

The Commonwealth of Massachusetts Bond Financing Programs

June 18, 2015
Investor Conference Call

Bi-Monthly Credit Review

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GOVERNOR CHARLES D. BAKER



ECONOMIC UPDATE



Economic Update

Wealth Measures

- 2014 Per Capita Income in Massachusetts was \$59,182, or 128% of the US average
- Second highest measure in the country for 2014

Unemployment

- Massachusetts' state unemployment rate for April 2015 was 4.7% vs. the national average of 5.4% and the April 2014 MA rate of 5.8%, representing an over-the-year change of -1.1%
- According to the Mass Exec. Office of Labor & Workforce Development, Massachusetts' May unemployment rate is at 4.6%, the lowest since December 2007
- Massachusetts' 2014 average unemployment rate was at 5.8%, below the New England average of 5.9% and the US average of 6.2%

Economic Output

- 2014 Real GDP compounded growth in MA at 2.3% vs. 2.2% for the US
- Per Capita Real GDP in 2014 was \$63,005 for Massachusetts vs. \$49,469 for the US
- For the most recent quarter (Q1 of calendar year 2015), real MA GDP is estimated to have grown at an annualized rate of 0.9% vs. 0.2% for the US



Economic Update

Federal Reserve Bank of Philadelphia

State Coincident Indices

As of April 2015 Data (latest release)

State	Current Level	(April 2014 - April 2015)	(April 2010 - April 2015)	State	Current Level	(April 2014 - April 2015)	(April 2010 - April 2015)
		12-month % Change	5-Year % Change			12-Month % Change	5-Year % Change
Alabama	140.1	-2.94%	-8.15%	Montana	191.3	-2.62%	-11.89%
Alaska	108.8	1.30%	1.09%	Nebraska	161.4	-2.89%	-10.51%
Arizona	191.9	-3.26%	-9.55%	Nevada	194.5	-3.49%	-6.93%
Arkansas	150.2	-3.34%	-7.49%	New Hampshire	197.5	-3.17%	-11.77%
California	171.2	-5.22%	-16.99%	New Jersey	157.4	-2.56%	-10.26%
Colorado	190.4	-4.62%	-16.42%	New Mexico	162.1	-2.52%	-3.81%
Connecticut	160.5	-3.56%	-12.60%	New York	155.2	-3.39%	-13.46%
Delaware	152.9	-3.78%	-11.68%	North Carolina	167.3	-4.70%	-14.07%
Florida	156.5	-4.81%	-12.15%	North Dakota	203.9	-4.84%	-27.92%
Georgia	178.6	-5.60%	-15.27%	Ohio	159.0	-5.18%	-21.00%
Hawaii	109.2	-1.37%	-8.11%	Oklahoma	153.4	-2.06%	-10.90%
Idaho	207.2	-5.87%	-16.41%	Oregon	210.8	-8.66%	-20.09%
Illinois	153.3	-3.27%	-13.25%	Pennsylvania	148.8	-3.18%	-11.04%
Indiana	161.0	-5.16%	-16.83%	Rhode Island	164.7	-4.54%	-14.00%
Iowa	155.4	-3.83%	-12.39%	South Carolina	167.9	-5.12%	-16.01%
Kansas	144.9	-1.42%	-9.08%	South Dakota	161.3	-2.25%	-9.76%
Kentucky	155.1	-5.32%	-14.20%	Tennessee	161.6	-3.50%	-14.04%
Louisiana	140.3	-1.79%	-9.29%	Texas	193.9	-4.73%	-17.66%
Maine	140.9	-3.61%	-7.78%	Utah	200.8	-5.78%	-16.98%
Maryland	151.4	-3.22%	-8.84%	Vermont	159.5	-4.55%	-12.19%
Massachusetts	189.5	-5.25%	-16.92%	Virginia	148.5	-1.48%	-6.02%
Michigan	158.1	-8.73%	-24.66%	Washington	158.1	-5.13%	-13.85%
Minnesota	167.8	-3.39%	-13.65%	West Virginia	172.9	1.65%	-8.42%
Mississippi	146.1	-2.17%	-7.63%	Wisconsin	150.7	-3.95%	-12.26%
Missouri	140.9	-2.39%	-8.86%	Wyoming	169.9	-1.89%	-7.26%
				United States	162.8	-3.75%	-13.32%



