
The Commonwealth of Massachusetts

September 2012 Live Investor Conference Call: Credit Update &
Review of Major Spending Categories

September 18, 2012



Investor Conference Call Presentation Participants



Commonwealth of Massachusetts

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Agenda

1. Economic Update
2. Fiscal 2012 Close
3. Fiscal 2013 Revenue Collections Update
4. Fiscal 2013 Budget
5. Big Topic: Overview of Major Spending Categories
6. Debt / Capital
7. Questions



1. Economic Update



Economic Update

Wealth Measures:

- 2011 Per Capita Income in Massachusetts was \$53,621, or 129% of the US average

Source: US Depart of Commerce, Bureau of Economic Analysis

Unemployment:

- The 2011 Unemployment Average was 7.4% for MA vs. 8.9% for US
 - As of July 2012, MA was 6.1% vs. 8.1% nationally for August 2012

Source: US Depart of Commerce, Bureau of Economic Analysis; MA Div of Unemployment Assistance

Economic Output:

- GDP grew at a rate of 2.2% in 2011 in MA vs. 1.7% for the US
 - For the most recent quarter (Q2), MA GDP is estimated to have grown at an annualized rate of 4.0% vs. 1.7% for the US

Source: US Bureau of Economic Analysis June 2012 and <http://www.MassBenchmarks.org>



Economic Update

- As of July 2012, the 12-month change in the Federal Reserve Bank of Philadelphia's State Coincident Index was 4.12% for MA vs. 2.71% for the US

| Federal Reserve Bank of Philadelphia | | | |
|---|---|----------------|---|
| State Coincident Indexes | | | |
| As of July 2012 Data | | | |
| State | (July 2011- July 2012) 12-Month % Change | State | (July 2011- July 2012) 12-Month % Change |
| Alabama | 1.10% | Montana | 3.02% |
| Alaska | -1.84% | Nebraska | 2.23% |
| Arizona | 2.53% | Nevada | -0.03% |
| Arkansas | 1.79% | New Hampshire | 1.07% |
| California | 3.93% | New Jersey | 2.28% |
| Colorado | 2.25% | New Mexico | 0.06% |
| Connecticut | 1.81% | New York | 2.51% |
| Delaware | 1.23% | North Carolina | 1.95% |
| Florida | 1.26% | North Dakota | 10.85% |
| Georgia | 2.20% | Ohio | 5.81% |
| Hawaii | 1.56% | Oklahoma | 4.43% |
| Idaho | 3.62% | Oregon | 3.41% |
| Illinois | 2.06% | Pennsylvania | 1.77% |
| Indiana | 4.39% | Rhode Island | 0.65% |
| Iowa | 2.50% | South Carolina | 1.84% |
| Kansas | 2.11% | South Dakota | 2.47% |
| Kentucky | 3.95% | Tennessee | 2.54% |
| Louisiana | 2.55% | Texas | 3.77% |
| Maine | 1.19% | Utah | 3.02% |
| Maryland | 1.92% | Vermont | 2.47% |
| Massachusetts | 4.12% | Virginia | 2.22% |
| Michigan | 4.97% | Washington | 3.30% |
| Minnesota | 2.28% | West Virginia | 2.45% |
| Mississippi | 1.46% | Wisconsin | 0.06% |
| Missouri | 0.87% | Wyoming | 1.61% |
| United States | | | 2.71% |



2. Fiscal 2012 Close



Fiscal 2012 Close

- Fiscal 2012 ended on June 30, 2012, but, as is customary, the Executive Office of Administration & Finance and the State Comptroller continue to work to close out the fiscal year
- The Commonwealth's Comptroller typically releases the annual Statutory Financial Basis Report toward the end of October
- Executive Office for Administration and Finance expects fiscal 2012 to end in balance without requiring any unbudgeted withdrawals from the Stabilization Fund
- In fact, this projection assumes a net deposit to the Stabilization Fund in fiscal 2012 of \$159.9 million, due to \$375 million in one-time tax settlements in excess of \$10 million being deposited to the Stabilization Fund. These deposits were partially offset by the budgeted \$200 million withdrawal
- The Stabilization Fund is projected to have a balance of \$1.539 billion at the end of fiscal 2012
- The FY2012 Statutory Basis Financial Report is scheduled to be completed and released on October 31st



3. Fiscal 2013 Revenue Collections Update



Fiscal 2013 Revenue Update

- On January 12, 2012, a Fiscal 2013 consensus tax revenue estimate of \$21.950 billion was agreed upon by the Secretary of Administration and Finance and the chairs of the House and Senate Committees on Ways and Means.
- The revenue estimate in the Fiscal 2013 budget is \$22.011 billion and reflects the consensus estimate of \$21.950 billion adjusted for the impact of Fiscal 2013 revenue initiatives enacted as part of the budget, including a) *one-year delay of the FAS 109 deductions* (\$45.9 million), and b) *enhanced tax enforcement initiatives* (\$36.3 million), as well as the impact of the subsequently enacted two-day sales tax holiday on August 11-12, 2012 (\$21.55 million)
- Approximately \$1.1 billion of the \$22.011 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.
- According to *MassBenchmarks*⁽¹⁾, there are still risks that could affect the U.S. and Massachusetts economies: the weakness in Europe, slowing growth in China, weak growth in the U.S. economy, and uncertainty about whether and how the looming "fiscal cliff" coming in 2013 will be resolved: So, it is likely that most states across the country will not be in a comfort zone with respect to their own economic growth and tax revenue collections for a while. However, having a lower unemployment rate and a relatively better recent economic performance compared to the nation as a whole will probably give the Massachusetts economy a slight edge over some other states.

(1) http://www.massbenchmarks.org/publications/bulletin/23_bulletin_072712/index.htm



Fiscal 2013 Revenue Update

Fiscal 2013 Year to Date Tax Collections: July and August are months with small tax collections months. Preliminary tax revenues for the first two months of fiscal 2013 totaled approximately \$2.870 billion, an increase of approximately \$0.4 million, or 0.02%, over the same period in fiscal 2012, \$69 million below benchmark.

