



**Commonwealth of Massachusetts
State Finance and Governance Board**

Annual Report
Fiscal Year 2020

Board Chair

Lourdes German
& Director,
The Civic Innovation
Project and Assistant
Professor & Co-
Director, Boston
College

Board Members

Brent J. Andersen
President, Pilgrim Bay
Insurance Agency

Supreo Ghosh
Office of the State
Treasurer,
Commonwealth of
Massachusetts

Susan Perez
Deputy Treasurer
Office of the State
Treasurer,
Commonwealth of
Massachusetts

Honorable Madams and Messrs.;

We are pleased to deliver the Annual Report of the Commonwealth of Massachusetts (the “Commonwealth”) State Finance and Governance Board (the “Board”), the deferred delivery of which is due to delays associated with the COVID-19 pandemic.

This report provides a summary of the board’s mission, operations, and other findings as of the end of Fiscal 2020, and is submitted pursuant to Massachusetts General Laws Chapter 6, Section 98.

We would like to thank the Office of the Treasurer and Receiver-General, Executive Office for Administration & Finance, state entity issuers, bond counsel, financial advisors, and all others who have collaborated with the Board over the course of the past fiscal year, and participated in the Board’s activities.

We look forward to continuing this collaboration and commitment towards the Board’s mission in Fiscal Year 2021 and beyond.

Sincerely,

The Massachusetts State Finance and Governance Board

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BOARD MEMBERS

Brent J. Andersen

President, Pilgrim Bay Insurance Agency

Brent J. Andersen is the founder and president of Pilgrim Bay Insurance Agency, a Massachusetts based commercial insurance brokerage with a focus on Surety, Commercial Construction and Public-Sector risks. He is a skilled leader with organizational and management expertise combined with over twenty years of commercial construction and insurance/surety experience. He served for ten years on the Board of Trustees of Quinsigamond Community College, including six years as the Board Chair. Brent is a past Trustee of the Pension, Health and Welfare and Annuity funds for the Heat and Frost Insulators Union Local 6 of Boston and he continues to serve on a variety of community boards in Central Massachusetts. Brent holds a Bachelor's Degree in Finance from Nichols College, is a graduate of Saint John's High School and was the Treasurer of the Massachusetts Republican Party from 2003 until 2020.

Lourdes German

Co-Director, Managing for Social Impact & The Public Good, & Assistant Professor of Practice, Boston College Carroll School of Management Director, The Civic Innovation Project

Lourdes Germán serves as co-director of the Managing for Social Impact and The Public Good academic program at Boston College and serves on the faculty of the Carroll School of Management at BC. Prior to that she was Director of International & Institute-Wide Initiatives at the Lincoln Institute of Land Policy where she advanced the Institute's global municipal fiscal health campaign. An expert in municipal finance, Lourdes began her career as a public finance attorney representing government entities. Following that work, Lourdes co-created the national municipal finance business division at Fidelity Investments as a Vice President of Municipal Finance, and opened and managed Fidelity's first New York office for public finance. Following Fidelity, Lourdes' professional experiences included serving as General Counsel and Vice President of a national municipal investment management company, creating and teaching a graduate government finance courses at leading universities, and advising non-profits focused on urban economic growth. Lourdes is also the founder and director of the Civic Innovation Project, an online thought leadership platform focused on advancing city-to-city learning with respect to the most challenging issues facing governments. Outside of work, Lourdes volunteers her time on various boards and commissions.

Supreo Ghosh

Office of the State Treasurer, Commonwealth of Massachusetts

Supreo works on debt and liability management for the State Treasurer's Office, with a focus on issuance and risk management of the State's general obligation and special obligation debt, private placements, bank facilities and off-balance sheet liabilities. As a subject matter expert at the FDIC following the financial crisis, he worked closely with regulators at the FDIC, Federal Reserve, SEC and the US Treasury Department on risk monitoring of financial institutions, with a focus on regulatory policy and rule-making relating to the implementation of Dodd-Frank. He has also worked in the economic research and analysis department at the Federal Reserve. Supreo brings over 20 years of experience in Investment Banking, Capital Markets and Financial Advisory, having worked at Morgan Stanley, Credit Suisse, Bank of America and Deutsche Bank. He has an MBA in Finance from Sloan School of Business at MIT and a Bachelor's degree from MIT.

