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S&P: AA+/Stable
Fitch: AA+/Stable

The Commonwealth of Massachusetts

July 2012 Credit Update & Investor Disclosure Conference Call

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Agenda

1. Economic Update
2. Fiscal 2012 Update
3. Fiscal 2012 Revenue Review
4. Fiscal 2013 Budget
5. Debt / Capital
6. 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 Dept of Commerce, Bureau of Economic Analysis

Unemployment:

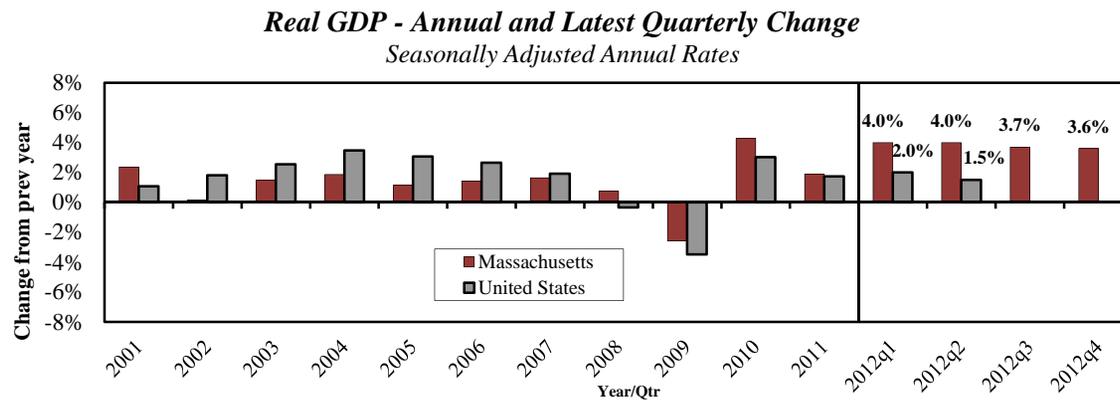
- The 2011 Unemployment Average was 7.4% for MA vs. 8.9% for US
 - As of June 2012, MA was 6.0% vs. 8.2% nationally

Source: US Dept 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, MA GDP is estimated to have grown at an annualized rate of 4.0% vs. 1.5% for the US
- As of May 2012, the 12-month change in the Federal Reserve Bank of Philadelphia's State Coincident Index was 4.2% for MA vs. 2.8% for the US