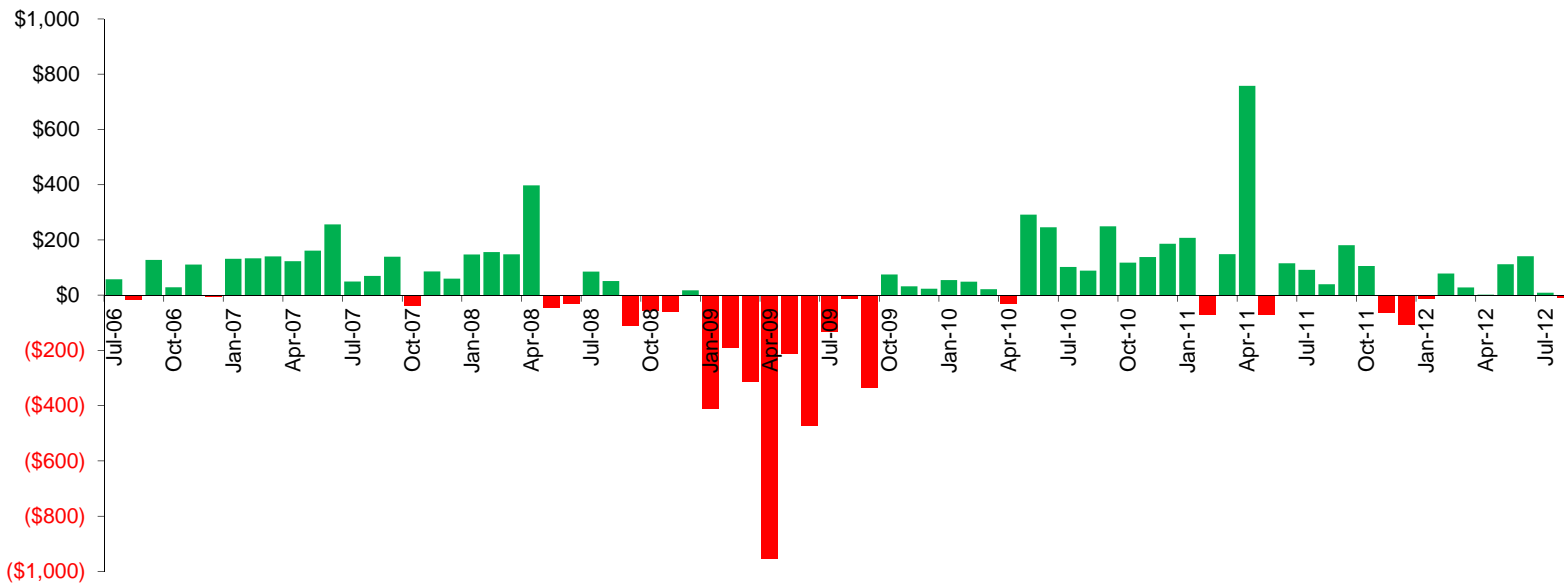
August 2012 Tax Collection Summary (in \$ millions) (Preliminary as of September 14, 2012)

| | ----- Month of August ----- | | | | | ----- FY13 Year-to-Date ----- | | | | |
|---|-----------------------------|--------------------------------|--------------------------------------|---|---|----------------------------------|--------------------------------|--------------------------------------|---|--|
| | 08/12 Collections | 08/12 v. 08/11 \$ Change | 08/12 v. 08/11 Actual % Change | 08/12 v. 08/11 Baseline % Change | 08/12 \$ Above/(Below) Benchmark Based on FY13 Estimate of \$22.011 Billion | 08/12 FY13 YTD Collections | 08/12 FY13 YTD \$ Change | 08/12 FY13 YTD Actual % Change | 08/12 FY13 YTD Baseline % Change | FY13 YTD \$ Above/(Below) Benchmark Based on FY13 Estimate of \$22.011 Billion |
| Income - Total | 775 | (19) | -2.4% | 2.6% | (24) | 1,561 | (28) | -1.7% | 3.7% | (77) |
| Income Withholding | 748 | (14) | -1.8% | 3.4% | (12) | 1,487 | (37) | -2.4% | 2.9% | (78) |
| Income Est. Payments (Cash) | 18 | (5) | -20.7% | -20.4% | (6) | 51 | 12 | 30.7% | 33.0% | 10 |
| Income Returns/Bills | 32 | (1) | -1.9% | -1.6% | (7) | 52 | (7) | -12.5% | -6.8% | (15) |
| Income Refunds (Cash) | 23 | 0 | 1.1% | 1.3% | (0.1) | 32 | (2) | -6.1% | -5.2% | (2) |
| Sales & Use - Total | 436 | 17 | 4.0% | 3.7% | (8) | 897 | 28 | 3.3% | 3.8% | (16) |
| Sales - Regular | 288 | 9 | 3.2% | 2.9% | (6) | 609 | 8 | 1.3% | 2.4% | (17) |
| Sales - Meals | 85 | 3 | 4.2% | 4.0% | (2) | 168 | 10 | 6.2% | 6.8% | 0 |
| Sales - Motor Vehicles | 63 | 4 | 7.0% | 6.6% | 0.3 | 121 | 11 | 9.5% | 7.3% | 1 |
| Corporate & Business - Total | 44 | (6) | -11.9% | 5.6% | (0.2) | 111 | 12 | 11.8% | 27.5% | 20 |
| Corporate Excise | 42 | (30) | -41.9% | -41.4% | (21) | 108 | (7) | -6.3% | -4.0% | (0.1) |
| Insurance Excise | 2 | (2) | -54.5% | -56.6% | (3) | 7 | 3 | 69.1% | 70.8% | 3 |
| Financial Institutions Excise | 1 | (6) | -92.0% | 28.2% | 2 | 3 | (9) | -75.5% | 26.8% | 3 |
| Public Utilities Excise | (0) | 33 | N/A | N/A | 22 | (7) | 26 | N/A | N/A | 14 |
| All Other | 161 | 0 | 0.1% | -0.1% | (5) | 301 | (12) | -3.9% | -2.5% | 5 |
| Total Tax Collections | 1,417 | (8) | -0.6% | 2.7% | (38) | 2,870 | 0.4 | 0.02% | 3.9% | (69) |

Fiscal 2013 Revenue Update

- The year-to-date tax revenue increase of approximately \$0.4 million through August 31, 2012 from the same period in fiscal 2012 is attributable, in large part, to a decline of approximately \$37.1 million, or 2.4%, in withholding collections, a decrease of approximately \$7.5 million, 12.5%, in income payments with returns and bills, which were partly offset by an increase of approximately \$12.0 million, 30.7%, in income cash estimated payments, an increase of approximately \$28.4 million, or 3.3%, in sales and use tax collections, and an increase of approximately \$11.7 million, or 11.8%, in corporate and business collections.

