
The Commonwealth of Massachusetts

May 2014 Investor Conference Call: Bi-Monthly Credit Review

May 19, 2014



Investor Conference Call Presentation Participants



Commonwealth of Massachusetts

Executive Office for Administration and Finance 617-727-2040		Office of the Treasurer & Receiver General 617-367-3900	
Scott Jordan <i>Undersecretary</i> scott.jordan@state.ma.us	Rob Dolan <i>Director of Finance</i> rob.dolan@state.ma.us	Colin MacNaught <i>Assistant Treasurer</i> cmacnaught@tre.state.ma.us	Drew Smith <i>Deputy Assistant Treasurer</i> dsmith@tre.state.ma.us
Lori Hindle <i>Director of Intergovernmental Affairs</i> Lori.hindle@state.ma.us		Nolin Greene <i>Senior Debt Analyst</i> ngreene@tre.state.ma.us	Delia Rissmiller <i>Investor Relations Manager</i> drissmiller@tre.state.ma.us
Massachusetts Department of Revenue 617-887-MDOR		Disclosure Counsel to the Commonwealth	
DOR: Kazim Ozyurt, Ph.D. <i>Director / Chief Economist</i> DOR Office of Tax Policy Analysis		John Regier, Mintz Levin 617-348-1720 jrregier@mintz.com	

Disclaimer

This presentation has been prepared by the Commonwealth of Massachusetts to provide summary information relative to the general obligation credit of the Commonwealth. The presentation is incomplete. The presentation is not part of the Commonwealth's Information Statement (Information Statement) and is qualified in all respects by reference to the most recently updated Information Statement that has been filed with the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access (EMMA) system.

Investment decisions relating to Commonwealth general obligation bonds and notes should be based only upon the most recently updated Information Statement and the Official Statement of the Commonwealth relating to such bonds or notes. The provision of access to this presentation does not constitute an offer to sell or the solicitation of an offer to buy any bonds or notes that may be described or mentioned in the presentation. Commonwealth bonds and notes are sold only by means of an Official Statement and through registered broker-dealers.

The information set forth herein includes information obtained from non-Commonwealth sources that are believed to be reliable, but such information is not guaranteed as to accuracy or completeness and is not to be construed as a representation by the Commonwealth. All information and expressions of opinion herein are subject to change without notice. The Commonwealth undertakes no obligation to provide any additional information or to update any of the information or the conclusions contained herein or to correct any inaccuracies that may become apparent.

This presentation contains certain forward-looking statements that are subject to a variety of risks and uncertainties that could cause actual results to differ from the projected results, including without limitation general economic and business conditions, conditions in the financial markets, the financial condition of the Commonwealth and various state agencies and authorities, receipt of federal grants, litigation, arbitration, force majeure events and various other factors that are beyond the control of the Commonwealth and its various agencies and authorities. Because of the inability to predict all factors that may affect future decisions, actions, events or financial circumstances, what actually happens may be different from what is set forth in such forward-looking statements. Forward-looking statements are indicated by use of such words as "may," "will," "should," "intends," "expects," "believes," "anticipates," "estimates" and others.



Agenda

1. Economic Update
2. Fiscal 2014 Revenue Collection Update
3. Fiscal 2014 Budget Update
4. Fiscal 2015 Budget Update
5. Debt & Capital Update
6. Questions



1. Economic Update



Economic Update

Wealth Measures:

- 2013 Per Capita Income in Massachusetts was \$56,923, or 128% of the US average
- Third highest measure in the country for 2013

Source: US Department of Commerce, Bureau of Economic Analysis

Unemployment:

- The 2013 average unemployment rate average was 7.1% for MA vs. 7.4% for US
- Massachusetts state unemployment rate for April 2014 was 6.0% vs. the national average of 6.3%

Source: US Department of Labor, Bureau of Labor Statistics; MA Department of Labor & Workforce Development

Economic Output:

- 2012 GDP growth in MA of 2.2% versus 2.8% for the U.S.
- For the most recent quarter (Q1 of calendar year 2014), real MA GDP is estimated to have grown at an annualized rate of 2.6% vs. 0.1% for the US (revised)