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



Note: Mass. FY2012 are estimates and projections

2. Fiscal 2012 Budget Update



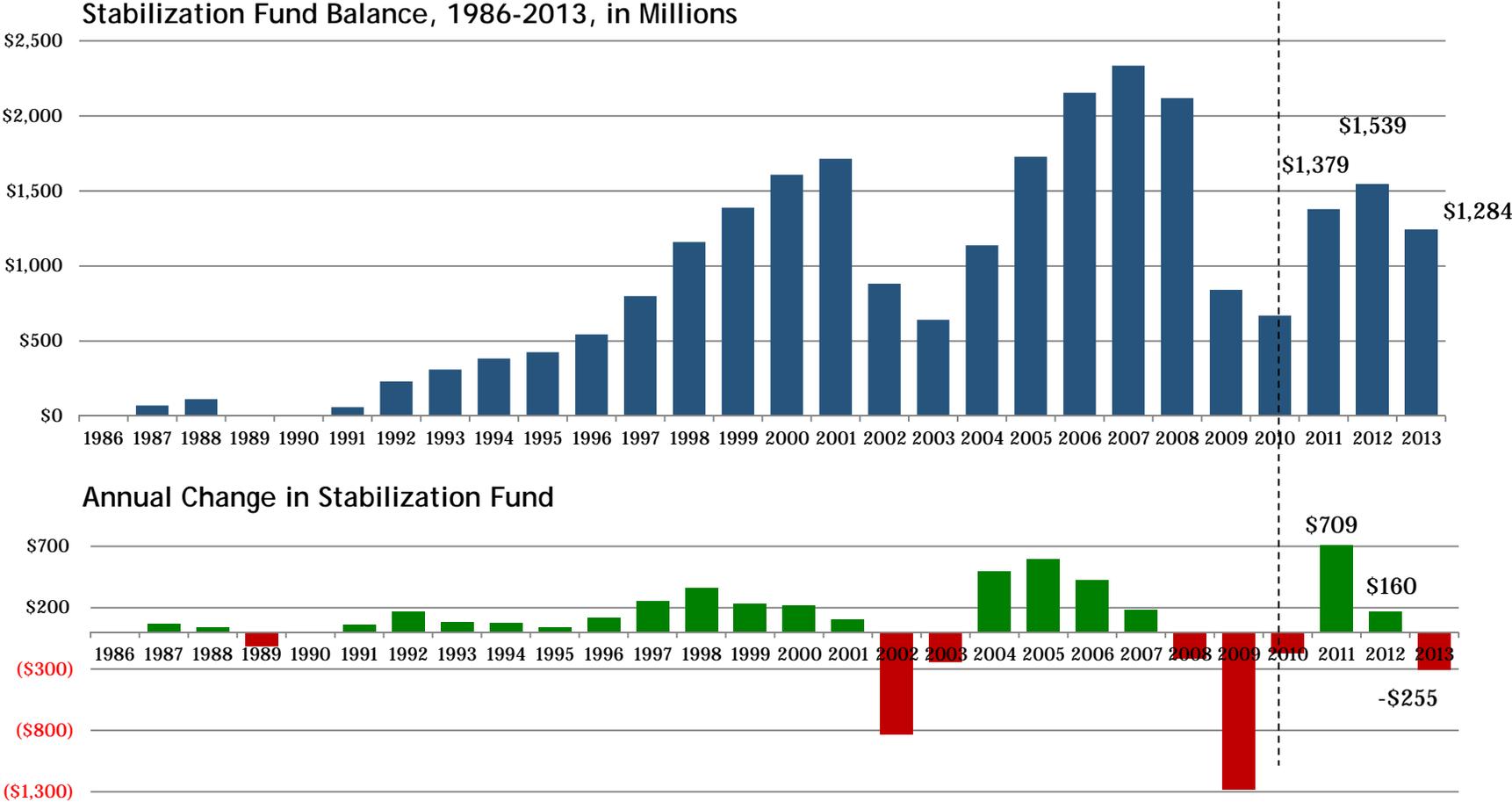
Fiscal 2012 Update

- In July 2011 Governor Patrick signed into law the FY 2012 budget, which called for \$30.597 billion in spending this year.
- The adopted budget relied on \$449 million in non-recurring resources (A&F has revised this amount upwards to roughly \$650 million, based on supplemental budget legislation adopted to-date and other revised assumptions).
- The budget assumed the use of up to \$200 million in Stabilization Fund resources, leaving a projected Fund balance of \$1.53 billion at the close of FY 2012. (Based on the reported FY 2012 closing balances in the NASBO Survey of States, this Fund balance would leave Massachusetts with the fourth largest rainy day reserve in the country.)
- The FY 2012 adopted budget assumed annual tax receipts of \$20.636 billion, up from FY 2011 collections of \$20.517 billion.
- Based on collections through September 2011 the tax estimate was revised upwards to \$21.010 billion.

Fiscal 2012 Update

- Total FY 2012 tax collections were \$21.117 billion, exceeding the revised forecast for the year.
- On July 16, the Governor filed “year-end” supplemental legislation proposing \$30.5 million in supplemental appropriations, “PACing” or re-appropriating \$47 million and requesting various technical legislative items needed to close the fiscal year.
- This legislation is currently being finalized by the House and Senate and we expect passage by July 31. (Comparatively, the “year end” supp was not adopted for FY 2011 until October 2011.)
- We have complied with the FY 2012 reform to segregate all one-time settlements in excess of \$10 million from general operating resources and deposit them into the state’s rainy day fund, except for payment of a one-time \$29 million settlement. Based on receipts to-date, we anticipate at least \$390 million in one-time settlements and capital gains taxes (in excess of \$1 billion) to be deposited, resulting in a net Stabilization Fund deposit in FY 2012 of \$160 million.
- A&F and the Comptroller’s Office will be working through August to track final state spending and revenue in FY 2012, before closing the books in October.