**MA State Tax Collections Year-Over-Year Changes by Month
July 2006 - August 2012**



Fiscal 2013 Revenue Update

Income tax rate reduced from 5.3% to 5.25% effective TY2012 and thereafter:

- Pursuant to state law, the state income tax rate on most classes of taxable income was reduced from 5.3% to 5.25% (effective January 1, 2012), because the growth in Fiscal 2011 inflation adjusted baseline revenues (as defined in state law) over Fiscal 2010 exceeded 2.5%, and because, for each consecutive three-month period starting in August and ending in November, 2011, there was positive inflation-adjusted baseline revenue growth as compared to the same consecutive three-month period in calendar 2010.
- The Department of Revenue estimates that the revenue impact of this rate reduction for Fiscal 2012 was about \$52 to \$56 million. The revenue impact for Fiscal 2013 (assuming no further rate reduction in calendar year 2013) is expected to be between \$111 million and \$117 million (mid-point of \$114 million).



Fiscal 2013 Revenue Update - Potential Future Considerations

A Further Reduction in Income Tax Rate? *The rate could be reduced further from 5.25% to 5.20% effective TY2013 if certain conditions are met:*

- The state income tax rate will be reduced further from 5.25% to 5.20%, effective January 1, 2013, if the growth in fiscal 2012 inflation-adjusted baseline revenues, as defined in the law, over fiscal 2011 exceeds 2.5%, **and if** for each consecutive three-month period starting in August and ending in November, 2012 there is positive inflation-adjusted baseline revenue growth as compared to the same consecutive three-month period in calendar 2011.
- On September 6, 2012, the Department of Revenue certified that fiscal 2012 inflation-adjusted baseline revenues grew by 2.77% from fiscal 2011, exceeding the initial trigger of 2.5% growth for the income tax rate reduction. To determine if there will be positive inflation-adjusted baseline revenue growth for each consecutive three-month period starting in August and ending in November, 2012 as compared to the same consecutive three-month period in calendar 2011, the Commissioner will issue four more “three-month period” certifications in September, October, November and on December 17, 2012. **Accordingly, it will not be known if the rate reduction will be triggered until the Commissioner issues a final certification on December 17, 2012 as to whether all of the statutory triggers were met.**
- The Department of Revenue estimates that the revenue impact of this rate reduction (5.25% to 5.20%) for fiscal 2013 would be between \$50 million and \$64 million. The revenue impact for fiscal 2014 (assuming no further rate reduction in calendar year 2014) would be between \$110 million and \$124 million.
- The Fiscal 2013 tax revenue estimate of \$22.011 billion does not assume any further part B income tax rate cuts for calendar 2013 and thereafter



4. Fiscal 2013 Budget Update



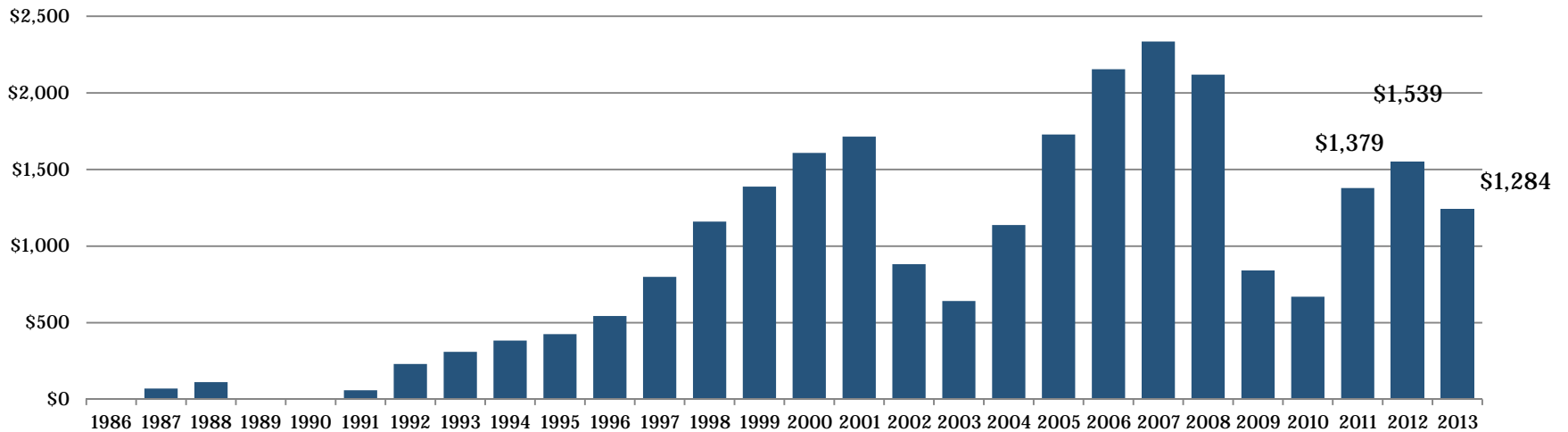
Fiscal 2013 Budget Update

- The fiscal 2013 budget was enacted by the Legislature on June 28, 2012 and approved by the Governor on July 8, 2012.
- Total spending in the fiscal 2013 budget approved by the Governor amounts to approximately \$32.508 billion, after accounting for \$31.7 million in veto overrides.
- The fiscal 2013 budget is approximately \$1.225 billion, or 3.93%, greater than fiscal 2012 estimated spending levels at the time of the signing of the budget.
- The fiscal 2013 budget relies on \$616 million in one-time resources to support recurring spending, down from the fiscal 2012 assumption of \$651 million.
- Among the one-time resources assumed as part of the fiscal 2013 budget is a \$350 million withdrawal from the Stabilization Fund, the use of fiscal 2013 interest earnings on the Stabilization Fund and an additional \$110.1 million in savings achieved by suspending the statutorily required deposit into the Stabilization Fund of 0.5% of total tax revenue.
- The Stabilization Fund is projected to have a \$1.284 billion balance at the end of fiscal 2013.

