

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 March 2, 2018.

<http://munios.com/live/CommonwealthMarch2017>

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



Q&A Transcript

Q. Regarding the Commonwealth's healthcare plan, how do you plan on managing rising healthcare costs going forward, and how are you dealing with uncertainty around this issue at the federal level? How is the Commonwealth preparing for any further federal cuts?

A. Healthcare cost increases are top-line issues across the country, and there is no question that Massachusetts is not alone in dealing with them. We would encourage you to view the Information Statement (<http://bit.ly/2IDz7EK>) where we discuss recent policy changes and the recently adopted 1115 waiver.

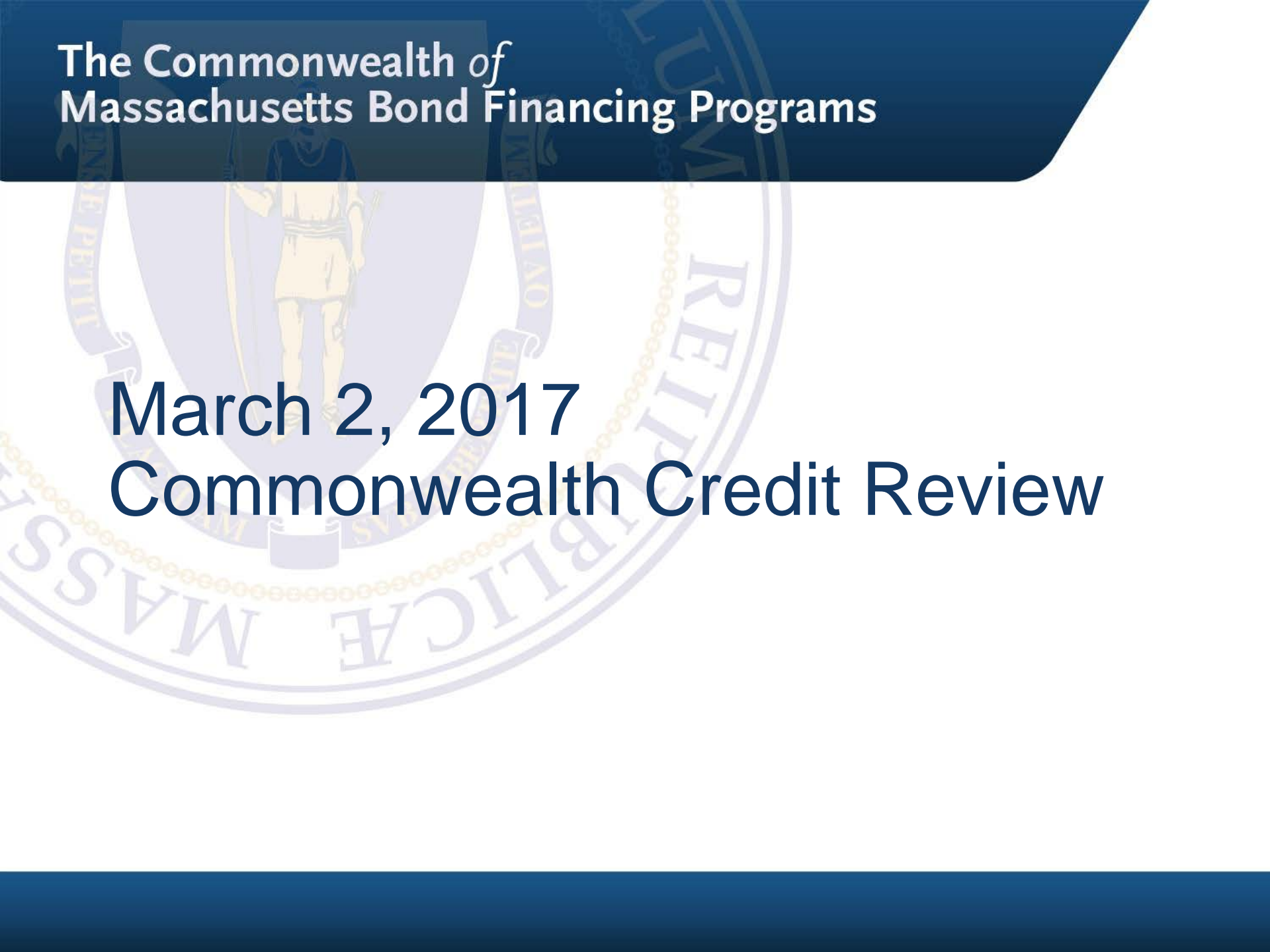
In terms of federal policy, we are similar to other states in that we are waiting to see what will happen—there is not currently a consensus with respect to what any future policy will look like. Massachusetts will forge ahead and deal with the eventual outcome. We have been at the forefront of healthcare reform, even prior to the enactment of the ACA, and we will still be in this space regardless of what happens at the federal level. Now our focus is on improving the system we have, and we plan to adapt with the changing landscape. We feel that Massachusetts is in a good position to deal with these issues.



