

The Commonwealth of Massachusetts Bond Financing Programs



April 28, 2021
Commonwealth Credit Review

Replay Information



Please note that a replay of the investor broadcast associated with the following slides is available. The replay can be accessed by following the link below and will remain available until April 28, 2022.

<http://munios.com/live/MACommonwealthApril2021>

The full slide deck for this call is found in the pages below. These slides as well as those of prior investor calls may also be accessed by visiting the Investor and Rating Agency Presentation Archive on the Commonwealth's investor website at:

www.massbondholder.com

For audio, participants are asked to dial in using the following information:

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TREASURER DEBORAH B. GOLDBERG



GOVERNOR CHARLES D. BAKER

Department of Revenue

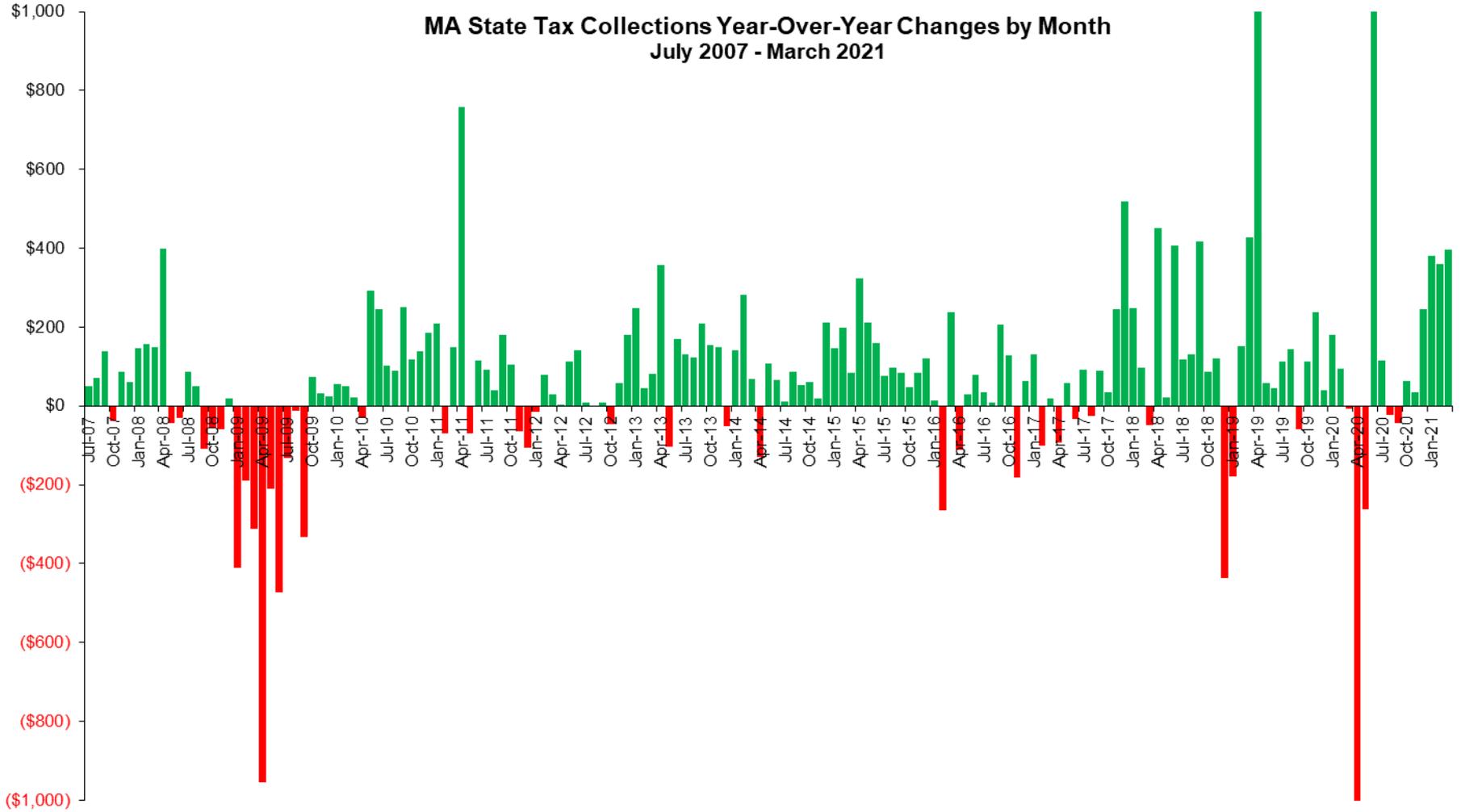
Dr. Kazim P. Özyurt

Chief Economist,

Director, Office of Tax Policy & Analysis



Monthly year-over-year changes in collections:



FY21 Year-to-Date (Through March) Tax Collections Update

March 2021 Tax Collections Summary (in \$ millions)

Preliminary as of April 05, 2021

	Month of March					FY21 YTD as of March				
	03/21 Actual Collections	03/21 v. 03/20 \$ Fav/(Unfav)	03/21 v. 03/20 % Fav/(Unfav)	03/21 Actual vs Benchmark \$ Fav/(Unfav)	03/21 Actual vs Benchmark % Fav/(Unfav)	03/21 YTD Actual Collections	03/21 YTD v. 03/20 YTD \$ Fav/(Unfav)	03/21 YTD v. 03/20 YTD % Fav/(Unfav)	03/21 YTD Actual vs Benchmark \$ Fav/(Unfav)	03/21 YTD Actual vs Benchmark % Fav/(Unfav)
Income										
Income Withholding	1,482	154	+11.6%	91	+6.6%	11,116	648	6.2%	169	1.5%
Income Est. Payments	25	5	+22.6%	5	+22.1%	1,780	120	7.2%	97	5.8%
Income Returns/Bills	152	46	+43.0%	63	+71.4%	634	78	13.9%	94	17.5%
Income Refunds Net (outflow)	(399)	(31)	-8.5%	19	+4.6%	(972)	226	18.9%	289	22.9%
Subtotal Non-withheld Income	(222)	19	+8.0%	87	+28.1%	1,442	424	41.6%	480	49.9%
Subtotal Income	1,260	173	+16.0%	178	+16.5%	12,558	1,072	9.3%	649	5.5%
Sales & Use										
Sales - Regular	399	33	+9.0%	43	+12.1%	4,048	307	8.2%	109	2.8%
Sales - Meals	66	(2)	-2.8%	13	+23.9%	651	(278)	-29.9%	30	4.8%
Sales - Motor Vehicles	96	8	+9.0%	39	+69.3%	724	72	11.0%	69	10.6%
Subtotal Sales & Use	562	39	+7.5%	95	+20.4%	5,423	101	1.9%	208	4.0%
Corporate & Business - Total	1,024	147	+16.8%	274	+36.5%	2,702	477	21.5%	294	12.2%
All Other	215	42	+24.3%	101	+87.8%	1,906	(125)	-6.2%	297	18.5%
Total Tax Collections	3,061	402	+15.1%	648	+26.8%	22,588	1,524	7.2%	1,449	6.9%

Note:

1) The figures above exclude Tax-Related Settlements & Judgments exceeding \$10 million each. The total for these was \$0.0 million in March 2021 and \$32.9 million in FY21 YTD.

2) Regular sales, meals, and room taxes deferred for the period of March 2020 through April 2021 are expected to be paid in May 2021.



FY21 Year-to-Date (Through March) Tax Collections Update

- Fiscal 2021 tax collections through March

- Year-to-Date total: \$22.588 billion
- +\$1.524 billion, or 7.2% from the same period in fiscal 2020

- Increases in

- income tax,
- corporate & business tax collections, and
- sales tax

partially offset by

- Decreases in

- “All Other” taxes, incl. motor fuels, cigarettes, alcohol, and deeds.



FY21 Year-to-Date (Through March Tax Collections Update)

More specifically:

- Withholding: \$11.116B, +\$648M, +6.2% actual
 - The withholding increase partly reflects unemployment insurance benefits, one-time events, and timing factors
- Non-withholding: \$1.442BM, +\$424M or +41.6% actual
- Sales & use tax collections: \$5.423B, +\$101M, +1.9% actual
- Corporate and business tax collections: \$2.702B, +\$477M, +21.5% actual
- All Other taxes: \$1.906B, -\$125M, -6.2% actual



Office of the State Comptroller
FY20 Comprehensive Annual Financial Report

Howard Merkowitz

Deputy Comptroller

Fiscal 2020 Statutory Basis Financial Report (SBFR)