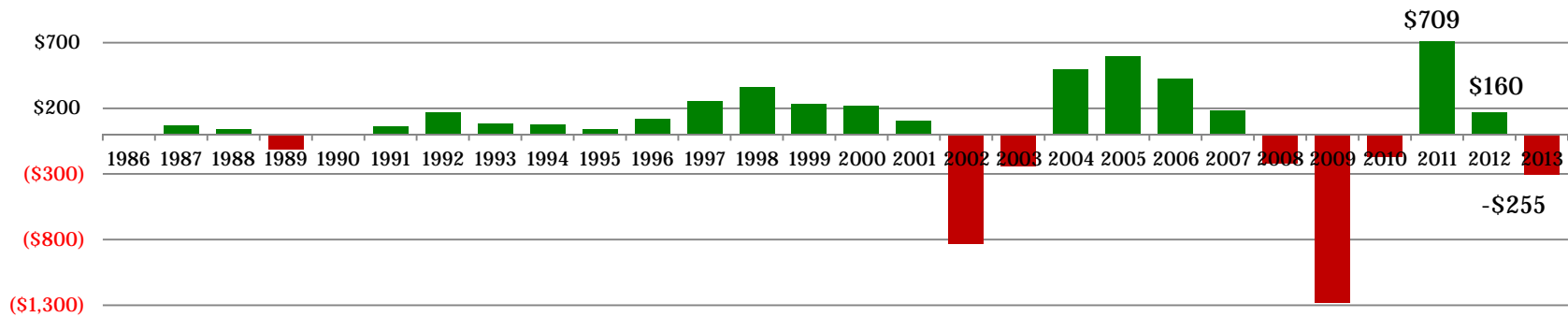


Projected Stabilization Fund Balance

Stabilization Fund Balance, FY1986-FY2013, (\$ mm)



Annual Change in Stabilization Fund, FY1986-FY2013 (\$ mm)



(1) FY 2012 assumes \$200 M in Stabilization Fund transfers to the General Fund, \$404 M of settlements revenue deposited into the Stabilization Fund, \$20 M used for start-up gaming costs and \$29 M for one-time settlement costs for Ambulatory Payment Group.

(2) FY 2013 assumes a \$350 M draw from the Stabilization Fund to the General Fund, partially offset by \$90 M in capital gains Proceeds in excess of \$1 B.

Fiscal 2013 Budget Update

- The Executive Office for Administration and Finance has launched its annual spending plan process with state agencies for fiscal 2013.
- State agencies are required to submit detailed spending and revenue projections for the fiscal year and identify any projected surpluses or deficiencies they may anticipate.
- Upon completion of its review of agency spending plans in September, 2012, the Executive Office for Administration and Finance will identify any potential funding or revenue exposures in fiscal 2013.
- The first two months of the fiscal year are smaller tax collection months compared to other months. September will provide a better glimpse at what to expect for fiscal 2013 tax revenue collections.
- ANF is monitoring state revenue collections very closely will know better by mid-October if tax collections for the remainder of the year will meet estimates used to create the state budget.
- While we've had continued and consistent growth here in Massachusetts there is considerable uncertainty and some headwinds internationally and nationally that must be watched carefully



Fiscal 2014 Budget Preparation Has Already Begun

Fiscal 2014 Budget Preparation Key Dates

- **October 15, January 15 and April 15**, the Secretary is required to submit revised estimates for the current fiscal year (FY13) unless, in his opinion, no significant changes have occurred since the last estimate of total available revenues.
- On or before **January 15** of each year, the Secretary is required to develop jointly with the House and Senate Committees on Ways and Means a consensus tax revenue forecast for the following fiscal year, in this case FY14.
- **January 23rd** - Governor Patrick files his FY14 budget recommendations (House 1)
- **Early to mid-April** - The House Committee on Ways & Means files its version of the budget. It is then debated and amended by the House later that month.
- **Early to mid-May** - The Senate Committee on Ways and Means files its version of the budget. It is then debated and amended by the Senate later that month.
- **June** - A House and Senate conference committee reports a final compromise bill to the House and Senate for a final vote of acceptance in each branch.
- **June/July** - The Governor has 10 days to review the budget and take action to either approve or veto the budget.



5. Big Topic: Overview of Major Budgetary Spending Categories



Overview of Major Spending Categories

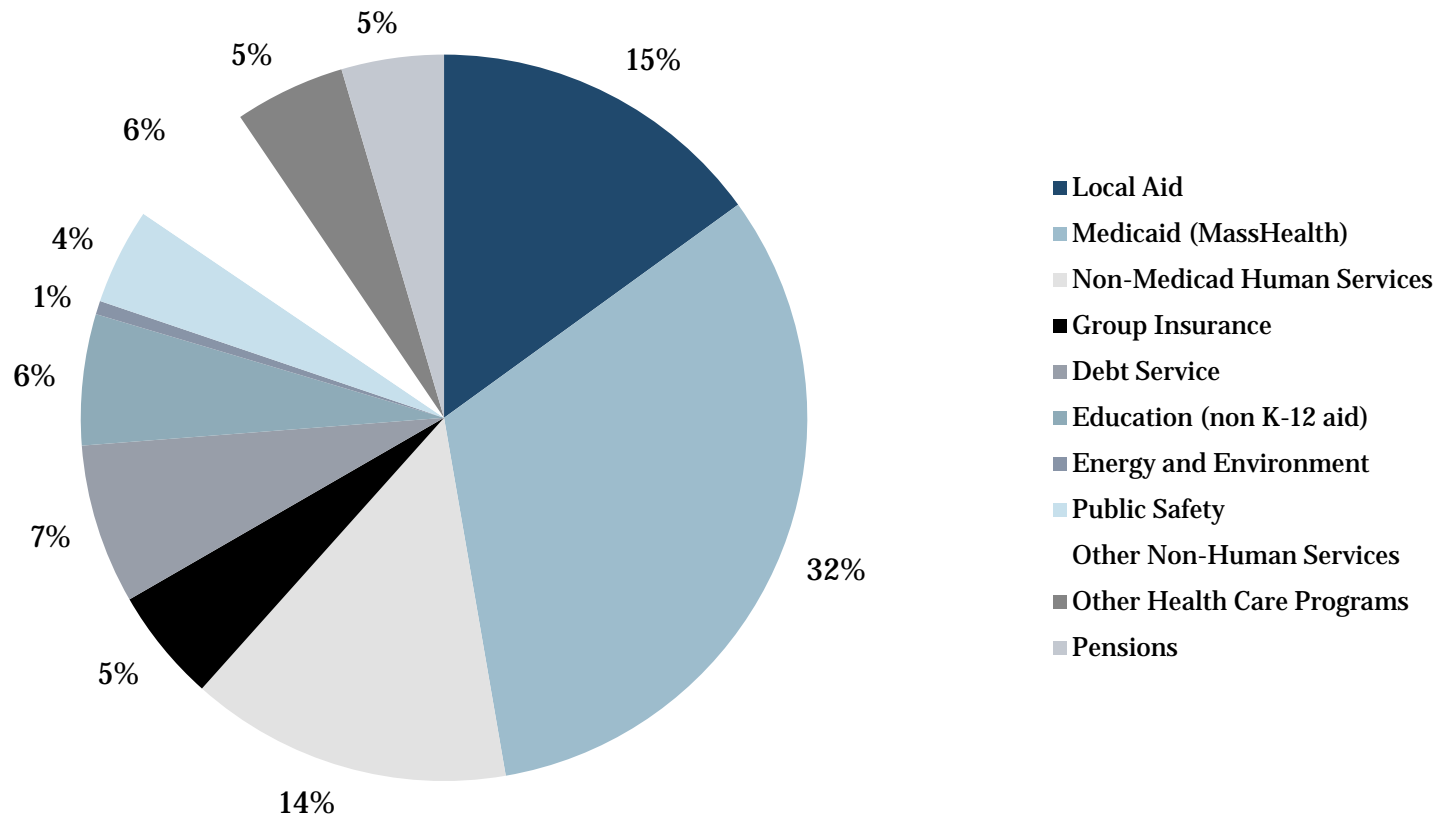
- The Commonwealth's annual operating expenditures range from approximately \$32 bn to \$34 bn
- Major spending categories include Medicaid and Health & Human Services, Local Aid, Debt Service, and Post Employment Benefits