The Commonwealth of Massachusetts Bond Financing Programs

March 2, 2017

Commonwealth Credit Review



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.

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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.



TREASURER

DEBORAH B. GOLDBERG



GOVERNOR CHARLES D. BAKER



Economic Update – Statistical Overview

	<u>Massachusetts</u>	<u>United States</u>
<u>Population</u>		
July-16 Estimated 6-year percent change	3.8%	4.5%
<u>Personal Income, Consumer Prices, Poverty</u>		
2015 Per Capita Personal Income	\$62,603	\$48,112
2015 Average Annual Pay, All Industries	\$66,692	\$52,942
2015-16 Annual Percent Change in CPI-U	1.5%	1.3%
Nov-15 to Nov-16 Annual Percent Change in CPI-U	1.3%	1.7%
2015 Poverty Rate	11.5%	14.7%
2015 Average Weekly Earnings, Manufacturing Production	\$893	\$832
Annual Percent Change (2014-2015)	1.7%	1.1%
<u>Employment</u>		
Oct-15 to Oct-16 Percent Change in Nonfarm Employment	2.0%	1.5%
2015 Average Annual Unemployment Rate	5.0%	5.3%
Dec-16 Unemployment Rate	2.7%	4.7%
<u>Education</u>		
2014 Expenditure Per Pupil K-12, Public	\$15,105	\$11,022
2015 Percent of Adults with at least a Bachelor's Degree	41.5%	30.6%
<u>Economic Base and Performance</u>		
2014-15 Percent Change in Gross Domestic Product	3.8%	2.5%
2014-15 Percent Change in International Exports	-7.8%	-7.4%
2014-15 Percent Change in Authorized Housing Permits	20.3%	13.0%