Executive Office for Administration & Finance Presentation

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Fiscal Year 2015 Update

- The Commonwealth has addressed a budget gap of more than \$1 billion in FY15:
 - \$329 million identified in November, 2014 (\$250 million solved through “9C” cuts)
 - \$768 million identified in January, 2015 (solved in February with 9C and other legislation)
- FY15 Budget gaps were not a result of economic slowdown; tax revenue is up
- Tax revenue forecast for FY15 was revised to **\$24.325 billion** (\$62 million less than consensus at the time the FY15 budget was passed)
- Tax revenue is **\$389 million** above year-to-date benchmark through May, 2015 (excluding \$183 million in one-time tax-related settlements and judgments over \$10 million each)
- The Commonwealth is currently expected to end FY15 in statutory balance with a Stabilization Fund balance of approximately **\$1.128 billion**
- Governor is expected to file a final supplemental appropriations bill for FY15 in late June or early July



Fiscal Year 2016 Outlook

- The Governor filed his FY16 budget recommendation on March 4, 2015, providing for **\$38.062 billion** in spending (an increase of 3% over FY15 estimated)
- Consensus tax revenue forecast for FY16 is **\$25.479 billion** (which represents 4.8% growth over revised FY15 consensus revenue estimate)
- House passed its version of the budget, which they have estimated to provide for \$38.056 billion in spending, or \$6 million less than the Governor's proposal
- Senate passed its version of the budget, which they have estimated to provide for \$38.096 billion in spending, or \$34 million more than the Governor's proposal, and included some tax-related provisions not included in the Governor's or House budgets
- House and Senate have appointed a conference committee and are currently working on reconciling differences between their proposals



Fiscal 2016 Capital Budget

- Administration is currently preparing its five-year FY16-20 capital plan
- Capital budget for FY16 will be released on or before **July 1, 2015**
- Administration's review of debt affordability, capital spending needs and agency proposals determined that administrative bond cap for FY16 should not exceed **\$2.25 billion**, which is the amount recommended by the Debt Affordability Committee in December, 2014
- FY16 administrative bond cap will be within established affordability measures
- Capital program in FY16 will include substantial investments in transportation, economic development, affordable housing, education, information technology, public safety equipment and facilities, other governmental facilities and assets and the environment



Department of Revenue

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Chief Economist

Director, Office of Tax Policy & Analysis



Executive Summary

Original FY15 Estimate: \$24.337B:

- Growth*: 4.9% actual/5.0% baseline from FY14;
- Capital gains*: \$1.170B vs. the threshold of \$1.048B (excess \$122M to stabilization fund);
- Part B personal income tax rate trigger/reduction* was **not** assumed.

Revised FY15 Estimate: \$24.325B:

- Change from consensus*: due to tax law and administrative changes and *Part B rate* triggered/reduced from 5.20% to 5.15%;
- Growth*: 4.1% actual/4.2% baseline;
- Capital gains*: \$1.379B vs. the threshold of \$1.048B (excess \$331M to General Fund instead of Stab. Fund);
- Settlement/judgement payments*: \$183M - directed to General Fund instead of Stab. Fund (budget balancing solutions)

FY15 YTD Tax Collections:

- Excluding large one-time settlements, collections grew moderately: 5.9% actual/5.4% baseline; \$389M above the YTD benchmark; the YTD growth, including such settlements, were 6.7% actual/6.3% baseline.
- YTD Tax and non-tax settlements totaled \$194.8M (General Fund)--\$183.4M was tax related and \$11.4M was non-tax related;
- Better than expected performances:
 - *Estate tax collections* down 11.8%, but \$33M above benchmark (not easy to predict);
 - *Income estimated payments* up 15.8%, \$221M above benchmark (surge in investment-related incomes and probably also taxpayers' optimism. June is important; 2015Q2 payments are due);
 - *Withholding* up 5.9%, \$136M above benchmark (some shifting of payments from June to May and improving economic conditions);
 - *Excluding one-time settlements, income return/bill payments* up 11.9%, \$24M above benchmark;and *income tax refunds* down 5.5%, \$78M below benchmark.
- Weakness in several categories:
 - *Sales tax* up 4.7%, \$66M below benchmark;
 - *Excluding one-time settlements, corporate & business* down 8.3%, \$36M below benchmark (weakness in 2013 taxable income; June is important--2015Q2 income and corp./bus. estimated payments are due)