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



Economic Update

Federal Reserve Bank of Philadelphia

State Coincident Indices

As of March 2014 Data (latest release)

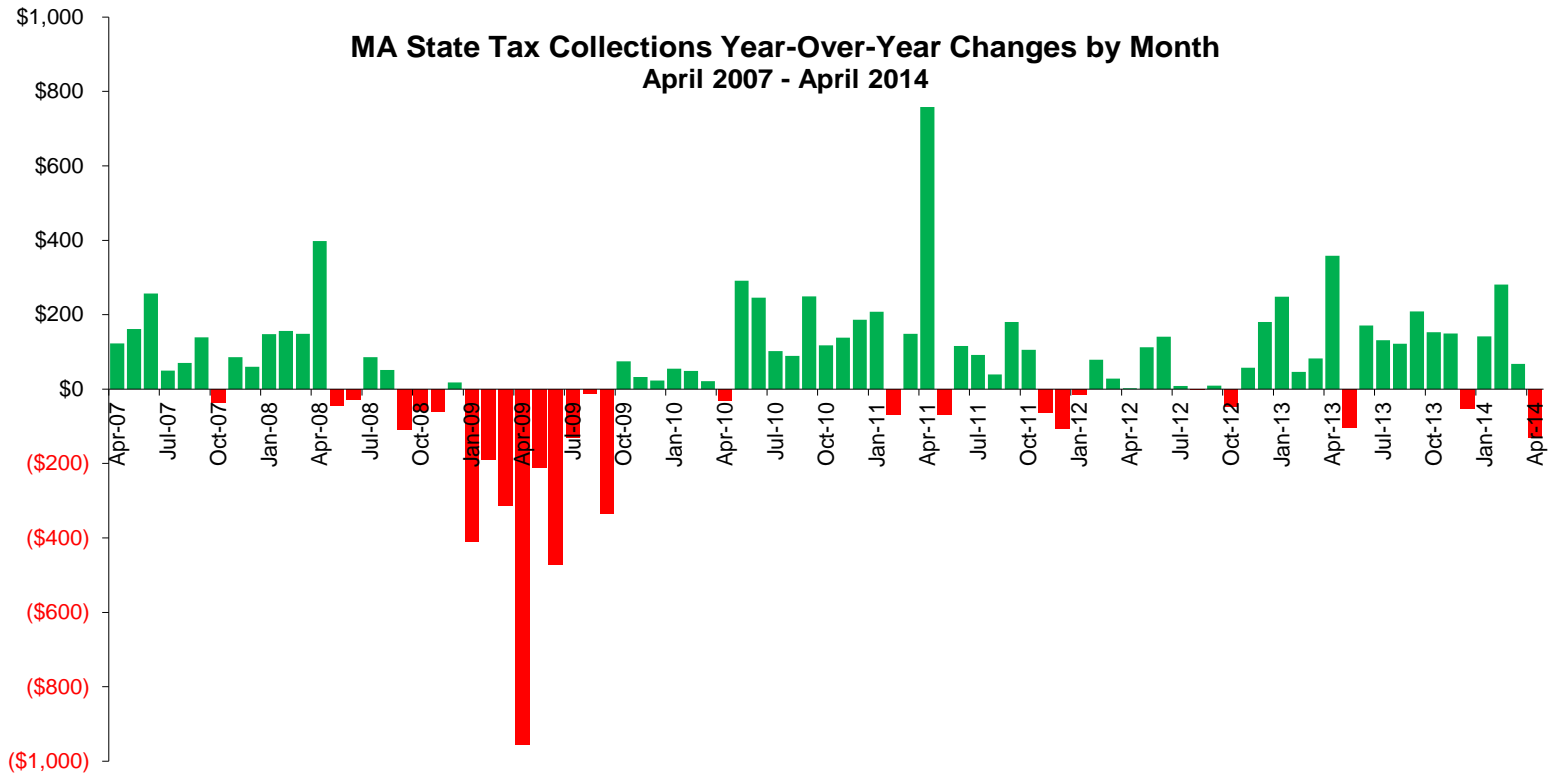
State	Current Level	(March 2013 - March 2014)	(March 2009 - March 2014)	State	Current Level	(March 2013 - March 2014)	(March 2009 - March 2014)
		12-month % Change	5-Year % Change			12-Month % Change	5-Year % Change
Alabama	133.3	1.23%	1.03%	Montana	161.0	5.71%	3.59%
Alaska	118.9	-0.81%	1.22%	Nebraska	144.2	34.29%	6.37%
Arizona	185.2	2.11%	0.30%	Nevada	139.3	10.43%	3.60%
Arkansas	144.4	2.24%	0.92%	New Hampshire	167.7	4.95%	1.84%
California	162.2	3.63%	7.94%	New Jersey	167.8	11.81%	5.67%
Colorado	187.2	4.34%	5.98%	New Mexico	191.0	5.18%	3.60%
Connecticut	157.1	2.95%	5.98%	New York	196.2	6.07%	3.92%
Delaware	148.6	3.70%	2.16%	North Carolina	152.7	6.91%	4.87%
Florida	150.8	3.49%	2.65%	North Dakota	158.3	7.24%	1.74%