Source: UMASS Donahue Institute



Economic Update – Unemployment

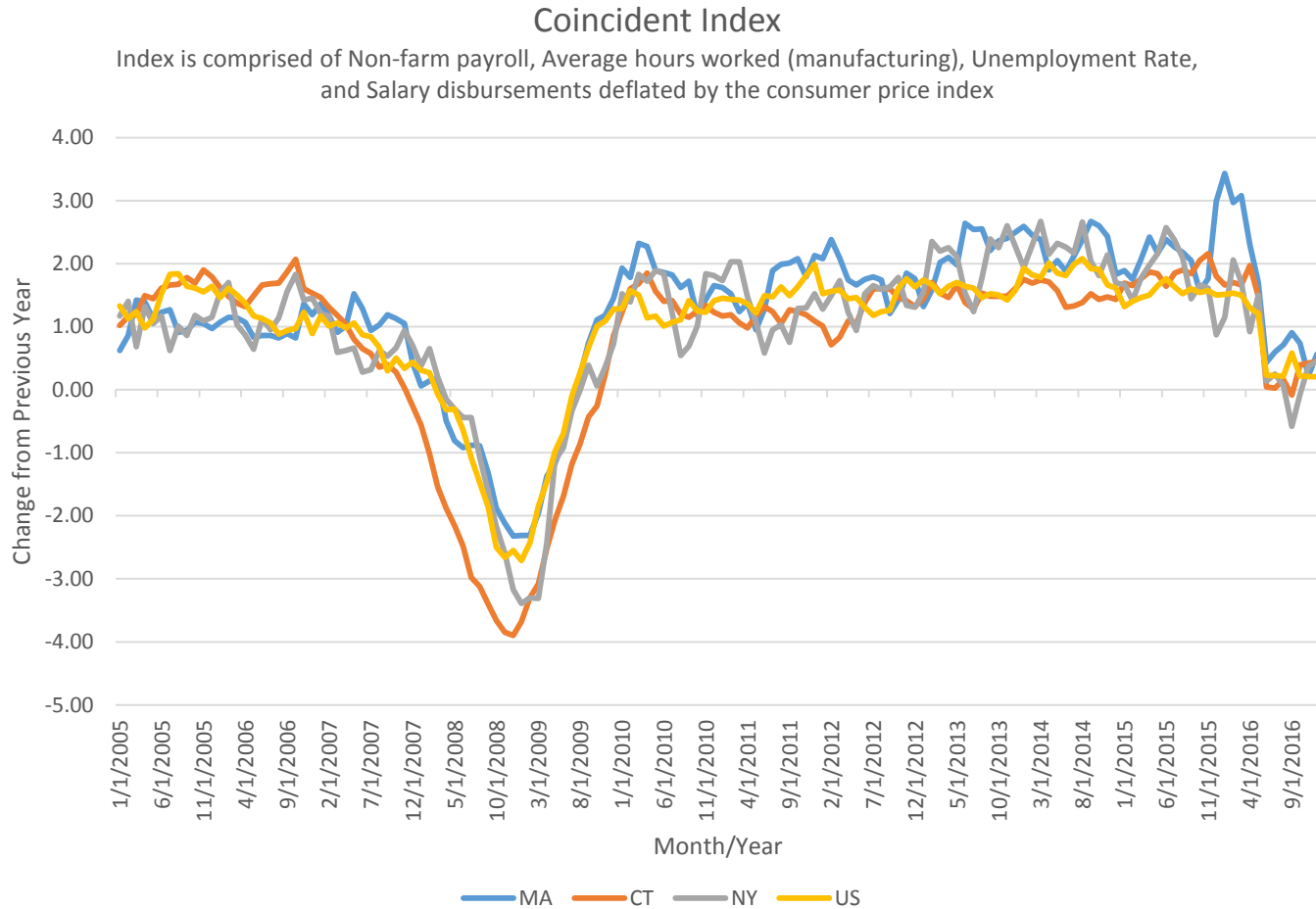
Average Annual Unemployment Rate
Massachusetts, New England and United States