Susan Perez
Deputy Treasurer
Office of the State Treasurer, Commonwealth of Massachusetts

Sue Perez is a Deputy Treasurer in the Massachusetts State Treasurer's Office with a focus on the Commonwealth's debt management operations. Sue is responsible for all of the Commonwealth's short-term and long-term borrowing needs for its \$22 billion debt portfolio consisting of issues within the General Obligation credit as well as various Special Obligation credits. Sue also serves as Executive Director of the Massachusetts Clean Water Trust ("MCWT"), a position she has held since March of 2012. Since that time she has guided the MCWT through multiple new money and refunding issues, through a structural change in the way its bonds are issued, and through multiple successful issuances of MCWT Green Bonds. Sue has over 25 years of experience in accounting, audit and financial management. She has been the Senior Finance Director for a \$3.4 billion service company, and at the other end of the spectrum was one of the initial members of a start-up company with the responsibility of establishing the finance and human resources departments. Sue was an auditor at PriceWaterhouse Coopers, during which time she received her CPA. She is a graduate of the Boston University School of Management, with a B.S. in Business Administration. She resides in Foxboro.

BOARD OVERVIEW

The Board was created pursuant to Massachusetts General Laws Chapter 6, Section 97. Its legislative mandate is to promote transparency, public accountability and adherence to best practices by all state entities with respect to proper governance of state entities and investments, borrowing or other financial transactions by state entities involving public funds, including tax supported debt.

The Board serves under the Governor and is subject to the Governor's supervision pursuant to Massachusetts General Laws Chapter 6, Section 17. The enabling authority, powers, and function of the Board are governed by: Massachusetts General Laws Chapter 6, Section 97; Massachusetts General Laws Chapter 6, Section 98; and Title 976 of the Code of Massachusetts Regulations, Section 2.00. In addition, the Board also has statutory authority pursuant to Massachusetts General Laws Chapter 29, Section 53 to grant certain waivers related to the issuance of bonds or notes by the Commonwealth of Massachusetts.

On a monthly basis, the Board reviews:

- ***Transactions involving a derivative financial product to be entered into by a state entity:*** Per Massachusetts General Laws Chapter 6, Section 97, a derivative financial products are defined as “financial instruments with values derived from or based upon the value of other assets or on the level of an interest rate index including, but not limited to, detached call options, interest rate swaps or swaptions, caps, floors and collars, but not including bond insurance or other credit or liquidity enhancement of bonds or notes or agreements related to the lending or investment of the proceeds of bonds or notes.” In this case, issuers provide a thorough analysis of the proposed transaction, any benefit or risk associated with it, and a recommendation from an independent financial advisor recommending whether or not to proceed.

- ***Requests for a waiver from presumption of a competitively bid financing:***

Per Massachusetts General Laws Chapter 29, Section 53, the Commonwealth, and certain state entities, must issue bonds through a competitive sale unless the Board has approved. Issuers seek approval by demonstrating the benefits a negotiated sale would bring in that particular situation. Additionally, the Board's regulations require issuers who are granted a waiver to present the results to the Board of the transaction once it is closed.

BOARD ACTIVITIES – FISCAL YEAR 2020

In Fiscal Year 2020, a wide array of issuers came before the Board to present their agencies' proposed transactions. As will be described in further detail below, the COVID-19 pandemic forced state debt issuers to access liquidity markets in the midst of financial uncertainty, but also disrupted the Board's usual in-person meeting cadence as the Commonwealth collectively shifted to handling its responsibilities remotely.