Georgia	170.8	3.22%	4.73%	Ohio	153.4	8.00%	3.04%
Hawaii	110.2	1.24%	2.64%	Oklahoma	166.0	10.24%	4.24%
Idaho	200.1	2.88%	2.40%	Oregon	210.5	9.34%	3.65%
Illinois	147.5	2.31%	4.37%	Pennsylvania	146.3	5.65%	2.39%
Indiana	152.5	4.15%	10.98%	Rhode Island	155.2	3.43%	0.54%
Iowa	149.4	2.41%	5.71%	South Carolina	217.8	6.14%	3.49%
Kansas	147.4	2.26%	2.55%	South Dakota	147.9	4.83%	2.66%
Kentucky	142.8	0.83%	5.87%	Tennessee	156.2	3.82%	2.22%
Louisiana	132.5	1.98%	0.58%	Texas	161.8	0.69%	1.60%
Maine	143.2	4.78%	1.68%	Utah	163.1	9.34%	3.65%
Maryland	153.0	2.03%	2.72%	Vermont	157.0	5.65%	2.39%
Massachusetts	185.8	4.47%	11.47%	Virginia	196.3	3.43%	0.54%
Michigan	133.4	3.71%	13.62%	Washington	203.8	6.14%	3.49%
Minnesota	161.0	2.93%	7.81%	West Virginia	152.0	4.83%	2.66%
Mississippi	144.2	1.66%	2.91%	Wisconsin	150.9	3.82%	2.22%
Missouri	139.3	2.05%	2.15%	Wyoming	165.8	0.69%	1.60%
				United States	158.6	7.13%	2.96%