- The SBFR was issued on December 18, 2020 and was reviewed, not audited, by KPMG.
 - The SBFR is presented on a budgetary or statutory basis – cash receipts and expenditures, including two months accounts payable and receivable period; excludes trust funds and most activity of so-called business-type activities such as unemployment insurance and the Institutions of Higher Education
 - The SBFR excludes “component units” such as the Massachusetts School Building Authority (MSBA), some of the Massachusetts Department of Transportation (MassDOT) such as the MBTA and RTA’s, and the Massachusetts Development Finance Agency (MassDevelopment)
 - The SBFR determines whether the budget is balanced according to state finance law. Includes the calculation of the “consolidated net surplus” and the end of year transfer to the Stabilization Fund

Fiscal 2020 Comprehensive Annual Financial Report

- The FY20 Comprehensive Annual Financial Report was issued on March 25, 2021 with an unmodified (clean) audit opinion and will be submitted to the Government Finance Officers' Association (GFOA) for review as part of the Certificate of Achievement for Excellence in Financial Reporting Program. The FY19 Comprehensive Annual Financial Report represented the 30th consecutive year that the Comprehensive Annual Financial Report was awarded the certificate.
- The basic financial statements are presented on two bases of accounting; 1) fund perspective and 2) government-wide perspective
- ***Fund Perspective***
 - Similar focus to the SBFR in terms of fund coverage, but also includes trust funds not covered in the SBFR, and the MSBA is incorporated into the statements as a blended component unit.
 - Purpose is to measure a government's ability to meet obligations from "currently available" resources (i.e., revenues including those to be received soon after the close of the fiscal year)

Fiscal 2020 Comprehensive Annual Financial Report

- Uses a “modified accrual” basis of accounting, in accordance with Generally Accepted Accounting Principles (GAAP), and takes into account short-term accruals. No long-term accruals for debt or capital assets, depreciation, or adjustment for pension or OPEB liabilities
- ***Comprehensive Annual Financial Report Government-Wide Perspective***
 - Treats government according to accounting rules similar to private business
 - Includes business-type activities such as Unemployment Insurance, the Paid Family and Medical Leave (PFML) and the Institutions of Higher Education within the Commonwealth’s net position (formerly net assets)
 - Full accrual accounting for long-term assets and liabilities, including long-term debt, pensions, OPEB, capital assets, and compensated absences
 - Includes, by discrete presentation, so-called “component units” such as MassDOT, Health Insurance Connector, and the Massachusetts Clean Water Trust, all of which have a close relationship to the Commonwealth

Net Pension and Other Post-Employment Benefits (OPEB) Liabilities

- GASB Statement Nos. 68 and 75, implemented in FY15 and FY18, respectively, changed the requirements for reporting pension and OPEB liabilities for governmental entities. These Statements, No. 68 for pension and No. 75 for OPEB, require the presentation of the net pension and net OPEB liability on the government-wide Statement of Net Position.
- For reporting purposes GASB allows for these liabilities to be presented using a measurement date that is a year prior to the fiscal year end date. For FY20, these liabilities are measured as of June 30, 2019.
 - For FY20, the Commonwealth's net pension liability on a government-wide basis (including business-type activities) was approximately \$35.747 billion (net of deferrals) and the net OPEB liability was approximately \$18.865 billion (net of deferrals)

Fiscal 2020 Comprehensive Annual Financial Report (“Fund Perspective”)

Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds (Fund Perspective – Modified Accrual Basis) Fiscal Year Ended June 30, 2020 (Amounts in thousands of dollars)

	General	Lotteries	Massachusetts School Building Authority	Coronavirus Relief	Other Governmental Funds	Total	FY2019
Total revenues	\$43,151,305	\$5,394,939	\$1,138,815	\$760,953	\$11,109,682	\$61,555,694	\$60,335,457
Total other financing sources	1,984,428	-	1,068,221	-	7,898,652	10,951,301	9,940,393
Total expenditures	41,249,138	4,305,369	1,296,832	676,531	15,366,712	62,894,582	59,793,532
Total other financing uses	3,826,716	1,089,484	798,890	84,422	3,921,272	9,720,784	7,709,427
Net change in fund balances/(deficits)	59,879	86	111,314	-	(279,650)	(108,371)	2,272,891
Fund balances at beginning of year	5,870,210	1,458	1,606,011	-	1,688,208	9,165,887	6,838,444
Fund balances at end of year	5,930,089	1,544	1,717,325	-	1,408,558	9,057,516	9,111,335