The Board's monthly meetings and reviews fulfill its legislative mandate to ensure transparency and public accountability around certain financial transactions undertaken by state entities. In this section, the report presents a brief synopsis of certain Board reviews of investments, borrowing and other financial transactions carried out by state entities. For more information on findings, please view the Board's webpage at <https://www.mass.gov/state-finance-and-governance-board>.

- ***Commonwealth of Massachusetts***

The Office of the Treasurer and Receiver-General, on behalf of the Commonwealth, recently sought a number of board reviews and approvals. In addition, the Massachusetts Department of Transportation (MassDOT) also came before the Board in Fiscal Year 2020.

At the board's August 2019 meeting, the Treasurer's Office requested the Board review the proposed issuance of the Commonwealth's 25th series of their College Opportunity Bonds. The College Opportunity program, established in 1995, finances the Massachusetts Education Financing Authority's "U. Plan" prepaid tuition plan, which allows families to lock in future tuition at current prices at nearly 80 participating Massachusetts public and private colleges and universities. The bonds issued to finance the program serve as a hedge to "Tuition Certificates" that parents and benefactors purchase. These certificates are guaranteed to cover a fixed percentage of tuition and mandatory fees in the year they mature. Per Massachusetts General Laws Chapter 15C, Section 5A, the bonds are to be variable rate in nature. As this falls within the statutory definition of a derivative, the issuance triggered a Board review. The Treasurer's Office noted that as of July 31, 2019, the accreted value of College Opportunity Bonds outstanding was \$80 million, and that upon the 2019 issuance, that total would reach \$88.4 million. The Board's findings regarding the proposed derivative transaction were satisfactory.

The Treasurer's Office returned to the Board in August to seek a waiver from competitive sale. At that time, it was noted that negotiated sales accounted for just 35% of the Commonwealth's bond par value sold, compared to the market average of 76%. The Treasurer's Office, as in the previous fiscal year, stated that a negotiated sale provided the Commonwealth the ability to navigate a large sized deal in an uncertain market. After its review, the Board approved the Commonwealth's request to issue \$500 million in transportation bonds through a negotiated sale. The waiver for the sale would expire on February 28, 2020.

At the Board's September 2019 meeting, MassDOT sought Board review of a proposed fixed-rate current refunding of approximately \$840 million in Metropolitan Highway System (MHS) variable rate debt. MassDOT explained that the transaction would present approximately \$161 million in net present value savings (or \$10 million in savings annually), which could support additional capital needs for the Allston and other MHS projects. Additionally, MassDOT planned to partially terminate one existing swap serving as a hedge to the associated variable rate debt.

The request necessitated both a derivative review, due to the refunding of variable rate bonds, and a waiver for MassDOT to proceed without a competitively bid financing. MassDOT presented a number of benefits for the Board's consideration. The transactions would replace variable rate debt and swaps with lower cost fixed rate bonds and reduce MassDOT's mark-to-market exposure. MassDOT also stated that a negotiated sale of the fixed rate refunding would allow the financing team to pre-market the bonds, which, given the infrequency of bond issuances, would be essential to the success of the deal. Additionally, a negotiated deal would provide the agency enough time on the sale date to negotiate the sale of the associated swap terminations prior to agreeing to the bond purchase agreement, ensuring the terms of the transaction remained favorable. After its review, the Board granted approval of both the refunding of the variable rate bonds and the issuance of fixed rate bonds through a negotiated sale.

In September 2019, the Treasurer's Office requested an extension to their aforementioned waiver from a competitive sale with respect to the Commonwealth's CTF Bonds and GANs. The Treasurer's Office noted that taxable and tax-exempt interest rates had fallen in the previous month, which provided an opportunity for the Commonwealth to include refunding issues, extend the waiver's expiration date through the end of March 2020, and increase the amount to \$1 billion in negotiated sales.