| Budgeted Operating Expenditures (\$mm) | | | | |
|--|--------------------|--------------------------------|------------------------------|--|
| | FY 2011 | Preliminary FY 2012 | Projected FY 2013 | |
| Expenditures | | | | |
| Medicaid | \$ 10,237.3 | \$ 10,435.0 | \$ 10,991.0 | |
| Local Aid | 4,784.7 | 4,929.9 | 5,115.4 | |
| Other Health & Human Services | 4,614.8 | 4,771.4 | 4,876.7 | |
| Debt Service | 1,663.9 | 2,208.4 | 2,422.8 | |
| Post Employment Benefits | 1,838.9 | 1,892.3 | 1,967.0 | |
| Public Education | 1,807.5 | 1,939.0 | 1,993.5 | |
| Public Safety | 905.0 | 1,453.4 | 1,458.0 | |
| Group Insurance | 1,130.3 | 1,201.1 | 1,306.4 | |
| Other Programs | 3,036.0 | 2,160.2 | 2,276.1 | |
| Total Inter-Fund Transfers to Non-Budgeted Funds | 2,059.0 | 1,448.7 | 1,676.5 | |
| Total Budgeted Expenditures | \$ 32,077.4 | \$ 32,439.4 | \$ 34,083.4 | |



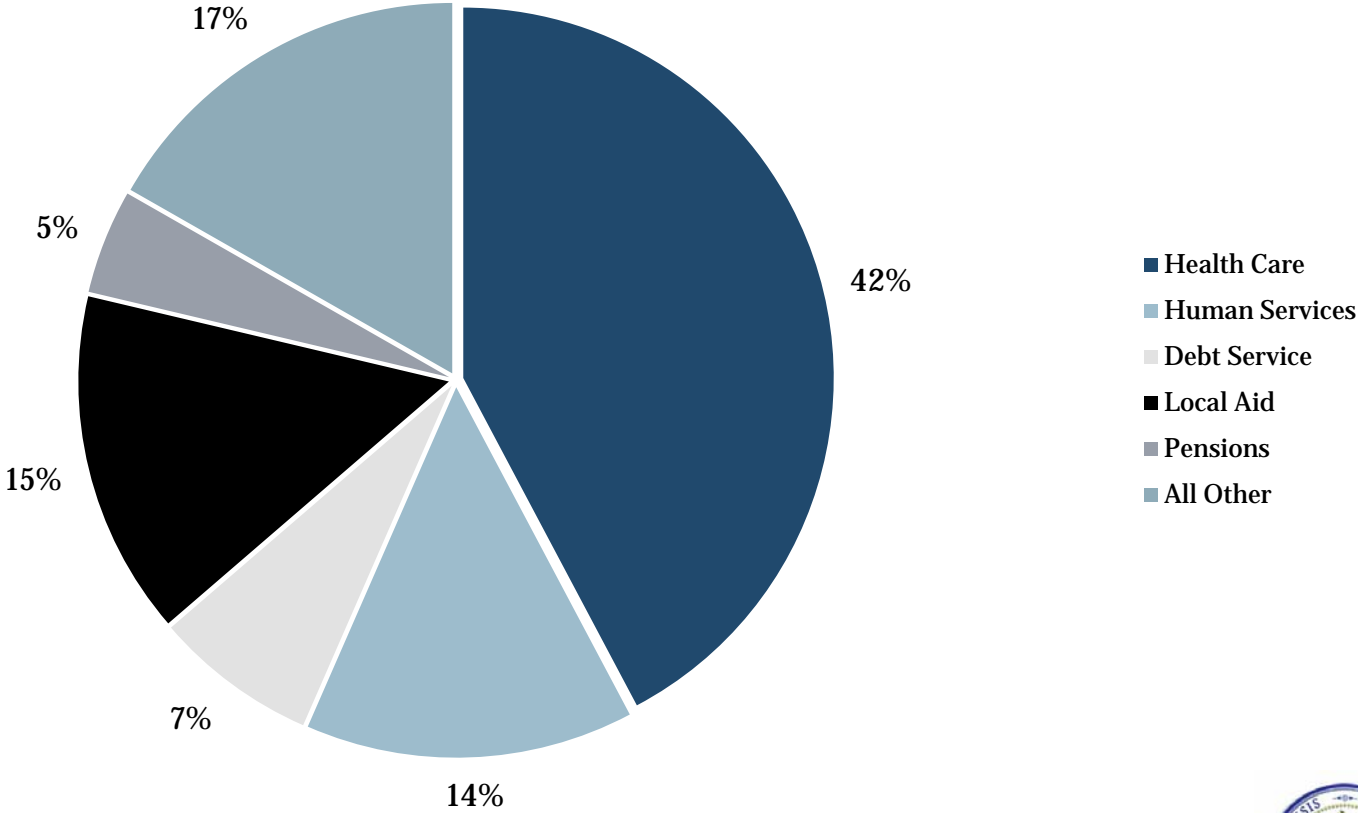
Overview of Major Spending Categories

FY 2013 Budget (\$34.1 B)



Overview of Major Spending Categories

FY 2013 Budget (\$34.1 B)



Overview of Major Spending Categories: Local Aid

- In fiscal 2012, approximately \$4.93 billion of the Commonwealth's budget was allocated to direct local aid.
- The Commonwealth's budget for fiscal 2013 provides \$5.12 billion of state-funded local aid to municipalities.
- Funding for direct local aid has grown by 8.3% between the start of the recession and now (FY09 to FY13).
- Direct local aid is comprised of Chapter 70 funding (\$4.17 billion in FY13) and unrestricted general government aid (\$898.9 million in FY13).
- This level of funding for Chapter 70 brings all school districts to the foundation level called for by 1993 education reform legislation, ensures that all local educational authorities receive an increase of funding of at least \$40 per pupil, and is an increase of \$173 million over the fiscal 2012 state-supported amount of \$3.99 billion.
- The amount included in the FY13 budget for cities and towns in unrestricted general government aid would ensure level funding to fiscal year 2012 levels to all municipalities.