Projected Stabilization Fund Balance



(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 \$400 M draw from the Stabilization Fund to the General Fund, partially offset by \$90 M in capital gains Proceeds in excess of \$1 B.

3. Fiscal 2012 Revenue Review



Fiscal 2012 Revenue Review

Background (FY09, FY10, FY11):

- After declining by 12.5% in FY09, due to the recent Great Recession, tax revenues began to recover in Fiscal 2010 and Fiscal 2011, growing by 1.6% and 10.6%, respectively.
- The Fiscal 2011 performance drew on an underlying sound economy that generated year to year increases in withholding, sales and corporate taxes, as well as an infusion of revenue from income tax on investment income. The increase of collections (10.6% actual and 9.3% baseline) reflects a Massachusetts economy that grew noticeably stronger during the fiscal year, as well as a strong recovery of the stock market.

Fiscal 2012 Revenue Review

Fiscal 2012 Estimate:

- The Fiscal 12 consensus revenue estimate assumed Fiscal 2012 revenue collections of \$20.525 billion. After adjusting for revenue initiatives enacted as part of the Fiscal 2012 budget, and the sales tax holiday, the Fiscal 2012 tax forecast was \$20.615 billion, reflecting actual growth of 0.48% and baseline growth of 1.2% from Fiscal 2011 collections.
 - On October 17, 2011 the Executive Office for Administration and Finance (A&F) increased the Fiscal 2012 revenue estimate by \$395 million, to \$21.010 billion. The revised estimate reflected projected revenue increase of 2.4% actual and 3.1% baseline from Fiscal 2011 collections.
 - On January 12, 2012, the Fiscal 2012 estimate was kept at \$21.010 and 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 Fiscal 2013 consensus tax revenue estimate of \$21.950 billion represents revenue growth of 4.5% actual and 5.4% baseline from the revised Fiscal 2012 estimate of \$21.010 billion.
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Fiscal 2012 Revenue Review

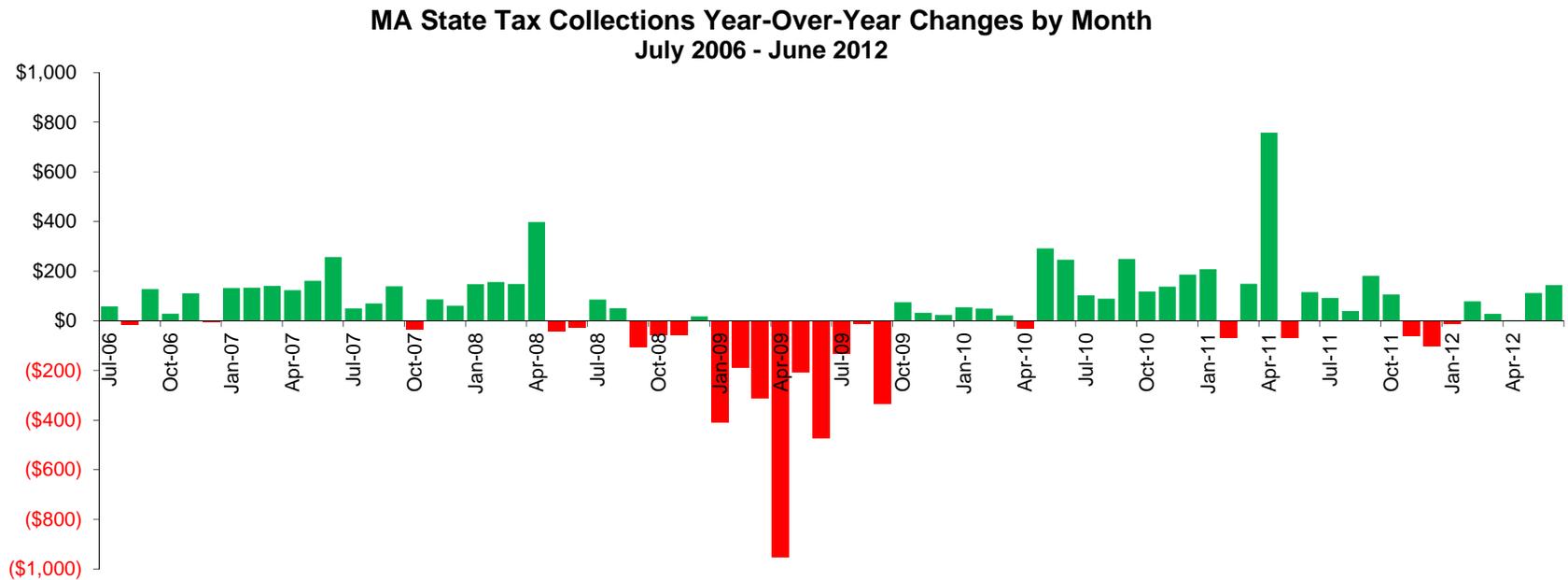
Fiscal 2012 Tax Collections: The table in this slide shows a summary of Fiscal 2012 tax collections relative to Fiscal 2011 actual and Fiscal 2012 benchmark collections. See the next two slides (#15 and #16) for explanations.