In December 2019, the Treasurer's Office reported the results of the deal. With the Board's approval, the Commonwealth sold \$253.5 million in transportation bonds in November 2019—\$200 million of new money bonds for the Commonwealth Transportation Fund (CTF) and \$53.5 million of new money Federal Highway Grant Anticipation Notes (GANs). The CTF Bonds were used to finance the MBTA Green Line extension, improvements to the Red and Orange Lines, and the South Coast Rail Program, while the GANs were used to finance the Accelerated Bridge Program. The Treasurer's Office also requested another waiver from the presumption of competitive financing for \$2.0 billion in new money and refunding transactions related to the Commonwealth's General Obligation (GO) Bonds.

COVID-19

Due to the extreme volatility and uncertain market conditions that arose from the COVID-19 pandemic, the Treasurer's Office returned in April 2020 to request an extension of the CTF, GANs, and GO waivers, extending their expiration dates to October 31, 2020.

In June 2020, the Treasurer's Office updated the Board on the Commonwealth's sale of \$177 million in GO Refunding Bonds, which were used to refund the Commonwealth's \$200 million 2014 Series D1 Bonds, which were subject to mandatory tender and redemption on July 1, 2020.

The Treasurer's Office also requested the Board review the Commonwealth's \$500 million 2020 Credit Line with Bank of America, and \$200 million commercial paper liquidity facility with RBC in June 2020. While the Treasurer's Office noted that the Commonwealth's two liquidity facilities had yet to be drawn from, they existed to address any liquidity needs from the impact of the COVID-19 pandemic and could be drawn from as necessary.

After its review, the Board voted that it had received the satisfactory information regarding the proposed transactions.

- ***Massachusetts Clean Water Trust***

At the Board's final meeting of calendar year 2019, the Massachusetts Clean Water Trust (the Trust) reported on the negotiated sale of \$191.6 million in new-money State Revolving Fund Series 22 Green Bonds that had been approved by the Board in June 2019. The Trust's staff noted that this marked over \$1 billion in Green Bonds that had been sold over the span of five different issuances. They also noted that their ability to conduct a negotiated sale allowed them to attract seventeen new investors, and to demonstrate the value of the projects that were to be financed. The proceeds were used to fund 74 loans to 48 different borrowers for various clean water projects across the Commonwealth.

- ***Massachusetts Housing Finance Agency***

The Massachusetts Housing Finance Agency (MassHousing) came to the Board's September 2019 meeting in regards to their intention to incorporate the use of variable rate debt, in combination with its present use of fixed rate debt, to finance the agency's Multi-Family Housing mortgage program. MassHousing stated that the inclusion of some variable rate debt would reduce interest rate risk and enable the agency to lower the future cost of debt. This would allow the agency to provide lower mortgage rates to its borrowers, maintain positive net income, and grow its balance sheet. The first of these transactions, if approved, was the issuance of \$60 million in variable rate debt, at least half of which would be hedged through an interest rate swap. The deal was expected to be priced and closed by the end of the fall.

After its review, the Board voted that it had received satisfactory information regarding the proposed transactions, and approved of MassHousing proceeding.

- ***Massachusetts Housing Partnership***

In December 2019, the Board voted to grant a six-month extension to the Massachusetts Housing Partnership (MHP) for its \$50 million in forward-starting swap program. The Board's decision allowed MHP to continue to leverage the federal Department of Housing and Urban Development/United States Treasury Federal Financing Bank Risk-Sharing Program ("Risk-Sharing Program") as a low-cost financing avenue. The Risk-Sharing Program provides amongst the lowest interest rates on long-term fixed-rate multifamily housing loans available in the market. MHP developed this swap program to allow it to provide the required forward rate commitment during the construction period, and hedge interest rate risk. MHP noted the program had been functioning extremely well—at the time, eleven swaps had been executed totaling \$62 million in notional exposure, supporting the construction or rehabilitation of 819 apartment units. At the time, an additional \$22 million in swap executions were in MHP's project pipeline.