2. Fiscal 2014 Revenue Collections Update



Fiscal 2014 Revenue Collections Update

- Monthly year-over-year changes in collections have mostly been on the positive side since October 2009, albeit the pace of revenue growth was slow most of 2012. The growth has picked up since December 2012/January 2013 with the exception of three months of negative growth mostly due to temporary timing-related factors. The decline in April 2014 tax collections reflected mostly the shift of capital gains realizations and other investment income from calendar 2013 to calendar 2012 in response to federal tax rate increases effective January 1,



Fiscal 2014 Revenue Collections Update -- continued

- **FY2014**: Total tax collections have grown moderately during the first ten months of fiscal 2014.

April 2014 Tax Collection Summary (in \$ millions) (Preliminary as of May 14, 2014)

	----- Month of April -----					----- FY14 Year-to-Date -----				
	04/14 Collections	04/14 v. 04/13 \$ Change	04/14 v. 04/13 Actual % Change	04/14 v. 04/13 Baseline % Change	04/14 \$ Above/(Below) Benchmark Based on FY14 Estimate of \$23.2 Billion	04/14 FY14 YTD Collections	04/14 FY14 YTD \$ Change	04/14 FY14 YTD Actual % Change	04/14 FY14 YTD Baseline % Change	FY14 YTD \$ Above/(Below) Benchmark Based on FY14 Estimate of \$23.2 Billion
Income - Total	2,004	(211)	-9.5%	-7.5%	(131)	11,014	349	3.3%	3.7%	(5)
Income Withholding	811	16	2.1%	5.8%	(17)	8,832	443	5.3%	5.7%	104
Income Est. Payments (Cash)	239	(11)	-4.6%	-2.7%	(1)	1,732	88	5.4%	5.8%	18
Income Returns/Bills	1,297	(224)	-14.7%	-14.3%	(125)	1,793	(113)	-5.9%	-5.5%	(95)
Income Refunds (Cash)	342	(8)	-2.4%	-3.3%	(13)	1,342	63	5.0%	4.7%	31
Sales & Use - Total	468	23	5.1%	4.2%	(7)	4,536	263	6.2%	5.7%	(16)
Sales - Regular	324	16	5.1%	3.7%	(4)	3,151	167	5.6%	4.9%	(12)
Sales - Meals	77	3	3.5%	3.5%	(1)	782	36	4.8%	4.8%	(4)
Sales - Motor Vehicles	68	5	7.4%	7.7%	(1)	603	60	11.1%	11.1%	0
Corporate & Business - Total	96	27	38.6%	31.1%	17	2,003	283	16.5%	15.1%	162
All Other	167	32	23.5%	12.6%	14	1,665	178	12.0%	3.1%	(21)
Total Tax Collections	2,736	(130)	-4.5%	-3.8%	(107)	19,218	1,074	5.9%	5.2%	121

Fiscal 2014 Revenue Collections Update -- continued

- Fiscal 2014 tax collections through April totaled approximately \$19.218 billion, an increase of \$1.074 billion, or 5.9%, over the same period in fiscal 2013, \$121 million above the year-to-date benchmark based on the revised estimate of \$23.2 billion for fiscal 2014 tax collections.
- Through April 2014, one-time **settlement-related** tax payments totaled \$421 million, which went to the Stabilization Fund by statute; \$237 million of this came in after January when the FY14 estimate was revised; \$359 million of the total was in corporate and business taxes.
- Through April, income **withholding** payments came in stronger than expected. The surplus seems to be mostly bonus related, which is hard to predict. **Non-withheld income** tax payments have declined, mostly due to the shift of capital gains realizations and other investment income from 2013 to 2012 in response to the federal tax rate increases effective January 1, 2013; the FY14 benchmark (and FY14 capital gains tax estimate) assumed this shift, but the actual shift was probably more than expected similar to the experience of many other states. **Sales tax collections** have been relatively strong though slightly below benchmark. **Corporate and business** tax payments have been strong, mostly due to the one-time payments mentioned above.



Fiscal 2014 Revenue Collections Update -- continued

- Year-to-date withholding totaled \$8.832 billion, up \$443 million, 5.3% actual, 5.7% baseline, \$104 million above benchmark.
- Year-to-date non-withheld income tax payments totaled \$2.182 billion, down \$94 million, \$109 million below benchmark.
- Year-to-date sales & use tax collections totaled \$4.536 billion, up \$263 million, 6.2% actual, 5.7% baseline, \$16 million below benchmark.
- Corporate and business collections totaled \$2.003 billion, up \$283 million, 16.5% actual, and 15.1% baseline, \$162 million above benchmark.



Fiscal 2014 Revenue Estimate- Background

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

*GAA: General Appropriation Act



Fiscal 2015 Consensus Tax Revenue Estimate

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



Recent Developments -- Personal income tax rate reduction:

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

3. Fiscal 2014 Budget Update



Fiscal 2014 Budget Update

- FY14 has been characterized by positive tax revenue performance - allowing the Administration to revise upwards our projections for the fiscal year and generating additional tax revenue beyond the revised projections.
- However, above benchmark performance after revising the benchmark has been comprised of tax settlements in excess of \$10 million, which are dedicated to the Stabilization Fund under current statute.
- In addition, there have been developments in non-tax revenue (e.g. gaming licensing fee revenue) and typical supplemental funding needs.
- Regarding the latter, Governor has signed into law \$208 million in supplemental budget appropriations and the House recently enacted another \$145 million last week, for a total of \$353 million in supplemental appropriations either signed into law or enacted. Well within the amount the we have passed in recent years (\$441m in FY13 and \$540m in FY12).
- On April 10th the Governor filed an economic development bill that would provide new tools and training to prepare the Commonwealth's workforce to meet employer' needs, invest in the state's Gateway cities and provide incentives to create jobs and stimulate the economy.
- Bill provides for an \$80 million transfer to a newly established Economic Development Projects Fund.
- Bill would tap judgment and settlements in the event that insufficient budget resources exist in FY14 to support the transfer.



4. Fiscal 2015 Budget Update

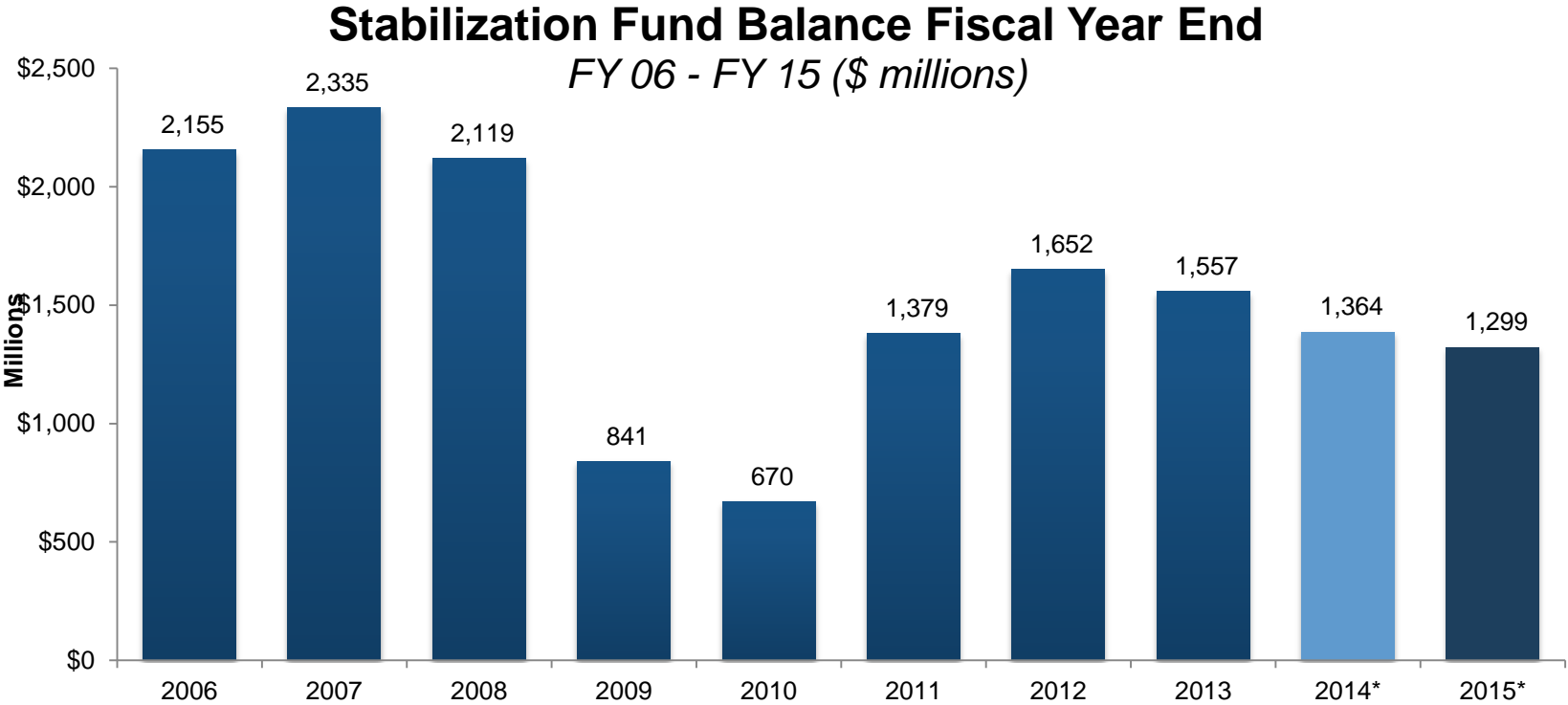


Fiscal 2015 Budget

- Governor Patrick filed his FY15 budget recommendation on January 22, 2014. Bottom line spending of \$36.37 billion, a 4.9% increase over FY14 estimated spending.
- House of Representatives approved its version of the FY15 budget on April 30th. Bottom line spending of \$36.32 billion.
- Senate Committee on Ways and Means released its version of the FY15 budget on May 14th, with the Senate floor debate expected to take place this week. Bottom line spending of \$36.25 billion, but additional spending is expected to be added during floor debate.
- All three branches assume a \$24.337 billion baseline FY15 tax estimate, otherwise known as “Consensus Tax Revenue Estimate”, which represents a 4.9% increase over FY14 revised estimate.
- Spending growth for each of the budget vehicles is approximately 4.9% to 5% vs FY14 estimated spending (in line with assumed tax revenue growth).
- Stabilization Fund withdrawals range from \$175 million (Governor’s budget) to \$140 million (House and Senate).
- Use of one-time resources assumed in each of the respective budgets lowest in years: \$225 million (Governor’s budget), \$301 million (House budget) & \$263 million (Senate Ways and Means budget) vs the apex of approximately \$2 billion in FY10.