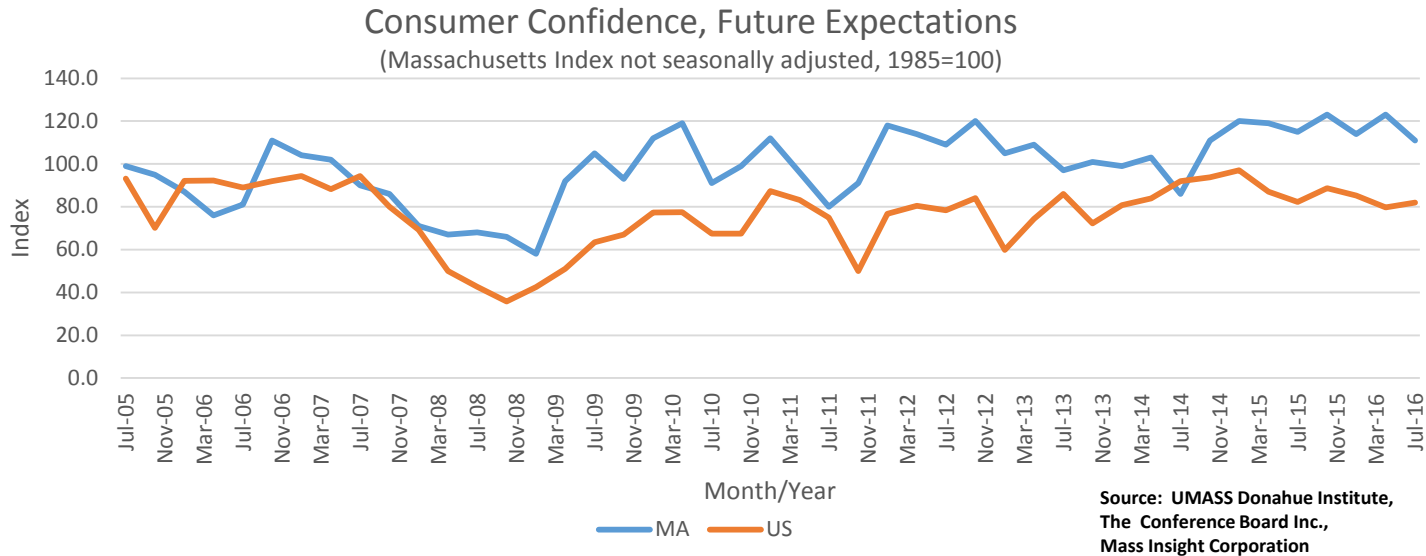
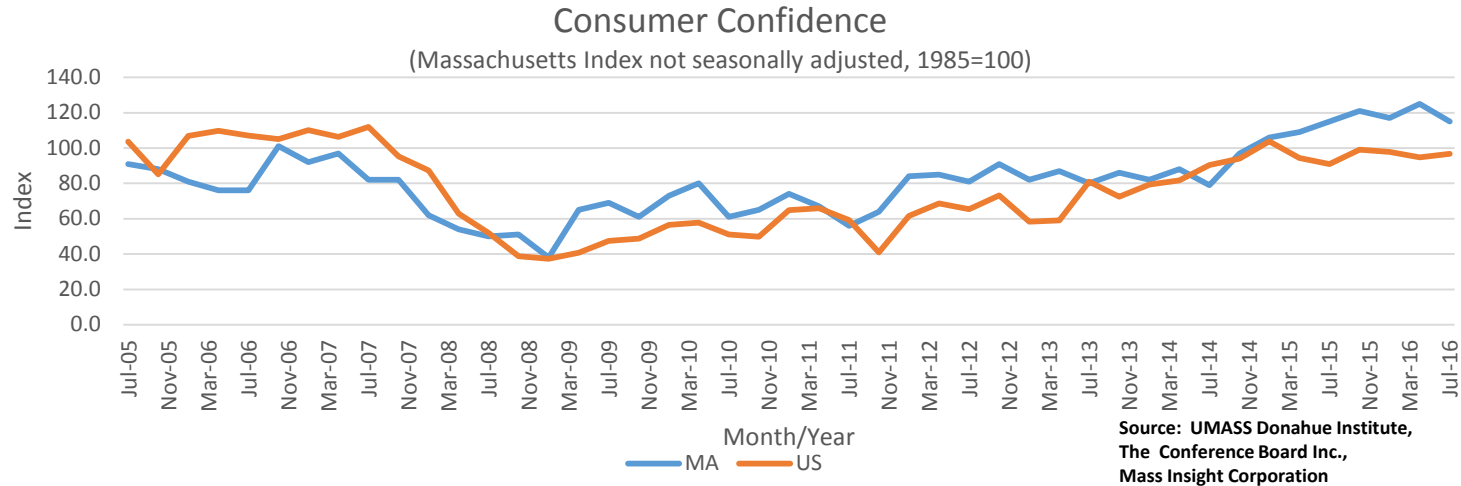
Source: UMASS Donohue Institute,
US Dept of Labor, Bureau of Labor Statistics