- ***Massachusetts Port Authority***

During the Board's first meeting of calendar year 2020, the Massachusetts Port Authority (Massport) reviewed its bond financings from the previous calendar year with the Board, including \$455 million in new money tax-exempt revenue bonds, as well as \$144 million in new money, refunding, and taxable BOSFUEL special facility bonds. Massport staff reported that the new money revenue bonds financed several capital projects, such as the expansion at Terminal E and improvements at Terminals B and C at Logan Airport, and new berth cranes at Conley Terminal. Massport staff also reported that the BOSFUEL bonds simultaneously financed capital improvements for the jet fuel storage and distribution system for the consortium of airlines that operate at Logan Airport and achieved refunding savings of over \$7 million for Massport.

- ***Massachusetts State College Building Authority***

In October 2019, the Massachusetts State College Building Authority (the Authority) requested the Board grant a waiver from competitive sale of \$275 million in refunding bonds. The Authority felt that the ability to carry out a negotiated sale would allow them to more effectively manage market conditions, and would proceed with such a sale if it was cost effective. After its review, the Board granted the request.

At the Board's first meeting of calendar year 2020, the Authority reported on its \$233.62 million taxable advanced refunding of its Series 2012A and 2012B bonds. This refunding resulted in \$22.16 million (in excess of 10% of refunded par) in net present value savings and \$1.2 million in annual debt service savings per year for the Authority over the next 20-25 years.

COVID-19

Due to the effects of the COVID-19 pandemic, the Authority returned to the Board in April 2020 to request an extension for their existing waiver granted in October 2019 from competitive sale of \$275 million in bonds to advance refund certain Authority bonds, which was due to expire on April 30, 2020. As the pandemic had shuttered many state college campuses, the Authority seized upon the opportunity to provide savings in FY20 to assist. The Authority requested an additional waiver from competitive sale for the issuance of \$20 million in new money bonds, which they had initially planned to issue on a competitive basis, but due to the uncertain market conditions, needed the flexibility that a negotiated sale would allow. After review, the Board voted to grant the Authority the waivers from competitive sale for both transactions.

In May 2020, the Authority returned to the Board to request an updated waiver from competitive sale of their refunding bonds previously considered. Following the previous meeting, the Authority had determined they needed additional capacity to implement the most effective refunding and wished to add in a restructuring component to the transaction, which would allow for further cost savings and relief for the college campuses in FY21 and FY22. The Authority stated that the current total debt service for 2021 before this transaction would be \$101 million and explained that the refunding/restructuring transaction projected present value savings ranging from 8-10%, depending on the series of bonds refunded. Upon review, the Board granted the Authority the updated waiver from competitive sale for their refunding bonds.

- ***University of Massachusetts Building Authority***

The University of Massachusetts Building Authority (UMBA) came before the Board in October 2019 to request a waiver from competitive sale of \$950 million in bonds for an advanced refunding. UMBA described how a negotiated transaction would be dually beneficial in achieving optimal pricing and maximum fiscal advantage to keep rents and fees charged to the University's students as low as possible, and also in facilitating a clear explanation of their complex revenue stream for the security benefit of bondholders.

At the Board's final meeting of calendar year 2019, the Board reviewed an updated waiver request from UMBA increasing the par amount to \$1.04 billion in taxable refunding bonds. UMBA staff explained that this increase was due to favorable market conditions. After reviewing the updated request, the Board voted to grant UMBA a waiver from the presumption of competitive financing with respect to their \$1.04 billion refunding bonds.

CONCLUSION: THE YEAR AHEAD

Financial markets aside, Fiscal Year 2020 was an unprecedented year. On January 31, 2020, the United States Health and Human Services Secretary Alex M. Azar II declared a public health emergency for the entire United States to aid the national healthcare community in its response to the 2019 novel coronavirus (COVID-19). On March 13, 2020, Governor Baker declared a State of Emergency in the Commonwealth to respond to the COVID-19 pandemic and on March 23, 2020, Governor Baker issued a stay-at-home advisory, prompting many issuers and other state entities to suddenly go remote, requiring weeks—if not months—to operationally recover and turn to non-emergency matters.