Fiscal 2020 Comprehensive Annual Financial Report (“Government Wide”)

Changes in Net Position during the Fiscal Years Ended June 30, 2020 and 2019 (in thousands of dollars)

	<u>June 30, 2020</u>	<u>June 30, 2019</u>	<u>\$ Change, FY19-20</u>
Revenues			
<u>Program Revenues:</u>			
Charges for services	\$16,462,247	\$16,041,421	\$420,826
Operating grants and contributions	27,912,554	17,230,011	10,682,543
Capital grants and contributions	223,610	178,118	45,492
<u>General Revenues:</u>			
Taxes	30,482,040	30,609,957	(127,917)
Other	1,503,024	1,659,338	(156,314)
Total Revenues	76,583,475	65,718,845	10,864,630
Expenses			
Medicaid	19,206,749	18,093,807	1,112,942
Direct local aid	6,390,233	6,089,548	300,685
Health and human services	9,645,198	8,662,012	983,186
Lottery	4,306,512	4,445,654	(139,142)
Higher education	5,484,490	5,345,669	138,821
Early elementary and secondary education	6,618,282	5,607,240	1,011,042
Unemployment compensation	11,948,319	1,483,901	10,464,418
Family and employment security trust	5,434	-	5,434
Other	16,997,557	15,317,352	1,680,205
Total Expenses	80,602,774	65,045,183	15,557,591
Excess/(Deficiency)			
Change in net position (deficits)	(4,019,299)	673,662	(4,692,961)
Net position/(deficit) - beginning, as restated	(68,980,915)	(69,104,536)	123,621
Net position/(deficit) - ending	(73,000,214)	(68,430,874)	(4,569,340)

Assets Owned by MassDOT and Higher Education But Largely Financed by the Commonwealth Offset Commonwealth's Net Deficit

**Statement of Net Position, June 30, 2020
(Amounts in thousands of dollars)**

----- Primary Government -----

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Government Wide Total</u>	<u>Component Units</u>
Net investment in capital assets.....	\$(1,705,745)	\$3,938,922	\$2,233,177	\$36,603,554
Restricted for Unemployment Insurance, Debt, Capital, and Higher Education.....	1,543,264	1,319,929	2,863,193	4,341,875
Unrestricted (deficits).....	<u>(77,514,884)</u>	<u>(581,700)</u>	<u>(78,096,584)</u>	<u>(7,864,271)</u>
Total net position/(deficit).....	<u>\$(77,677,365)</u>	<u>\$4,677,151</u>	<u>\$(73,000,214)</u>	<u>\$33,081,158</u>

Major Reasons for Government-Wide Net Deficit in FY20 Comprehensive Annual Financial Report (\$73.000 Billion)

- Unfunded pension liability \$35.747 billion, net of deferrals, or amounts to be recognized in future years
- Underfunded retiree health benefits (OPEB) (\$18.865 billion, net of deferrals)
- School Building Authority debt and grants payable (\$6.806 billion)
- Most of remainder is Commonwealth debt for road and bridge assets owned by MassDOT and for capital grants and expenditures for state authorities (e.g., Life Sciences Center) and cities and towns (e.g., Chapter 90 road and bridge grants, local housing authorities)

Significant Future GASB Standards

- The GASB has issued the following Standards which have been or will be implemented in the following fiscal years:
 - Statement No. 84, *Fiduciary Activities*. This is effective for FY21 (but is being implemented in FY20) and requires the analysis of all Commonwealth funds and trust subfunds to determine proper financial reporting classification. This also requires, for the first time, the presentation of a Statement of Changes in Net Position for Custodial Funds (formerly Agency Funds) in the Comprehensive Annual Financial Report. The Comptroller's Office early implemented this Standard in FY20. See Footnote 1T of the Comprehensive Annual Financial Report for the impact this Standard had on the basic financial statements.
 - Statement No. 87, *Leases*. This is effective for FY22 and changes accounting and financial reporting requirements for leases. The Statement eliminates the concept of operating leases and instead accounts for all leases as capital financing arrangements. The Comptroller's Office is in the beginning stages of implementing this Standard.