Overview of Major Spending Categories: Health Care and Human Services

- Estimated spending in fiscal 2012 is \$10.435 billion for MassHealth programs and includes almost \$588 million in savings achieved through a variety of initiatives, including but not limited to rate restructuring, program integrity efforts, capitation cost control and payment strategies. The fiscal 2013 budget includes \$10.991 billion for the MassHealth program. This is approximately 5.3%, or \$556 million, higher than fiscal 2012 estimated spending of \$10.435 billion.
- The fiscal 2013 budget includes \$10.991 billion for the MassHealth program. This is approximately 5.3%, or \$556 million, higher than fiscal 2012 estimated spending of \$10.435 billion.
- Between fiscal 2012 and fiscal 2013 MassHealth has controlled health care cost growth for an annual average increase of 3.6%.
- The fiscal 2013 budget fully maintains eligibility for MassHealth and funds projected enrollment growth of 2.79%.
- The budget keeps MassHealth costs affordable for the Commonwealth and members by maintaining appropriate discipline on rates, instituting new program integrity measures and restructuring certain benefits.



Overview of Major Spending Categories: Health Care and Human Services (con't)

- The Governor's fiscal 2013 budget proposal also assumes growth in spending for the Commonwealth's health care coverage programs, including MassHealth, Commonwealth Care and the Group Insurance Commission, will be mitigated in fiscal 2013 based on new procurement and enrollment strategies expected to drive care to lower-cost settings.
- Through its procurement the Connector was able to reduce premiums by 5% from the fiscal 2012 level, which is expected to save the Commonwealth tens of millions of dollars.
- In addition the Group Insurance Commission has held premium growth to 1.43% for fiscal 2013, the lowest increase in the last ten years which will result in further savings to the Commonwealth.



Overview of Major Spending Categories: Health Care and Human Services (con't)

- On August 6, 2012, the Governor approved comprehensive health payment reform legislation which was a compromise version of the bill he had filed in February, 2011.
- The law will move providers and payers away from fee-for-service payments toward alternative payment structures that are designed to reward integration and coordination of care for patients, reduce costs and improve quality.
- In addition, the new law will extend the presumptive disapproval criteria of the state Division of Insurance for premium rates in the small and non-group market.
- A newly created Health Policy Commission will oversee policy development necessary for the implementation of the law.



Overview of Major Spending Categories: Health Care and Human Services (con't)

- The law establishes a cost growth target for the Commonwealth based on Potential Gross State Product (PGSP), which is estimated to be 3.6% for the 2012-2013 period.
- The growth rate of PGSP is the long-run average growth rate of the Commonwealth's economy, ignoring fluctuations due to business cycles. The cost growth target equals PGSP for the period from 2013 through 2017, PGSP minus 0.5% for the period from 2018 through 2022 and PGSP from 2023 on. However, the Health Policy Commission and the Legislature have some ability to change those growth targets after 2018.
- Insurers and providers with cost growth exceeding the growth target may be required by the Health Policy Commission to file performance improvement plans describing specific strategies, adjustments and action steps they propose to implement to improve cost performance.
- If cost growth targets are met, it is estimated that the new law could result in statewide savings of up to \$200 billion over the next 15 years.



Overview of Major Spending Categories: Employee Benefits - Group Insurance

- The Group Insurance Commission (GIC) provides health insurance benefits to approximately 375,000 people, including active and retired state employees and dependents, participating municipalities, and certain retired municipal teachers. The fiscal 2013 budget funds the GIC at \$1.721 billion.
- In an effort to control employee health care costs, the Commonwealth required state employees to re-enroll in a health plan for fiscal 2012. The Commonwealth offered a three-month premium holiday for state employees who selected a limited network plan. The purpose of the mandatory re-enrollment was to require employees to reexamine their health plan choices, which included considering lower-cost, narrower-network options. The re-enrollment initiative is estimated to save the Commonwealth \$20 million in fiscal 2012.



Overview of Major Spending Categories: Employee Benefits - OPEB

- The most recent update of the Commonwealth's OPEB actuarial valuation report was released in October, 2011.
- According to this report, the Commonwealth's actuarial accrued OPEB liability, assuming no pre-funding and using a discount rate of 4.5%, was approximately \$16.569 billion as of January 1, 2011.
- Assuming pre-funding, the study estimated the Commonwealth's liability to be approximately \$12.450 billion using a discount rate of 6.4% and approximately \$9.892 billion using a discount rate of 8.25%.
- State finance law was amended in 2010 to require deposits, on an annual basis, to the State Retiree Benefits Trust Fund in the amount of 5% of any capital gains tax revenues in excess of \$1 billion.
- The fiscal 2012 budget included a requirement that, beginning in fiscal 2013, 10% of annual tobacco settlement payments received by the Commonwealth are to be transferred to the State Retiree Benefits Trust Fund (projected to be approximately \$27.6m in fiscal 2012), with the amount to be deposited to the State Retiree Benefits Trust Fund to increase by 10% increments annually thereafter until 100% of all payments are transferred to that Fund.
- A special commission to study retiree health care benefits for public employees in Massachusetts was mandated as part of the pension reform act passed in November, 2011. The commission held its first meeting in April, 2012 and is scheduled to file a report at the end of November, 2012.