Economic Update – Coincident Index



Economic Update – Consumer Confidence



Department of Revenue

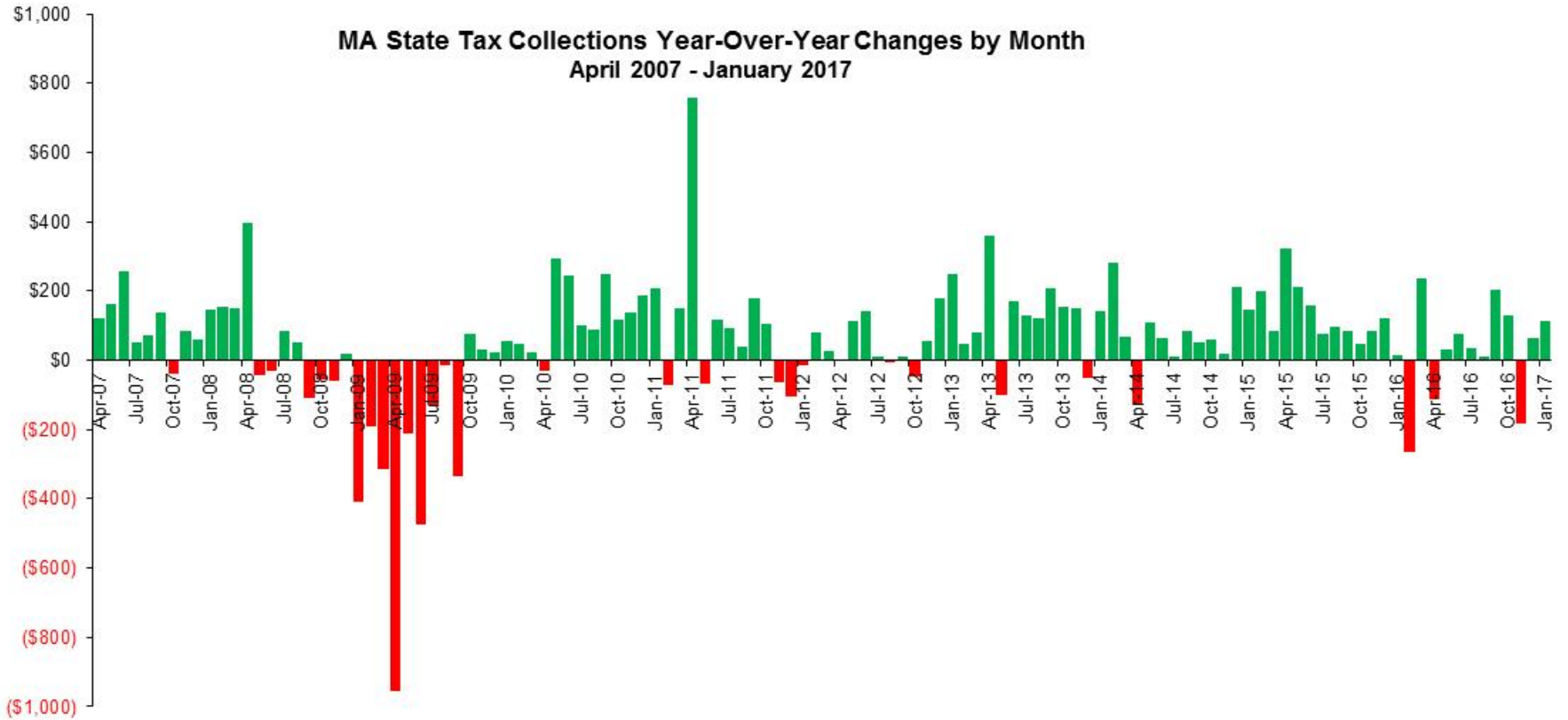
Kazim P. Özyurt

Chief Economist

Director, Office of Tax Policy & Analysis



Monthly year-over-year changes in collections:



FY17 Year-to-Date (January) Tax Collections Update

January 2017 Tax Collection Summary (in \$ millions) (Preliminary as of February 1, 2017)