FY16 Consensus Tax Revenue Estimate: \$25.479B:

- Growth*: 4.8% actual;
- Capital gains*: \$1.387B vs. the threshold of \$1.087B (Governor's H1 budget assumes excess \$300M to General Fund);
- Assumes *Part B personal income tax rate trigger/reduction* from 5.15% to 5.10% effective 1/1/2016.



Original FY15 Consensus Tax Revenue Estimate \$24.337B

- Consensus Revenue - first step towards following year's budget process
- FY15 revenue hearing - held on December 11, 2013
- On January 14, 2014, W&M Chairs and A&F Secretary agreed to the Consensus Estimate of \$24.337B
- Assumed growth: 4.9% actual, 5.0% baseline
- \$1.17B taxes on capital gains vs. cap gains tax threshold of \$1.048B
 - excess \$122M excess to the Stabilization Fund
- No Part B personal income tax rate trigger/reduction was assumed



Revised/Current FY15 Tax Revenue Estimate

- The current revised FY15 Tax Estimate is \$24.325B.
- Assumed growth: 4.1% actual, 4.2% baseline.
- Consensus estimate of \$23.337B plus subsequently signed incremental tax law and administrative changes.
- The budget balancing legislation was signed on 2/13/2015:
 - **Cap Gains tax:** Assumed **\$1.379B** taxes on **capital gains** vs. cap gains tax threshold of \$1.048B.
 - Excess of \$331M would be kept in the General Fund
 - **Tax-** and **non-tax-**related judgment & settlement payments in excess of \$10M each:
 - A new target for \$183M (vs. original estimate of \$240M).
 - YTD total (through May): \$194.8M, \$183.4M of which was tax-related, and \$11.4M was non-tax-related.



FY15 Year-to-Date Tax Collections Update

Recap of FY14 performance:

- FY14 **tax revenues** totaled approximately **\$23.37 billion**, an increase of approximately **\$1.247 billion**, or 5.6%, over FY13, **\$170 million** above the benchmark
- In FY14, we saw a **spike in tax settlements and bonus payments**, which were somewhat offset by **below benchmark performance in income tax payments with returns**.