June 2012 and Fiscal 2012 Tax Collection Summary (in \$ millions) (Preliminary as of July 30, 2012)

	----- Month of June -----					----- FY12 Year-to-Date -----				
	06/12 Collections	06/12 v. 06/11 \$ Change	06/12 v. 06/11 Actual % Change	06/12 v. 06/11 Baseline % Change	06/12 \$ Above/(Below) Benchmark Based on FY12 Estimate of \$21.010 Billion	06/12 FY12 YTD Collections	06/12 FY12 YTD \$ Change	06/12 FY12 YTD Actual % Change	06/12 FY12 YTD Baseline % Change	FY12 YTD \$ Above/(Below) Benchmark Based on FY12 Estimate of \$21.010 Billion
Income - Total	1,237	120	10.7%	8.7%	96	11,914	338	2.9%	4.0%	(189)
Income Withholding	834	88	11.8%	8.0%	64	9,767	331	3.5%	3.9%	(98)
Income Est. Payments (Cash)	395	(4)	-1.0%	0.7%	(1)	1,833	(24)	-1.3%	0.9%	(75)
Income Returns/Bills	49	17	53.5%	49.4%	13	1,710	17	1.0%	2.8%	(46)
Income Refunds (Cash)	42	(18)	-29.8%	-30.2%	(19)	1,395	(9)	-0.7%	-1.2%	(26)
Sales & Use - Total	441	18	4.3%	4.9%	6	5,059	155	3.2%	4.7%	64
Sales - Regular	309	18	6.3%	6.2%	8	3,544	68	2.0%	4.2%	31
Sales - Meals	77	4	4.8%	5.0%	1	869	56	6.8%	6.4%	25
Sales - Motor Vehicles	55	(4)	-6.1%	-1.4%	(3)	646	31	5.0%	5.2%	8
Corporate & Business - Total	435	(2)	-0.4%	3.4%	(3)	2,320	92	4.1%	5.7%	146
All Other	183	7	4.0%	9.9%	21	1,824	16	0.9%	1.5%	86
Total Tax Collections	2,296	144	6.7%	7.0%	120	21,117	600	2.9%	3.5%	107

Fiscal 2012 Revenue Review

- Tax revenues for Fiscal 2012, ended June 30, 2012, totaled approximately \$21.117 billion, an increase of approximately \$600 million, or 2.9%, over the same period in Fiscal 2011, and \$107 million above the benchmark. Fiscal 2012 baseline tax revenues grew about 3.5% after adjusting for tax law changes. The chart below indicates that monthly year-over-year changes in collections have mostly been on the positive side since October 2009, which is an indication that the collections and thus the economy, have been steadily improving.



Source: Executive Office for Administration and Finance.