However, many issuers still needed liquidity, access to capital, and flexibility to navigate the uncertain and volatile financial markets. In order to adhere to public health recommendations regarding social distancing, the Board held its meetings from March 2020 onward via teleconference and continued to publicly post notices of public meeting in the interest of promoting public transparency and in accordance with the Governor’s Executive Order regarding Open Meeting Law.

Ultimately, the Board does not anticipate that Fiscal Year 2021 will entirely mark a return to “normality.” The Board expects to continue conducting its meetings and duties remotely moving forward throughout the COVID-19 pandemic. In fact, the ability to gather remotely has made it easier for Board members to convene as necessary to accommodate issuers’ fluid financing schedules, and could be contemplated as a potential format moving forward, especially should amendments to Open Meeting Law be considered in the future. However, the Board will continue to discharge its statutory mandate by executing its review function in accordance with the statutes and regulations that govern the Board regardless of format.

The Board will also continue to receive the debt management and investment policies filed by the various state entities noted in the regulations that govern the Board and will share such policies on the Board’s website. Additionally, the Board plans to check in with issuers biennially to ensure such policies are up-to-date and current.

As mentioned in the Board’s previous reports, the Board’s purpose is to promote transparency, public accountability, and adherence to best practices related to debt and derivative financial products. And so the Board will continue to fulfill those statutorily mandated duties throughout the next fiscal year, pandemic or not.

APPENDIX A: STATE ENTITIES LIST

The following is a list of the state entities in the Commonwealth that have filed *debt management policies* with the Board, as of the date of this report, and links to their respective policies:

- [Massachusetts State Treasurer Debt Management Policies](#)
- [Massachusetts Department of Transportation Debt Issuance and Management Policy](#)
- [Massachusetts Department of Transportation Interest Rate Swap Management Policy](#)
- [Massachusetts Educational Financing Authority Debt Management Policy](#)
- [Massachusetts Housing Finance Agency Debt Management Policy](#)
- [Massachusetts Port Authority Debt Issuance and Debt Management Policy](#)
- [Massachusetts State College Building Authority Debt Management Policy](#)
- [Massachusetts Clean Water Trust Debt Management Policy](#)
- [Massachusetts Water Resources Authority Capital Finance Management Policy](#)
- [Massachusetts School Building Authority Debt Management Policy](#)
- [The Steamship Authority Debt Issuance and Debt Management Policy](#)
- [University of Massachusetts Building Authority Debt Management Policy](#)

The following is a list of the state entities in the Commonwealth that have filed *investment policies* with the Board, as of the date of this report, and links to their respective policies:

- [Massachusetts Water Resources Authority Investment Policy](#)
- [Massachusetts Housing Authority Investment Management Policy](#)
- [Massachusetts Educational Financing Authority Investment Policy](#)
- [Massachusetts State College Building Authority Investment Policy](#)
- [Massachusetts School Building Authority Investment Management Policy](#)

All *transactions* considered by the Board for state entities is made public in the minutes and agendas of the meetings of the Board conducted pursuant to open meeting laws. Those materials are available on the Board's website, or by written request at the address below:

State Finance and Governance Board
Executive Office for Administration and Finance
State House, Room 373
Boston, MA 02133
<https://www.mass.gov/state-finance-and-governance-board>

[Attached on the following page]

976 CMR: STATE FINANCE AND GOVERNANCE BOARD

976 CMR 2.00: STATE FINANCE AND GOVERNANCE BOARD REGULATIONS

Section

- 2.01: Purpose and Application
- 2.02: Definitions
- 2.03: Policies Relating to Investment of Public Funds
- 2.04: Debt Management Policies
- 2.05: Review of Financial Transactions Involving Derivative Financial Products
- 2.06: Review of Qualified Conduit Debt Transactions Involving Derivative Financial Products; with Guarantee
- 2.07: Review of Requests for Waiver from Presumption of a Competitively Bid Financing
- 2.08: Board Contact Information

2.01: Purpose and Application

The powers and responsibilities of the Board set forth in M.G.L. c. 6, § 98 are intended to promote transparency, accountability and best practices among State Entities with respect to investments, borrowing or other financial transactions involving public funds made or entered into by State Entities.