- Modification of judgment and settlement law assumed in each of the three budgets, with House making it effective in FY15, whereas Governor and Senate assume FY14 effective date.



Stabilization Fund Balance



* Projected



6. Debt & Capital Update



Debt / Capital

- The State Treasurer's Office (STO) continues to issue debt periodically to fund the state's capital budget, following the guidelines of the Executive Office for Administration & Finance's (A&F) Debt Affordability Analysis
- By the end of FY14, the STO expects to have issued an estimated \$2.2 billion in new money bonds, \$800 million in RANs, and \$628 million in refunding bonds under the G.O. credit.
- In terms of future fiscal year issuance, the STO expects to issue general obligation bonds in three separate sets of transactions:
- The STO will continue to offer bonds through its MassDirect Notes program for retail investors
 - May sale began this morning and will run through May 30th. The June sale is expected to begin on June 16th and run through June 27th.
 - The remaining two monthly transactions for this fiscal year are each initially sized at \$60 million.
- Secondly, on Wednesday, May 21st, the Commonwealth will be pricing \$200 million in federally taxable general obligation bonds.
- Lastly, the Commonwealth is preparing for a \$500 mm G.O. bond sale targeted for Wednesday, June 11th with bonds being sold in a variable rate structure.



Debt / Capital

- On Monday, March 17th, the Commonwealth launched its MassDirect Notes program
- Since March, four series of bonds have been issued through two monthly sales with total par of \$102.5 million
- Inception-to-date statistics:
 - Orders from 31 unique firms
 - 483 total orders
 - \$212k average order size
- Currently, spreads are set at the beginning of the week with daily prices moving in line with MMD.
- The Commonwealth has seen steadily increasing interest as investors become more familiar with the program.
- Forward calendar, historical pricing, and disclosure documents may be found at www.MassDirectNotes.com.

The screenshot displays the website for the Commonwealth of Massachusetts Investor Program. The main navigation bar includes links for Debt & Investments, Finance, Revenue & Expenditure Reports, Annual Financial Reports, Archive, Investor Resources, Real Time Disclosure, and MassDirect Notes. The page title is "The Commonwealth of Massachusetts Investor Program".

The "MassDirect Notes Calendar" section features a blue background with financial data and the text "MassDirect Notes". Below this, there are two tabs: "Forward Calendar" and "Pricing and Results".