Fiscal 2012 Revenue Review

- Fiscal 2012 increase in revenues is attributable, in large part, to
 - a) an increase of approximately \$331 million, or 3.5%, in **withholding** collections,
 - b) an increase of approximately \$155 million, or 3.2%, in **sales and use tax** collections,
 - c) an increase of approximately \$92 million, or 4.1%, in **corporate and business** collections,
 - b) a decrease of approximately \$9 million, or 0.7% in **income cash refunds**,
 - c) an increase of approximately \$17 million in **income payments with returns and extensions**,which were partly offset by
 - d) a decrease of approximately \$24 million, 1.3%, in **income cash estimated payments**,
- Fiscal 2012 tax collections were approximately \$107 million above the Fiscal 2012 benchmark tax revenue estimate of \$21.010 billion. Below benchmark performance in income tax collections were entirely offset by the above benchmark performance in sales, corporate and business, as well estate and deeds tax collections in Fiscal 2012.
- Capital gains tax collections declined by 67% in Fiscal 2009 (from \$2.175B to \$0.717B), and it further declined by 20.2% in Fiscal 2010 (from \$0.717B to \$0.572B). These collections recovered significantly in Fiscal 2011 (increase of 73%, from \$0.572B to \$0.991B). Although, preliminary Fiscal 2012 figures indicate that the capital gain tax collections declined by 7.6%, it stood above \$0.9B level, which is considered significant compare to where they were a few year ago.

Fiscal 2013 Revenue Review

- 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 \$22.032 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).
- The Fiscal 2013 estimate of \$22.032 could be reduced by \$20 million to take into account the impact of a proposed two-day sales tax holiday on August 11-12, 2012, which is up for consideration in the Legislature.
- Approximately \$1.1 billion of the \$22.032 billion tax estimate is assumed to be generated from taxes on capital gains. Under the new statutory fiscal policy, \$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 lower unemployment rate and a relatively better economic performance recently compare 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 Review

Income tax rate:

- 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).
 - In August, 2012, the Department of Revenue will review the inflation-adjusted revenue trends in Fiscal 2012 and in the first half of Fiscal 2013 to determine if there is enough inflation-adjusted revenue growth to trigger a further rate reduction (from 5.25% to 5.20%) in calendar year 2013 and thereafter.
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4. Fiscal 2013 Budget



Fiscal 2013 Budget Update

- On July 8 the Governor signed into law the FY 2013 budget, totaling \$32.477 billion after accounting for the Governor's \$32.1 million in vetoes.
 - Total one-time resources adopted in the budget totaled \$610 million, less than the assumed amount for FY 2012.
 - The Governor proposed a supplemental budget of \$54 million which would be funded through the use of a projected FY 2012 surplus, vetoed funds and \$14 million in estimated FY 2013 resources unexpended by the Legislature's budget.
 - In addition, the Governor vetoed the Legislature's proposal to amend the FY 2012 settlements revenue reform by requiring all settlements in excess of \$1 million to be deposited in the Rainy Day Fund (as opposed to > \$10 million), but allowing for the first \$30 million to be available for the budget.
 - Other budget highlights:
 - Implements FY 2012 reform to provide additional funds for the state's OPEB liability using a portion of the state's tobacco settlement.
 - Funds record-high school aid (Chapter 70) and efforts to address achievement gap.
 - Reforms state community college system, including governance and workforce development and training efforts.
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5. 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, the \$300 mm in additional FY12 borrowing will be made up in FY13
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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
- 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
- Under our schedule, disclosure will be next updated Sept 10th , then again Nov 7th
- With construction season underway, the STO expects the need to borrow again as the bond proceeds from the Series 2012 B bond funds are drawn down and allocated
- The actual size of the next general obligation borrowing will be determined as we get closer to our next borrowing but the Commonwealth is committed to being as transparent about our forward calendar and borrowing needs as possible

* Preliminary and subject to change

Disclosure Enhancements (con't)

■ Investor Communication & Outreach

- Inaugural annual investor conference December 2011; 2012 conference targeted for early November 2012
- Ongoing targeting of investors in Boston and outside region for one-on-one meetings away from financings (New York, Chicago, San Francisco)
- First state to implement regular 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:

6. Questions & Follow-Up



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