2.02: Definitions

For purposes of 976 CMR 2.00, the following definitions shall apply, in addition to the definitions appearing in M.G.L. c. 6, § 97:

Board. The State Finance and Governance Board, established under M.G.L. c. 6, § 97.

Commonwealth. The Commonwealth of Massachusetts.

Derivative Financial Product. Any financial instrument which is a bond or note issue of a State Entity Authorized to Issue Debt or which is related to a bond or note issue of a State Entity Authorized to Issue Debt the value of which is derived from or based upon the value of other assets or on the level of an interest rate index including, but not limited to, a call option on a bond, interest rate swap agreements, interest rate swaptions, caps, floors, collars, inverse floaters and auction rate securities; provided, however, that any bonds or notes issued by State Entities Authorized to Issue Debt with fixed rates of interest shall not constitute Derivative Financial Products, regardless of whether such fixed rate bonds or notes are issued with a call option, regardless of whether such fixed rate bonds or notes are insured by bond insurance or other form of credit enhancement, and regardless of investment or lending of such fixed rate bond or note proceeds.

Public Funds. Any funds that are received by a State Entity Authorized to Issue Debt from the Commonwealth or any other public or private source, and are under the control of and are expended at the discretion of the State Entity Authorized to Issue Debt.

Qualified Conduit Debt Transaction. Any issue of bonds or notes issued by a State Entity Authorized to Issue Debt acting in a conduit role for a non-governmental, for-profit or non-profit corporation or group of related or unrelated for profit or non-profit corporations (none of which is itself a State Entity Authorized to Issue Debt) (collectively, the borrower), and any derivative financial products related to such issue, which are secured by and payable by the borrower, a related guarantor, or any third party guarantee such as a letter of credit or bond insurance. Such bonds or notes, or related derivative financial products, shall not be payable under any circumstances from public funds of, and shall not be the liability of, the State Entity Authorized to Issue Debt that issued the bonds or notes, the Commonwealth or any other State Entity Authorized to Issue Debt.

Qualified Conduit Debt Transaction with Guarantee. Qualified Conduit Debt Transaction for which there is a related guarantee provided by the State Entity Authorized to Issue Debt acting in a conduit role.

State Entity. The Commonwealth, any state authority as defined in M.G.L. c. 29, § 1, or other state entities of the Commonwealth with responsibility for managing and overseeing Public Funds.

2.02: continued

State Entity Authorized to Issue Debt. Any State Entity with authority to issue bonds or notes, including the following currently existing State Entities Authorized to Issue Debt while they continue to exist, and any future State Entities Authorized to Issue Debt that are created by statute and that meet the definition set forth in M.G.L. c. 6, § 97 and 976 CMR 2.00:

Commonwealth of Massachusetts	Massachusetts Clean Water Trust
Massachusetts Bay Transportation Authority	Massachusetts Water Resources Authority
Massachusetts Development Finance Agency	University of Massachusetts Building Authority
Massachusetts Educational Financing Authority	Woods Hole, Martha's Vineyard, Nantucket Steamship Authority
Massachusetts Housing Finance Agency	Regional Transit Authorities
Massachusetts Port Authority	
Massachusetts School Building Authority	
Massachusetts State College Building Authority	
Massachusetts Department of Transportation as successor to Massachusetts Turnpike Authority	

State Entity Authorized to Issue Debt Subject to Waiver Process (SESWP). The meaning set forth in 976 CMR 2.07.

2.03: Policies Relating to Investment of Public Funds

Upon adoption of a substantive revision, a State Entity Authorized to Issue Debt shall file its revised policy or policies related to the investment of Public Funds with the Board.