Significant Future GASB Standards – cont'd

- Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. This Standard delayed the effective dates of certain GASB Statements as a response to the COVID-19 pandemic.
- Statement No. 93, *Replacement of Interbank Offered Rates* – Effective FY2021
- Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements* – Effective FY2023
- Statement No. 96, *Subscription-Based Information Technology Arrangements* – effective FY2023
- Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans* – an amendment of GASB Statements No. 14 and No. 84 and a supersession of GASB Statement No. 32 – Effective FY2021

Thank You!

Questions?

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Executive Office for Administration & Finance (A&F)

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Secretary

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Bran Shim
Assistant Secretary for Budget

Kaitlyn Connors
Assistant Secretary



Fiscal Year 2021: Operating Budget Update

Fiscal Year 2021 Budget Process

- The Commonwealth continues to carry out a historic response to the COVID-19 pandemic, protecting the health and safety of its residents, while maintaining fiscal discipline. Key objectives continue to be public health, food security, economic development, health care and human services, and support for local cities and towns.
- The usual budget approval process and schedule for the fiscal 2021 operating budget was disrupted by the COVID-19 pandemic. The House of Representatives generally approves its version of the budget in April, and the Senate generally approves its version in May. However, on May 4, 2020, the House of Representatives amended its rules to allow the fiscal 2021 budget to be released from the House Committee on Ways and Means as late as July 1, 2020.
- After a series of interim budgets, Governor Baker approved the fiscal 2021 operating budget on December 11, 2020.

Fiscal Year 2021 Operating Budget

- As of the time of the Governor's approval, the fiscal 2021 operating budget provided approximately **\$45.9 billion** in state spending, after accounting for **\$156 million** in net-line item vetoes by the Governor and excluding transfers to the Medical Assistance Trust Fund, the pension liabilities fund, and other interfund transfers.
- The fiscal 2021 budget was approximately **\$2.0 billion**, or **4.5%**, greater than fiscal 2020 estimated spending levels as of the time of the Governor's approval.
- The fiscal 2021 budget was based on a **\$27.592 billion** tax revenue estimate and assumes a withdrawal not to exceed **\$1.7 billion** from the **\$3.5 billion** Stabilization Fund.
- Subsequently, the Legislature passed overrides to the Governor's vetoes with an aggregate net budgetary impact of **\$156.0 million**.



Fiscal Year 2022: Consensus Revenue Estimates

Consensus Revenue Estimates for Fiscal Year 2022

- On January 15, 2021, a fiscal 2022 consensus tax revenue estimate of **\$30.120 billion** was agreed upon by the Secretary of Administration and Finance and the chairs of the House and Senate Committees on Ways and Means.
- This estimate reflects a projection of **3.5%** tax revenue growth over the revised projected fiscal 2021 tax revenue figure of **\$29.090 billion**.
- The consensus revenue estimate for fiscal 2022 incorporates the reinstatement of the charitable deduction effective January 1, 2022.
- After accounting for statutorily required transfers for pensions, and to the MBTA, the MSBA and the Workforce Training Fund, the Secretary and Committee chairs agreed that **\$24.327 billion** would be the maximum amount of tax revenue available for the fiscal 2022 budget.



Fiscal Year 2022: Governor's Budget Recommendation

- On January 27, 2021, the Governor filed his fiscal 2022 budget recommendation, providing for a total of **\$45.6 billion** in state spending, excluding **\$456.5 million** in projected transfers to the Medical Assistance Trust Fund.
- The budget as filed represents **a decrease of 0.7%** from projected fiscal 2021 state spending and includes a withdrawal of up to **\$1.6 billion** from the Stabilization Fund, which could be reduced if tax collections or new federal revenue exceed the assumptions included in the budget recommendation.
 - The budget recommendation does not assume any resources from the federal American Rescue Plan Act of 2021.
 - The Governor's budget recommendation also proposes a delay of the charitable deduction until the tax year following a fiscal year in which no transfer is made from the Stabilization Fund to the General Fund.
- This balanced budget proposal includes investments that continue to support COVID-19 response and recovery while maintaining financial discipline, enabling the Commonwealth to continue investing in key priorities without raising taxes on residents.
- The Governor's budget recommendation has been filed with the Legislature for consideration in accordance with the Commonwealth's annual budgeting process.
- The House of Representatives generally approves its version of the budget in April, and the Senate generally approves its version in May. The differences between the two versions are then reconciled by a legislative conference committee during the month of June, so that a final version can be enacted by the Legislature and sent to the Governor for his approval prior to the start of the new fiscal year on July 1.
 - On April 14, 2021, the House Committee on Ways and Means released its own recommendation for the annual budget for deliberation by the House of Representatives.