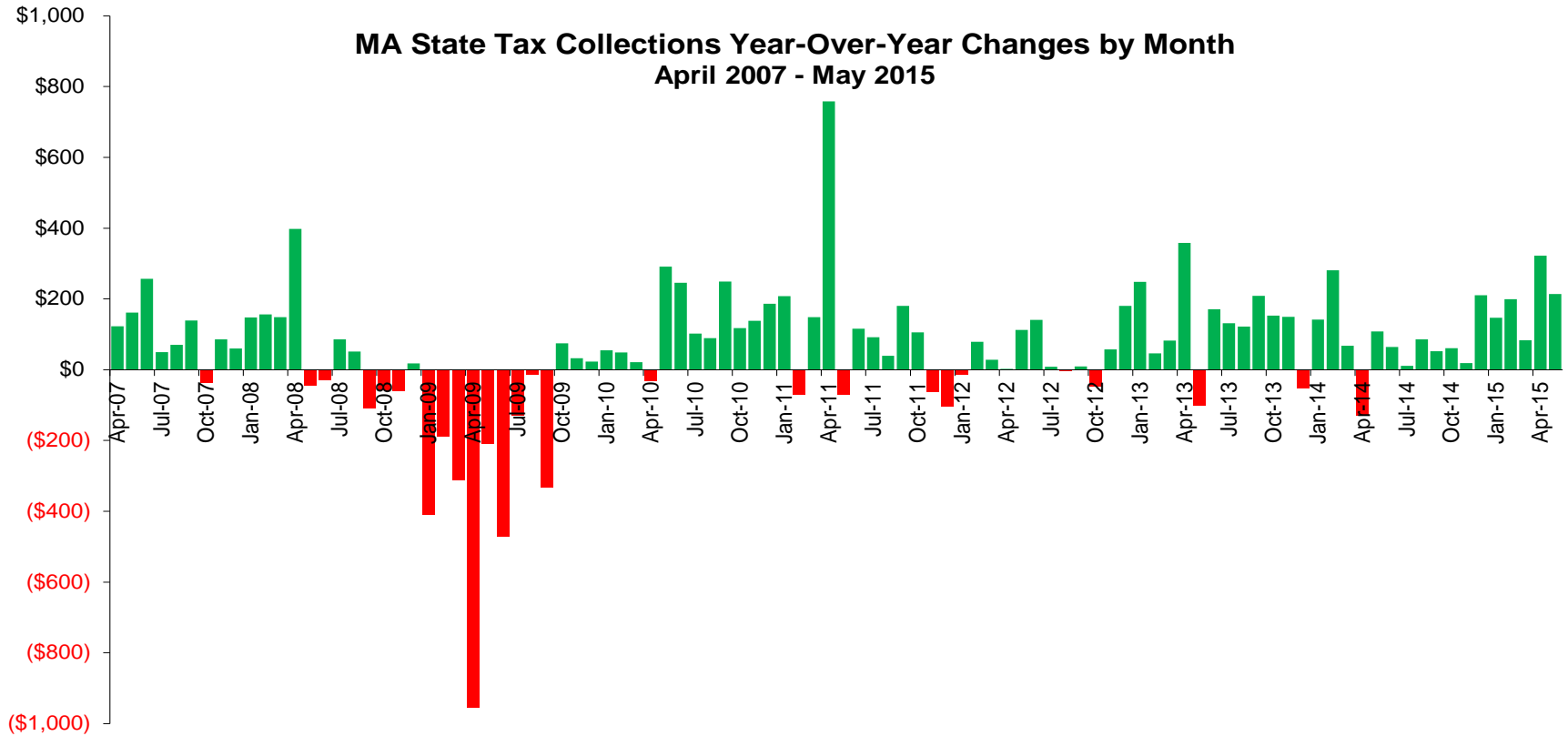
FY15 Year-to-Date revenue performance:

- Revenue collections continued to grow at a **moderate pace** during the first eleven months of FY15.



FY15 Year-to-Date Tax Collections Update

Monthly year-over-year changes in collections:



FY15 Year-to-Date Tax Collections Update

May 2015 Tax Collection Summary (in \$ millions) (Preliminary as of June 3, 2015)