The "Pricing and Results" section contains three tables of bond data:

Series 4 4/25/2014	Maturity	Par Amount	CUSIP	Coupon	Yield	Price per \$100	Status
2-Year	2016	-	57582PY46	2.00%	0.41%	\$103.163	
2-Year	2016	\$4,500,000	57582PY53	3.00%	0.41%	\$105.153	
4-Year	2018	\$3,200,000	57582PY61	2.00%	1.05%	\$103.711	
4-Year	2018	\$600,000	57582PY87	4.00%	1.05%	\$111.526	
9-Year	2023	-	57582PY95	3.00%	2.35%	\$105.245	
9-Year	2023	\$125,000	57582PZ29	4.00%	2.35%	\$113.314	
9-Year	2023	-	57582PZ37	5.00%	2.35%	\$121.384	

Series 4 4/24/2014	Maturity	Par Amount	CUSIP	Coupon	Yield	Price per \$100	Status
2-Year	2016	\$50,000	57582PY46	2.00%	0.41%	\$103.163	
2-Year	2016	\$280,000	57582PY53	3.00%	0.41%	\$105.153	
4-Year	2018	\$1,655,000	57582PY61	2.00%	1.04%	\$103.751	
4-Year	2018	\$225,000	57582PY87	4.00%	1.04%	\$111.567	
9-Year	2023	\$250,000	57582PY95	3.00%	2.35%	\$105.245	
9-Year	2023	\$320,000	57582PZ29	4.00%	2.35%	\$113.314	New Coupon
9-Year	2023	\$4,175,000	57582PZ37	5.00%	2.35%	\$121.384	

Series 4 4/23/2014	Maturity	Par Amount	CUSIP	Coupon	Yield	Price per \$100	Status
2-Year	2016	\$1,040,000	57582PY46	2.00%	0.41%	\$103.163	
2-Year	2016	-	57582PY53	3.00%	0.41%	\$105.153	

On the right side of the page, there is a "BOND SALE CALENDAR" section with a "SIGN UP FOR AUTOMATIC ALERTS" form. The form includes fields for Name, Email Address, and Comments, and a "Submit" button. Below the form are several green buttons: "PRELIMINARY OFFICIAL STATEMENT", "READ OUR MOST RECENT INVESTOR DISCLOSURE", "ISSUE CALENDAR AND RESULTS", "FREQUENTLY ASKED QUESTIONS", and "TMC INFORMATION".

Debt / Capital

- The Commonwealth has scheduled its 2014 Series B taxable issue of general obligation bonds this Wednesday for competitive sale
 - Par of \$200 million
 - Longest maturity at 10 years
 - Weighted slightly heavier within first 5 years
 - Ratings affirmed at AA+/Aa1/AA+
 - First taxable sale since March 2013
- The Commonwealth has also targeted June 11th for sale of between \$250 and \$500 million of tax-exempt FRNs.
- Details still being determined, but expected to be issued as long-dated maturities with a soft-put feature.
- This variable rate transaction is consistent with the FY2014 Plan of Finance.
- This transaction is part of the Commonwealth's long-term plan to follow an Asset Liability Management financing strategy with the goal of reducing balance sheet risk by creating a natural hedge between debt liabilities and cash assets.
- Long-term ALM strategy and deal specifics to be discussed in greater detail during a call to be scheduled for the last week of May. Details to come.



Disclosure Enhancements: Investor Communication

- The Commonwealth will continue to hold live investor calls approximately one week after each disclosure update
 - Regular updates on the economy, revenues, budgets, forward calendar/ capital plans, as well as one “big topic” per call
 - Access to senior leadership of the state
- Twitter feed for investors: @BuyMassBonds
- Today’s call represents the third live investor call for 2014
- We are planning to hold an additional call to discuss the state’s debt portfolio

Commonwealth of Massachusetts 2014 Investor Disclosure & Conference Call Schedule

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

7. Questions & Follow-Up



Contacts

Delia Rissmiller

Investor Relations Manager

(617) 367-9333 extension 527

drissmiller@tre.state.ma.us

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

or follow us on Twitter [@BuyMassBonds](https://twitter.com/BuyMassBonds)

