes in tax law prior to FY 2012.

Long-Term Fiscal Policy Framework

Achieving structural balance

- Under this framework, the Massachusetts FY 2013 budget is in structural balance
 - The Governor's Proposed FY 2013 Budget is in structural balance because the use of \$446 M in one-time solutions (net of stabilization fund deposits) is less than an estimated \$1.032 B cyclical deficit.
 - The House FY 2013 proposed budget is in structural balance because one-time solutions total \$585 M (net of stabilization fund deposits) versus \$1.032 B cyclical deficit.
- This is a continuation of our demonstrated commitment in FY 2011 and FY 2012
 - The use of one-time solutions in both FY 2011 (\$616M) and estimated FY 12 (\$435 M) are substantially less than estimated cyclical deficits in excess of \$1B
 - Consistent with our policy on the treatment of differences between actual and budgeted tax revenue, more than 50% of increased revenue projections in FY 2011 (\$1.4B) and FY 2012 (\$395 M) targeted for additional deposits into the stabilization fund or to offset expected withdrawals from the fund

5. Debt / Capital



Debt / Capital

- The STO continues to issue debt periodically to fund the state's capital budget, following the guidelines in the state's Debt Affordability Analysis
- In early May 2012, the Commonwealth sold \$419.26 mm CTF Revenue Bonds to fund the Accelerated Bridge Program needs through a portion of FY13 which begins July 1
- In terms of the state's General Obligation (GO) bond program, the STO has issued new money GO bonds three times so far in FY12
- The borrowings have generated approximately \$1.07 billion in bond proceeds, roughly \$750 mm below the Administration's FY12 Bond Cap of \$1.75 bn
- The \$350 mm General Obligation Bonds, Series 2012 B, being sold competitively on Tuesday, May 22nd will close on Thursday, May 31st

Debt / Capital (con't)

- This will be the state's first general obligation sale since January 2012 (\$100 mm)
 - Bond proceeds from the \$350 mm General Obligation Bonds, Series 2012 B sale will provide capital budget funding likely through the end of June 2012
- Bonds are being structured to smooth out debt service in future fiscal years, while also allowing the Commonwealth to additionally lock-in longer term borrowing costs while rates remain at historically low levels
- The \$100 mm in bonds being offered in 2041 and 2042 (\$66 mm in 2041 & \$34 mm in 2042) represents the first time GO bonds are being sold beyond a twenty year maturity since May 2009

This is a preliminary document and should not be relied upon for any purpose. It is subject to change without notice. The terms of the bonds are set forth in the Official Notice of Sale and the Official Statement. The bonds are sold on a "best efforts" basis. The Commonwealth does not warrant the accuracy of the information contained herein.

OFFICIAL NOTICE OF SALE AND PRELIMINARY OFFICIAL STATEMENT DATED MAY 16, 2012
NEW MONEY ISSUE - BOOK-ENTRY-ONLY

In the opinion of Nixon Phelps LLP, Bond Counsel under existing law and assuming compliance with the tax covenant described herein and the accuracy of certain representations and certifications made by the Commonwealth of Massachusetts described herein, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"). Bond Counsel is not responsible for the accuracy of the information provided in calculating the amount of minimum tax imposed under the Code with respect to both individuals and corporations. Bond Counsel is further of the opinion that under existing law, interest on the Bonds is 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 issuance or disposition of the amount or receipt of interest on the Bonds. See "TAX EXEMPTION" herein.

THE COMMONWEALTH OF MASSACHUSETTS
\$350,000,000*
General Obligation Bonds
Consolidated Loan of 2012, Series B

Date: Date of Delivery **Due:** As shown on the inside cover hereof

The Bonds will be issued by means of a book entry only system or abstract ownership and transfer of the Bonds on the system of the Depository Trust Company, New York, New York ("DTC"), and its participants. Details of payment of the Bonds are shown on the Official Statement. The Bonds will bear interest from their date of delivery and interest will be payable on December 1, 2012 and semiannually thereafter on December 1 and June 1 and at maturity, calculated on the basis of a 30-day year of exact 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 in the payment of the principal of and interest on the Bonds. However, for information regarding certain statutory limits on state tax revenue growth and its expenditures for debt service, see "SOLIDARITY FOR THE PEOPLE" Policy and the Commonwealth Information Submittal (Details) located on the website "COMMONWEALTH REVENUE AND FINANCE" | Information on Tax Revenue and "LONG-TERM LIABILITIES - General Authority to Borrow; Limit on Debt Service Appropriations."

The Bonds are offered when, as and if issued and received by the original purchasers, and subject to the applicable approving opinion as to legality of Nixon Phelps LLP, Boston, Massachusetts, Bond Counsel. Certain bond features will be passed upon for the Commonwealth by Maria Levin, Colin Ferris, Glenovsky and Porco, P.A., Boston, Massachusetts, Disclosure Counsel. Public Resources Advisory Group is acting as financial adviser 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 May 31, 2012.

The Bonds are offered on a noncompetitive basis as described herein under "COMBINED BIDDING RULES" and pursuant to the Official Notice of Sale dated May 14, 2012 and attached herein as Appendix D.

May 16, 2012

* Preliminary, subject to change.

Debt / Capital

- In terms of a forward calendar, future general obligation borrowings will be driven by the pace of capital spending and by the new disclosure calendar
- Under the schedule, disclosure will be next updated July 20th, then again September 10th
- With construction season underway, the STO expects the need to borrow again as the bond proceeds from the Series 2012 B bonds are drawn down
- The size of the next G.O. borrowing will depend on the pace of capital spending in May and June

Debt / Capital (con't)

- The STO is also working on strengthening the Commonwealth's debt portfolio
- The Commonwealth is currently seeking ratings on two expiring Standby Bond Purchase Agreement Agreements (SBPAs):
 - New SBPA for the Series 2000 B VRDBs - State Street Bank is being replaced by U.S. Bank
 - Closing is scheduled for 5/24/2012
 - New SBPA for the Series 2000 A VRDBs - Bank of America is being replaced by JP Morgan
 - Closing is scheduled for 5/25/2012
- In addition, the Commonwealth will be closing on two new lines of Commercial Paper:
 - New Commercial Paper program Series I - \$200 mm Nova Scotia
 - New Commercial Paper program Series J - \$200 mm TD Bank, NA

6. Questions & Follow-Up



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