	----- Month of May -----					----- FY15 Year-to-Date -----				
	05/15 Collections	05/15 v. 05/14 \$ Change	05/15 v. 05/14 Actual % Change	05/15 v. 05/14 Baseline % Change	05/15 \$ Above/(Below) Benchmark Based on FY15 Estimate of \$24.325 Billion	05/15 FY15 YTD Collections	05/15 FY15 YTD \$ Change	05/15 FY15 YTD Actual % Change	05/15 FY15 YTD Baseline % Change	FY15 YTD \$ Above/(Below) Benchmark Based on FY15 Estimate of \$24.325 Billion
Income - Total	1,087	241	28.4%	20.4%	194	13,010	1,149	9.7%	9.5%	457
Income Withholding	915	111	13.8%	9.0%	81	10,207	571	5.9%	6.0%	136
Income Est. Payments (Cash)	24	4	20.2%	20.2%	4	2,029	277	15.8%	16.4%	221
Income Returns/Bills	231	130	128.5%	93.5%	114	2,120	226	11.9%	10.0%	24
Income Refunds (Cash)	82	4	5.5%	-2.2%	4	1,342	(78)	-5.5%	-5.5%	(78)
Sales & Use - Total	490	17	3.6%	4.1%	(6)	5,243	234	4.7%	4.1%	(66)
Sales - Regular	334	8	2.3%	2.8%	(10)	3,628	151	4.3%	3.7%	(61)
Sales - Meals	83	3	4.3%	5.0%	(0)	905	44	5.1%	4.1%	(4)
Sales - Motor Vehicles	73	6	9.2%	9.6%	4	709	39	5.9%	6.6%	(1)
Corporate & Business - Total	81	19	29.6%	29.3%	30	1,895	(171)	-8.3%	-9.7%	(36)
All Other	178	(63)	-26.1%	-26.3%	10	1,915	10	0.5%	-0.3%	34
Total Tax Collections	1,836	214	13.2%	9.1%	228	22,063	1,222	5.9%	5.4%	389
<i>Tax-Related Settlements & Judgments Exceeding \$10 Million Each</i> (NOT included in the May and YTD collections figures above. May and YTD benchmarks DO NOT assume such large settlements and judgments exceeding \$10 million each).										
	0.0					183.4				
Total Tax Collections (Including tax-related settlements & judgments)	1,836	214	13.2%	9.1%		22,246	1,406	6.7%	6.3%	
Corporate & Business - Total (Including tax-related settlements & judgments)	81	19	29.6%	29.3%		2,005	(61)	-3.0%	-4.3%	
Income Returns/Bills (Including tax-related settlements & judgments)	231	130	128.5%	93.5%		2,194	300	15.8%	13.9%	

Note: Detail may not add to total due to rounding and other technical factors.



FY15 Year-to-Date Tax Collections Update

- FY15 year-to-date tax collections through May: \$22.246 billion, +\$1.406 billion, or 6.7%, from the same period in FY14.
- **Excluding** the \$183.4 million in one-time **tax-related settlements** received year-to-date, **tax collections totaled \$22.063 billion year-to-date, +\$1.222B from the same period a year ago, \$389 million above the year-to-date benchmark.** (Benchmark does not assume large settlement or judgment-related payments.)
- Better than expected performance in **estate tax**, individual income tax **payments with returns/bills**, individual income **estimated payments** (most of which was due to surge in investment-related incomes and probably also taxpayers' optimism), **withholding** (some of the growth/surplus is timing-related), and lower **income tax refunds** more than offset weakness in **sales tax collections, corporate and business tax collections.**



FY15 Year-to-Date Tax Collections Update

- Year-to-date **withholding**: \$10.207B, +\$571M, +5.9% actual, +6.0% baseline, \$136M above benchmark. (some of the growth/surplus is timing-related)
- Year-to-date **income tax cash estimated payments**: \$2.029B, +\$277M, +15.8% actual, +16.4% baseline, \$221M above benchmark.
- Year-to-date **income tax payments with bills and returns**: \$2.194B, +\$300M, +15.8% actual, +13.9% baseline. Excluding the \$73.9M one-time tax settlement payments, year-to-date income tax payments with bills and returns totaled \$2.120B, +\$226M, +11.9% actual, and +10.0% baseline, \$24M above benchmark.
- Year-to-date **income tax cash refunds**: \$1.342B, -\$78M, -5.5% actual and baseline, \$78M below benchmark.
- Year-to-date **sales & use tax** collections: \$5.243B, +\$234M, +4.7% actual, +4.1% baseline, \$66M below benchmark.
- Year-to-date **corporate and business** tax collections: \$2.005B, -\$61M, -3.0% actual, and -4.3% baseline. Excluding the \$109.5M one-time tax settlement payments, **year-to-date corporate and business tax collections totaled \$1.895B**, -\$171M, -8.3% actual, and -9.7% baseline, \$36M below year-to-date benchmark.
- **“All Other”** tax categories: \$1.915B, +\$10M, and \$34M above benchmark, mostly due to better than expected performance in estate tax collections.



Fiscal 2016 Consensus Tax Revenue Estimate

- On January 22, 2015, Consensus Revenue Hearing was held – first step in the FY16 budget process.
- Range of forecasts: \$25.165B to \$25.649B
- On January 30, 2015 -- Consensus tax revenue estimate was announced; set at \$25.479B.
- Of this amount, \$1.387 billion would be from taxes on capital gains vs the threshold of \$1.087B.
 - Excess of \$300M would go to the Stabilization Fund
 - Governor's House 1 budget assumes that this excess would be kept in the General Fund instead.
- The Consensus estimate assumes that through a trigger process State's personal income tax rate would be reduced from 5.15% to 5.10% effective January 1, 2016.