Overview of Major Spending Categories: Employee Benefits - Pensions

- The retirement systems were originally established as “pay-as-you-go” systems, meaning that amounts were appropriated each year to pay current benefits, and no provision was made to fund currently the future liabilities already incurred.
- In fiscal 1988, the Commonwealth began to address the unfunded liabilities of the two state systems by making appropriations to pension reserves.
- Under current law such unfunded liability is required to be amortized to zero by June 30, 2040.
- The most recently approved pension funding schedule for payments into the Commonwealth’s Pension Liability Fund was filed by the Secretary of Administration and Finance on January 18, 2011. The fiscal 2013 payment is \$1.552 billion, for current payment schedule please refer to page A-36 in the recently published Information Statement.
- The schedule is based on the valuation of assets and liabilities as of January 1, 2010, an annual rate of return on assets of 8.25%, and an increase in the appropriation level of 5% per year in fiscal years 2013 and 2014 and 6% per year during fiscal years 2015 to 2017.
- The fiscal 2012 budget required that the pension funding amounts for fiscal 2012 through fiscal 2017 must be equal to or greater than the amounts for those years specified in the funding schedule filed in January, 2011.
- The next triennial funding schedule is due to be filed by the Secretary of Administration & Finance on January 15, 2014.



Overview of Major Spending Categories: Debt Service

- Debt service is another major spending category in the state's operating budget, but is carefully managed through the Debt Affordability policy which is tied to the state's Five-Year Capital Plan
- The Commonwealth's Debt Affordability policy for setting the amount of "Bond Cap" is based on two factors:
 1. Debt service does not exceed 8% of budgeted revenues in any given year; and
 2. The total increase in a given year will not be more than \$125 million per year.
- The Debt Affordability Analysis projects the FY13 Bond Cap to be \$1.875 Billion.
- The Executive Office for Administration and Finance will be releasing its FY13-FY17 Capital Plan within the next few weeks.



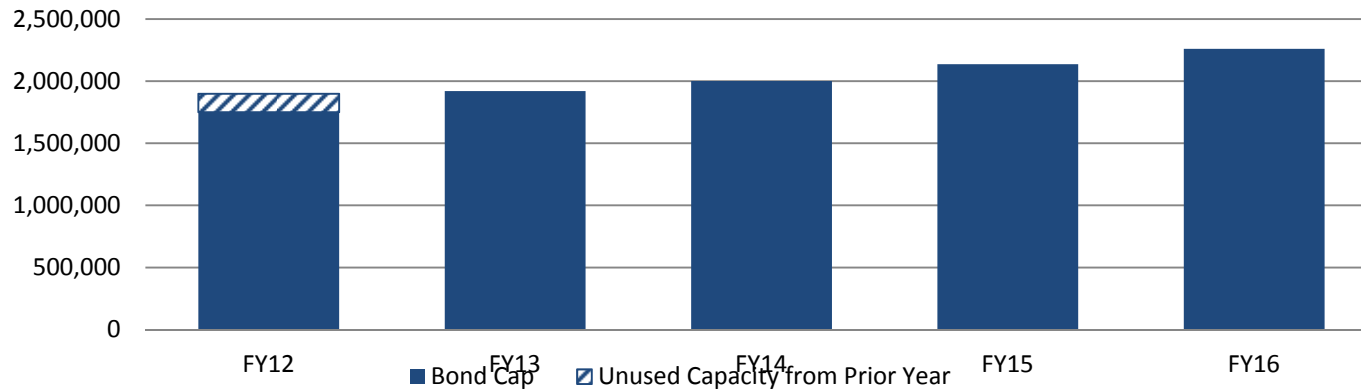
Overview of Major Spending Categories: Debt Service

- The updated Debt Affordability analysis indicates no change to forecasted FY12 -15 bond cap amounts required to meet affordability measures

FY12-16 Projected
Capital Spending & Debt Service as % of Revenues
(\$000s)

| | Bond Cap | Accelerated Bridge | DS as % Revenues |
|------|-----------|--------------------|------------------|
| FY11 | 1,625,000 | 253,272 | 6.10% |
| FY12 | 1,750,000 | 265,496 | 6.79% |
| FY13 | 1,875,000 | 488,721 | 7.26% |
| FY14 | 2,000,000 | 627,468 | 7.26% |
| FY15 | 2,125,000 | 474,638 | 7.29% |
| FY16 | 2,250,000 | 360,248 | 7.55% |

FY12-16 Bond Caps
(\$thousands)



6. Debt / Capital



Debt / Capital

- The State Treasurer's Office (STO) continues to issue debt periodically to fund the state's capital budget, following the guidelines of the Executive Office for Administration & Finance's (A&F) Debt Affordability Analysis
- In early May 2012, the STO sold \$419.26 mm Commonwealth Transportation Fund (CTF) Revenue Bonds to fund the Accelerated Bridge Program needs through a portion of FY13 which begins July 1
- In late May 2012, the STO sold \$350 mm General Obligation Bonds, the last new-money borrowing of FY12
- For the G.O. program in FY12, the STO issued \$1.325 bn in new-money bonds in four financings; this generated \$1.45 bn in bond proceeds
- The FY12 borrowings generated proceeds that were roughly \$300 mm below A&F's FY12 Bond Cap of \$1.75 bn, but matched the pace of capital spending
- If the capital budget accelerates / catches up, the \$300 mm in additional FY12 borrowing needs will be made up in FY13



Debt / Capital

- For FY13, the Five-Year Capital Plan calls for borrowing of \$1.875 bn (FY13 “Bond Cap”) through the issuance of G.O. bonds, as well as approximately \$489 mm of additional borrowing for the Accelerated Bridge Program (ABP)
 - The ABP program borrowings are done through the sale of special obligation bonds, including CTF bonds or Federal Highway Grant Anticipation Notes (GANs) or both
- In terms of the schedule of G.O. borrowings, it will be driven by the pace of capital spending and by the new disclosure calendar
 - Market conditions will obviously also be a factor
 - Under the bi-monthly disclosure schedule, disclosure will be next updated Nov 7th and then again in January
- As a simple default, the STO is assuming it will need to borrow in each quarter of FY13 through the issuance of roughly \$469 mm * of G.O. bonds
- As in FY12, the STO has adopted a formal Plan of Finance for FY13
- The FY13 Plan of Finance contemplated the timing of new-money borrowings, the targeting of different investors and different investor classes, and the structure of borrowings
 - This included things like call features and interest rate structure (fixed versus floating)

* Preliminary and subject to change



Debt / Capital

- While proceeds from the Commonwealth Transportation Fund revenue bonds borrowing remain, the state's GO bond proceeds from its last sale in May have been exhausted
- The \$400 mm Series 2012 C GO Bond sale represents the Commonwealth's first borrowing in FY13 and the first quarter's only borrowing
- Bonds will be sold as fixed-rate bonds
- Bonds will be structured consistent with the state's long-term Debt Affordability Plan
- Bond proceeds will be used to fund the capital budget
 - The Five-Year CIP is being updated now, targeting release end of Sept/beginning of Nov
- Bonds sold via competitive auction

This Preliminary Official Statement and the information contained herein are subject to completion or amendment. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of any offer to buy any debt 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.