Office of the State Treasurer

Debt / Capital Presentation

Sue Perez
Deputy Treasurer



Since the last investor call in November, the Commonwealth sold \$1.579 billion in new money and refunding GO bonds as well as \$1.5 billion in Revenue Anticipation Notes (RANs).

Series	Par Amount	Sale Date	Senior Manager	Maturity Range	Average Life (yrs)	All-In-TIC
GO 2020 E	\$600 MM	11/18/2020	Morgan Stanley	2022-2050	18.8	2.78%
GO 2020 D Refunding	\$405 MM	11/18/2020	Morgan Stanley	2034-2042	18.3	2.39%
GO 2020 E Refunding (Taxable)	\$444 MM	11/18/2020	Morgan Stanley	2022-2034	7.6	1.48%
GO 2020 ABC RANs	\$1.5 BB	12/09/2021	J.P. Morgan	2021	0.43	0.297%



Plan of Finance *

Timing	Par Amount	Structure	Type	Credit	Method of Sale
Week of May 3, 2021	\$600MM	Fixed-Rate Tax Exempt	New Money	GO	Competitive
June 2021	\$650MM	Fixed-Rate Tax Exempt New Money/ Refunding	New Money	CTF	Negotiated
Aug/Sept. 2021	\$500MM	Fixed Rate Tax Exempt	New Money	GO	

* Preliminary, subject to change

Next Week's Financing Overview and Additional Information



Issue*	General Obligation Bonds Consolidated Loan of 2021 Series A \$200,000,000* Series B \$400,000,000*
Tax Status	Tax-Exempt
Use of Net Proceeds	New Money
Amortization*	Series A 2035 – 2042 Series B 2047 – 2051
Ratings (Moody's/S&P/Fitch)	Aa1 (Stable) / AA (Stable) / AA+ (Stable)
Timing*	Sale Date Tuesday May 4, 2021
Closing*	May 18, 2021
Preliminary Official Statement	https://emma.msrb.org/PreSaleView/PreSaleSubmissionDetails.aspx?id=P11137783
Additional Information	www.massbondholder.com

* Preliminary, subject to change



Preliminary Amortization

General Obligation Bonds Consolidated Loan of 2021 Series A \$200,000,000

Maturity (03/01)*	Par Amount*
2035	25,000,000
2036	25,000,000
2037	25,000,000
2038	25,000,000
2039	25,000,000
2040	25,000,000
2041	25,000,000
2042	25,000,000

General Obligation Bonds Consolidated Loan of 2021 Series B \$400,000,000

Maturity (04/01)*	Par Amount*
2047	50,000,000
2048	75,000,000
2049	75,000,000
2050	100,000,000
2051	100,000,000

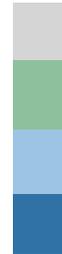
* Preliminary, subject to change

Preliminary Financing Schedule and Additional Resources



Financing Schedule*

April/ May 2021						
S	M	T	W	T	F	S
25	26	27	28	29	30	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



Tuesday, April 27: Post POS

Wednesday, April 28 at 1:30PM: Investor Call

Tuesday, May 4 T Competitive Tax-Exempt Pricing

Tuesday, May 18: Closing of the Bonds

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Additional Resources

- Information Statement as of April 12, 2021
 - <https://emma.msrb.org/P21451819-P21127012-P21539019.pdf>
- Massachusetts Investor Website
 - <https://massbondholder.com>
- Department of Revenue
 - <https://www.mass.gov/service-details/dor-press-releases-and-reports>

* Preliminary, subject to change

***For Up-to-Date Information on COVID-19
including status of Re-Opening the
Commonwealth please visit:***

www.mass.gov/covid19





QUESTIONS