Other Tax-Related Topics

- Personal income tax rate reduction process
 - Growth triggers
 - 5.3% to 5.15% so far; could go down to 5.0% in the future.
- Capital Gains Tax Certification Process:
 - Capital gains tax thresholds
 - Excess goes to the Stabilization Fund
- Settlements and Judgments Payments (\$10M+ Each) Certification Process:
 - Settlements/judgments thresholds
 - Excess goes to the Stabilization Fund



Office of the State Treasurer

Debt / Capital Presentation

Sue Perez

*Assistant Treasurer
for Debt Management*

Drew Smith

*Deputy Assistant Treasurer
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Financing Update

End of Year 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.
- By the end of FY15, the STO expects to have issued an estimated:
 - \$2.3 billion in new money GO bonds
 - \$1.4 billion in refunding bonds
 - \$447 million in Special Obligation Accelerated Bridge Program Bonds
- The types of bonds sold include:
 - \$146 million in MassDirect Notes sold directly to retail investors
 - \$350 million in Green Bonds to support environmentally beneficial projects
 - \$602 million in variable rate bonds to further diversify debt portfolio
- The method of sale breakdown for the GO new money transactions consists of:
 - 55% issued competitively
 - 39% issued on a negotiated basis, including variable rate and green financings
 - 6% issued through MassDirect via the open-architecture TMC Bonds platform



Going Forward

- The Commonwealth's long term financing plan is based on a two-prong issuance strategy to minimize cost of funds and to have a conservative, flexible and diversified liability structure.
- For new money bonds, the Commonwealth's goals are to fund the balance of the bond cap while issuing approximately two-thirds of the debt with a 20-year final maturity and one-third of the debt with a 30-year final maturity.
- The financing allows the Commonwealth to take advantage of market conditions and issue long term debt while interest rates remain relatively low.
- The Commonwealth pro-actively monitors its debt portfolio to identify attractive refunding opportunities that generate significant savings and other benefits.
- Over the last three years, the Commonwealth has opportunistically executed one fixed rate advance refunding each year.



2015 Series C and Refunding Series A

Upcoming Deals

- During the week of June 22nd, the Commonwealth expects to begin pricing its final transaction of the fiscal year.
- 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 Siebert Brandford Shank & Co 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

Raymond James

CastleOak

Fidelity

Siebert Brandford Shank & Co

Wells Fargo

Jefferies

Morgan Stanley



2015 Series C and Refunding Series A*

	2015 Series C	2015 Rfdg Series A
Credit	G.O.	G.O.
Component	New Money	Refunding
Par	\$250 MM	\$689 MM
Type	Fixed Rate	Fixed Rate
Maturities	2016-2045	2016-2037
Redemption	10 Year Call	10 Year Call
Tax Status	Tax-Exempt	Tax-Exempt
Pricing	June 23-24	June 23-24
Expected Delivery	Mid-July	Mid-July

* Preliminary, subject to change

- The new money component completes necessary borrowing as planned for FY2015
- The refunding component makes use of the Commonwealth's stated refunding guidelines to generate significant savings to be stretched across all years while specifically providing budgetary flexibility in FY2016



Issuance Timeline*

- The Commonwealth expects to begin pricing of its 2015 Series C and Refunding Series A Bonds the week of June 22
- Current Information Statement and Preliminary Official Statement available at www.massbondholder.com

June						
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				

Negotiated Pricing	June 23-25
Closing Date	Mid-July

* Preliminary, subject to change

Questions, please contact:	
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Debt/Capital

- Today's call represents the second investor call of 2015
- The Commonwealth will continue to hold live investor calls approximately one week after each disclosure update throughout 2015
- For more information on the Commonwealth's financing programs, please contact either Sue Perez or Drew Smith

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QUESTIONS