OFFICIAL NOTICE OF SALE AND PRELIMINARY OFFICIAL STATEMENT DATED SEPTEMBER 17, 2012

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 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 ownership or disposition of, or the accrual or receipt of interest on, the Bonds. See "TAX EXEMPTION" herein.

THE COMMONWEALTH OF MASSACHUSETTS



\$400,000,000*
General Obligation Bonds
Consolidated Loan of 2012, Series C

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 April 1, 2013 and semiannually thereafter on October 1 and April 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 October 3, 2012.

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 September 17, 2012 and attached hereto as Appendix D.

September __, 2012

* Preliminary, subject to change.

Debt / Capital

- As in the previous three fiscal years, the Commonwealth is planning to sell \$1.2 bn in Revenue Anticipation Notes (RANs)
- The RANs are expected to represent the Commonwealth's only cash flow borrowing for FY13
- RANs will be secured by the Commonwealth's full faith and credit pledge
- RANs will be structure as fixed rate, single coupon securities
- RANs will be sold via competitive auction in two series, with maturities set for April and May 2013

This Preliminary Official Statement and the information contained herein are subject to completion or amendment. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the securities or any part thereof, or any part of the proceeds therefrom, in any jurisdiction in which such offer, sale, issuance or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.

OFFICIAL NOTICE OF SALE AND PRELIMINARY OFFICIAL STATEMENT DATED SEPTEMBER 17, 2012

NEW 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 Notes is excluded from gross income for federal income tax purposes under the Internal Revenue Code of 1986. Interest on the Notes 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 Notes is exempt from Massachusetts personal income taxes, and the Notes 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 Notes. See "TAX EXEMPTION" herein.



THE COMMONWEALTH OF MASSACHUSETTS

\$1,200,000,000
General Obligation
Revenue Anticipation Notes
\$600,000,000 2012 Series A
\$600,000,000 2012 Series B

The Notes will be issued by means of a book-entry-only system evidencing ownership and transfer of the Notes on the records of The Depository Trust Company, New York, New York ("DTC"), and its participants. Details of payment of the Notes are more fully described in this Official Statement. The Notes will bear interest from their date of delivery and interest will be payable at maturity, calculated on the basis of a 30-day month and a 360-day year, as more fully described herein. The Notes are not subject to redemption prior to maturity.

The Notes 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 Notes. However, for information regarding the statutory limit on state tax revenue growth, see "SECURITY FOR THE NOTES" (herein) and the Commonwealth Information Statement (described herein) under the heading "COMMONWEALTH REVENUES AND EXPENDITURES—Limitations on Tax Revenues."

The Notes 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 Financial Management, Inc. is acting as financial advisor to the Commonwealth in connection with the issuance of the Notes. Settlement of the issue is expected at DTC in New York, New York, on or about October 3, 2012.

The Notes are offered on a competitive sale basis as described herein under "COMPETITIVE SALE OF NOTES" and pursuant to the Official Notice of Sale dated September 17, 2012 and attached hereto as Appendix C.

September __, 2012

Cash Flow

- The Commonwealth's cash position remains strong, with projections at or above approximately \$1 bn month-end over the course of FY2013
- The Commonwealth does not do interfund borrowings - for example, the roughly \$1.5 bn balance in the state's Stabilization Fund is not co-mingled with operating funds

| Month End General Fund Cash Balances (\$ millions) | | | | | |
|--|-------------|-------------|-------------|-------------|-------------|
| | Fiscal 2009 | Fiscal 2010 | Fiscal 2011 | Fiscal 2012 | Fiscal 2013 |
| July | \$ 832.40 | \$ 581.80 | \$ 1,082.20 | \$ 2,194.70 | \$ 1,944.40 |
| August | 790.50 | 837.70 | 1,852.10 | 2,153.10 | 1,367.20 |
| September | 753.70 | 1,033.10 | 1,715.30 | 1,462.00 | 1,520.90 |
| October | 1,090.40 | 703.40 | 1,522.20 | 1,522.50 | 1,822.20 |
| November | 1,259.40 | 529.20 | 1,661.90 | 1,973.00 | 1,450.20 |
| December | 1,014.30 | 890.00 | 1,558.00 | 1,287.40 | 1,293.20 |
| January | 1,275.70 | 1,271.70 | 1,948.20 | 1,995.50 | 2,118.70 |
| February | 734.20 | 988.40 | 1,591.30 | 1,551.20 | 1,641.70 |
| March | 517.70 | 891.40 | 924.80 | 860.10 | 986.30 |
| April | 1,030.20 | 1,335.90 | 2,246.00 | 1,823.80 | 2,651.60 |
| May | 521.20 | 1,515.10 | 2,363.00 | 1,643.40 | 2,447.00 |
| June | 805.30 | 844.30 | 2,200.40 | 2,096.70 | 2,071.10 |

1. FY2013 Figures are projections
2. Source: Commonwealth of Massachusetts Information Statement dated Sept 9, 2012, page A-58



Disclosure Enhancements

- Investor Communication & Outreach
 - Inaugural annual investor conference December 2011; 2012 conference targeted for late November 2012
 - Ongoing targeting of investors in Boston and outside region for one-on-one meetings away from financings (New York, Chicago, San Francisco)
 - MA has successfully implemented regular bi-monthly investor conference calls
 - Scheduled for roughly 7 days after disclosure is updated, six planned per year
 - Regular updates on the economy, revenues, budgets, 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 |
| 23-Jul-12 | 30-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 |

Next disclosure & call:

Financing Schedule*

September 2012

| S | M | T | W | Th | F | 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 | | | | | | |

October 2012

| S | M | T | W | Th | F | 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 | | | |
| | | | | | | |

- Rating agency conference calls Friday, September 14th
- Mail Bond POS and RANs POS' Monday, September 17th
- Live investor call Tuesday, September 18th
- Receive ratings Thursday, September 20th
- Competitive bond sale Tuesday, September 25th at 10 AM
- Competitive RANs sale Thursday, September 27th at 9:30 and 10:00 AM
- Bond and RANs closing Wednesday, October 3rd

* Preliminary and subject to change



7. Questions & Follow-Up



Contacts

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To receive e-mail notifications of our investor events please send us an email at: [*massbondholders@tre.state.ma.us*](mailto:massbondholders@tre.state.ma.us)

or follow us on Twitter @ "Buy Mass Bonds"