	----- Month of January -----					----- FY17 Year-to-Date -----				
	01/2017 Collections	01/2017 v. 01/2016 \$ Change	01/2017 v. 01/2016 Actual % Change	01/2017 v. 01/2016 Baseline % Change	01/2017 \$ Above/(Below) Benchmark Based on FY17 Estimate of \$26.056 Billion	FY17 YTD Collections	01/2017 FY17 YTD \$ Change	FY17 YTD Actual % Change	01/2017 FY17 YTD Baseline % Change	FY17 YTD \$ Above/(Below) Benchmark Based on FY17 Estimate of \$26.056 Billion
Income - Total	1,848	60	3.3%	1.2%	(30)	8,621	248	3.0%	3.4%	31
Income Withholding	1,161	87	8.1%	4.7%	3	6,992	359	5.4%	5.8%	25
Income Est. Payments (Cash)	659	(51)	-7.2%	-7.6%	(77)	1,610	(96)	-5.6%	-4.6%	(14)
Income Returns/Bills	45	12	38.2%	7.5%	11	304	(4)	-1.3%	-4.5%	(3)
Net Income Refunds	16	(12)	-42.5%	-81.1%	(33)	285	11	4.1%	3.3%	(23)
Sales & Use - Total	609	30	5.2%	3.8%	6	3,717	91	2.5%	2.1%	(14)
Sales - Regular	453	16	3.8%	3.3%	4	2,573	72	2.9%	1.8%	10
Sales - Meals	92	5	6.3%	5.0%	0	673	30	4.6%	4.5%	2
Sales - Motor Vehicles	64	8	15.4%	5.7%	2	471	(11)	-2.3%	0.7%	(26)
Corporate & Business - Total	54	15	39.7%	40.0%	13	1,020	58	6.0%	6.3%	(18)
All Other	193	9	4.8%	7.8%	9	1,304	(12)	-0.9%	0.0%	(31)
Total Tax Collections	2,703	114	4.4%	2.8%	(1)	14,661	385	2.7%	3.0%	(33)
<i>Tax-Related Settlements & Judgments Exceeding \$10 Million Each</i> (NOT included in the January and YTD collections figures above. January and YTD benchmarks DO NOT assume such large settlements and judgments exceeding \$10 million each).										
		0.0				13.5				
Total Tax Collections (Including tax-related settlements & judgments)	2,703	114	4.4%	2.8%		14,675	371	2.6%	2.9%	
Corporate & Business - Total (Including tax-related settlements & judgments)	54	15	39.7%	40.0%		1,033	44	4.5%	4.7%	
Income Returns/Bills (Including tax-related settlements & judgments)	45	12	38.2%	7.5%		304	(4)	-1.3%	-4.5%	



FY17 Year-to-Date (January) Tax Collections Update

- Year-to-Date (through January) – continued moderate growth – closely tracking benchmark
- Excluding tax related settlements and judgments exceeding \$10 million each:
 - Year-to-Date total: \$14.7 billion
 - +\$384 million, or +2.7%, from the same period in fiscal 2016
 - \$33 million below Year-to-Date benchmark
 - *Above benchmark performances in income tax withholding and less than expected income tax cash refunds*
more than offset by
 - *Lower than expected income tax cash estimated payments, motor vehicle sales tax, corporate & business tax, and all other taxes (mainly estate tax)*



FY17 Year-to-Date (Through January) Tax Collections Update

- **Withholding:** \$6.99B, +\$359M, +5.4% actual, +5.8% baseline, \$25M above benchmark.
- **Income tax cash estimated payments:** \$1.6B, -\$96M, -5.6% actual, -4.6% baseline, \$14M below benchmark.
- **Income tax payments with bills and returns:** \$304M, -\$4M, -1.3% actual, -4.5% baseline, \$3M below benchmark.
- **Net Income tax refunds:** \$285M, +\$11M, +4.1% actual, +3.3% baseline, \$23M below benchmark.
- **Sales & use tax collections:** \$3.7B, +\$91M, 2.5% actual, +2.1% baseline, \$14M below benchmark.
- **Corporate and business tax collections:** \$1B M, +\$58M, +6.0% actual, +6.3% baseline, \$18M below benchmark.
- **“All Other” tax categories (including estate tax):** \$1.3B, -\$12M, -0.9% actual, +0.0% baseline, \$31M below benchmark.



Executive Office for Administration & Finance

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Director of Debt Management

Heath Fahle

Finance Director



Fiscal Year 2017: Mid-Year Review

- For the first seven months of fiscal 2017 (ending January 31, 2017) preliminary tax revenues totaled \$14.66 billion, an increase of approximately \$385 million, or 2.7% over the same period in fiscal 2016, but 0.2% below the fiscal 2017 benchmark.
- In fiscal 2017, the Administration has taken several actions to revise tax revenue projections and achieve budgetary balance:
 - On October 14, 2016, I revised the tax revenue projection downward by \$175 million and reported a budget shortfall of \$294 million related to the revised tax revenue projection and certain specified projected deficiencies.
 - On October 17, 2016, I announced the Voluntary Separation Incentive Program to reduce payroll spending.
 - On October 27, 2016, I reported to the House and Senate Committees on Ways and Means that I had identified solutions to close the announced gap, including unneeded trust balances, increased non-tax revenue, decreased transfers and payroll savings.
 - I also communicated that the Executive Office for Administration and Finance was tracking additional deficiencies, including approximately \$100 million in additional MassHealth spending net of projected reimbursements.



Fiscal Year 2017: Mid-Year Review

- On December 6, 2016, I identified non-tax revenue and spending deficiencies of \$98 million, net of revenues, which had been communicated previously to the legislature.
- On the same date, the Governor reduced spending allotments by \$95 million pursuant to his Section 9C authority.
- Approximately \$88 million of the deficiency reflected projected non-discretionary spending obligations that were not fully funded in the fiscal 2017 budget.
- We will continue to monitor revenues and spending and will actively manage the Commonwealth's budget in fiscal 2017 to achieve statutory balance.



Fiscal Year 2018: Consensus Revenue Process and Pension Schedule

- On January 12, 2017, a fiscal 2018 consensus tax revenue estimate of **\$27.072 billion** was agreed upon among myself and the chairs of the House and Senate Committees on Ways and Means.
- The fiscal 2018 consensus tax revenue estimate represents revenue growth of **3.9%** over the fiscal 2017 estimate of \$26.056 billion.
- After taking into account of transfers, we agreed that **\$22.704 billion** would be the maximum amount of tax revenue available for the fiscal 2018 budget and that we would base their respective budget recommendations on that number.
- On January 12, 2017, I filed the triennial funding schedule for the Commonwealth's employee retirement obligations, which provides for a fiscal 2018 transfer amount of **\$2.394 billion**, an increase of \$196 million, or 8.9%, over the fiscal 2017 contribution.
- The pension funding schedule is projected to fully amortize the Commonwealth's accumulated unfunded actuarial liabilities by fiscal 2036, which is unchanged from the previous funding schedule.



Fiscal Year 2018 Budget Proposal

- On January 25, 2017, the Governor filed his fiscal 2018 budget recommendation, providing for a total of **\$40.508 billion** in state spending, excluding certain transfers, which represents an increase of 4.3% over projected fiscal 2017 spending.
- The Governor's budget proposal reduces the structural deficit by reducing the budgeted use of one-time revenues to under \$100 million;
- The Governor's budget also assumes the reduction of the income tax rate from 5.10% to 5.05% will take effect on January 1, 2018.
- The budget process is expected to continue through the spring and early summer to result in a fiscal 2018 budget on or about the beginning of the new fiscal year.



Fiscal Year 2018 Stabilization Fund Proposal

- The Governor's budget proposal includes legislation to reform the statutory mechanism to deposit certain excess tax revenues into the state's "Rainy Day Fund" or Stabilization Fund.
 - The new mechanism creates a pre-budget transfer in the amount of half of any amount by which projected capital gains tax collections exceed the current statutory threshold for such collections;
 - Under the new mechanism, the Governor's proposal makes an up-front deposit of **\$51.5 million** to the Stabilization Fund (on a before-budget basis) rather than waiting for the distribution of excess capital gains tax revenues at the end of the fiscal year;
 - An additional amount will be deposited at the end of the fiscal year based on actual tax revenues received over the tax revenue estimates in the enacted budget.



Other Recent Developments

- The federal Centers for Medicare and Medicaid Services (CMS) approved an amended Medicaid 1115 Demonstration (waiver) on November 4, 2016, effective until June 30 2022, authorizing more than \$52.4 billion for the MassHealth program over the next five years, including:
 - Approximately \$1.8 billion over five years of new Delivery System Reform Incentive Program funding to support restructuring from fee-for-service care model toward Accountable Care Organizations and value-based payments with shared savings and risk;
 - Nearly \$6 billion of additional payments over five years to safety net providers, hospitals and community health centers for the eligible uninsured and underinsured and matching funds for subsidies to assist those who obtain coverage on the Health Connector;
 - Expanded recovery-focused substance use disorder services; and
 - Investments for strengthening the community-based health care system for behavioral health services and long-term services and supports.
- On January 20, 2017, the President of the United States issued an executive order that requires all federal agencies with authorities and responsibilities under the ACA to “exercise all authority and discretion available to them to waive, defer, grant exemptions from, or delay” parts of the ACA that place “unwarranted economic and regulatory burdens” on states, individuals or health care providers. The Commonwealth does not currently have an assessment of the impact of the executive order, if any, on its health care programs and expenditures.



Capital Budget Process

- The Executive Office for Administration and Finance is currently working on its five-year capital investment plan for the fiscal years 2018 through 2022.
- In December, the Debt Affordability Committee recommended an administrative bond cap of up to \$2.26 billion. This represents a \$70 million (3%) increase in planned general obligation bond issuance over fiscal year 2017.
- For the fiscal 2018 capital budget, the Governor will increase the administrative bond cap by 3% to \$2.26 billion.
- The increase allows for targeted investments in the state's infrastructure while keeping growth in debt service and outstanding principal within long-term revenue growth projections.
- The fiscal 2018 capital budget is expected to be released later this spring.



Office of the State Treasurer

Debt / Capital Presentation

Sue Perez

Deputy Treasurer

Drew Smith

*Deputy Assistant Treasurer
for Debt Management*



Financing Update

- The State Treasurer's Office (TRE) 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.
- Since the November call, the Commonwealth has issued \$200 million 2016 Series B Commonwealth Transportation Fund Revenue Bonds as well as \$600 million 2016 Series H, I & J GO Bonds and \$188.5 million 2017 Series A and B GO Refunding Bonds (SIFMA Index Bonds).

Series	Par Amount	Sale Date	Award	Maturity Range	Avg Life	All-In-TIC
CTF 2016 B	\$200MM	11/15/16	Bank of America Merrill Lynch	2042-2046	28.8	3.86%
GO 2016 H	\$150MM	11/30/16	Goldman Sachs	2022-2026	8.3	2.61%
GO 2016 I	\$150MM	11/30/16	Citigroup	2027-2035	15.3	3.67%
GO 2016 J	\$300MM	11/30/16	Bank of America Merrill Lynch	2036-2046	25.3	4.11%
GO 2017 A (SIFMA Index)	\$100MM	12/20/16	Morgan Stanley	February 1, 2019	NA	SIFMA + 47 bp
GO 2017 B (SIFMA Index)	\$88.49MM	12/20/16	RBC Capital Markets	February 1, 2020	NA	SIFMA + 60 bp



Upcoming Transactions*

Plan of Finance *

Month	Par Amount	Structure	Type	Credit	Method of Sale
Apr-17	\$500 M (Refunding TBD)	Fixed Rate Tax Exempt (potential Green component)	New Money/Refunding	GO	Negotiated
May-17	\$250 M	Fixed-Rate Tax Exempt CTF (REP & ABP)	New Money	CTF	Negotiated
Jun-17	\$525 M	Fixed Rate Tax Exempt	New Money	GO	Negotiated

*Preliminary and subject to change



Issuance Timeline*

- The Commonwealth expects to sell its 2017 Series A & B and Refunding Series C GO Bonds on April 6, 2017
- Current Information Statement and Preliminary Official Statement available at www.massbondholder.com

April						
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						

GO Negotiated Sale	April 6, 2017
GO Closing Date	April 13, 2017

Questions, please contact:

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*Preliminary and subject to change



Debt/Capital

- Today's call represents the first investor call of 2017
- The Commonwealth will continue to hold investor calls approximately one week after each disclosure update throughout 2017
- For more information on the Commonwealth's financing programs, please contact either Sue Perez or Drew Smith

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QUESTIONS