2.04: Debt Management Policies

Upon adoption of a substantive revision, a State Entity Authorized to Issue Debt shall file its revised policy or policies related to debt management with the Board. The Board shall make the policies filed with it available on its website and to any member of the public upon reasonable request to review.

2.05: Review of Financial Transactions Involving Derivative Financial Products

In furtherance of its statutory authority and mandate, the Board hereby establishes 976 CMR 2.05 to ensure that financial transactions involving a Derivative Financial Product are properly analyzed and managed to ensure consistency with State Entity Authorized to Issue Debt objectives, suitability of the transaction, and avoidance of unintended consequences.

In the event that a State Entity Authorized to Issue Debt is entering into a new financial transaction that involves a Derivative Financial Product, the State Entity Authorized to Issue Debt shall submit the following materials to the Board:

- (1) If not previously submitted, a copy of the State Entity Authorized to Issue Debt's derivative policy* with a certified copy of the vote of the governing board of the State Entity Authorized to Issue Debt or certificate of the authorized official of the State Entity Authorized to Issue Debt if such State Entity Authorized to Issue Debt does not have a governing board; and
- (2) A written analysis of the proposed Derivative Financial Product transaction by an independent financial advisor with relevant expertise, together with the advisor's recommendation as to whether or not the State Entity Authorized to Issue Debt should enter into the proposed transaction. Such analysis should include but not be limited to:
 - (a) a detailed description of the Derivative Financial Product;
 - (b) a description of risks, strategies for mitigating any such risks, and any benefits;

2.05: continued

- (c) scenario analyses or stress tests demonstrating impact on the State Entity Authorized to Issue Debt under extreme financial market events or conditions as a result of entering into the subject Derivative Financial Product; and
- (d) in the case of a restructuring of an existing Derivative Financial Product, a comparison of the expected benefits resulting from the restructuring with the potential risks resulting from the restructuring.

(3) A certified copy of the minutes of the meeting of the governing board of the State Entity Authorized to Issue Debt (such meeting to be held on a date not greater than two years prior to the date of Board review), or a certificate of the authorized official of the State Entity Authorized to Issue Debt, demonstrating or confirming that:

- (a) the written analysis and recommendation of the independent financial advisor was presented to the board, or to the official and transmitted to the board;
- (b) that the structure of the Derivative Financial Product is consistent with the derivative policy adopted by the board or approved by the authorized official;
- (c) that the benefits of the Derivative Financial Product outweigh the risks of the use of a Derivative Financial Product; and
- (d) that the governing board or the official approved the proposed transaction.

* The following issues should be considered in connection with such a policy:

1. How derivative products fit within the overall debt management program;
2. Expected outcomes or goals of entering into a derivative product (*i.e.* synthetically fix a variable rate at lower rate than otherwise available in the market);
3. Security and sources of payments for ongoing costs associated with the derivative product and for termination costs of the derivative product;
4. A list of the types of derivative products that may be used and a list of the types of derivative products that are prohibited;
5. The conditions under which these types of products can be utilized (*i.e.* bidding procedures, minimum benefit thresholds, terms of master agreements, *etc.*);
6. The maximum amount of derivatives contracts, or a means of determining such amount;
7. Guidelines and criteria for selecting counterparties;
8. Methods for evaluating, measuring and managing derivative risk;
9. Methods and process for procuring derivative products;
10. Post issuance monitoring, reporting and ongoing risk mitigation procedures, including periodic valuation.

The Board's review pursuant to 976 CMR 2.00 shall consist of reviewing the items required to be submitted to the Board described in 976 CMR 2.05(3)(d)1. through 10. The Board shall either conclude that the items required to be submitted have in fact been submitted consistent with the purpose and intent of 976 CMR 2.00, or that said items have not been submitted in a manner consistent with the purpose and intent of 976 CMR 2.00. Any conclusion shall be established by vote of the Board, and confirmed in writing (which may be by e-mail) to the State Entity Authorized to Issue Debt. Such conclusion shall be valid unless the State Entity Authorized to Issue Debt informs the Board of any material change in any of the submittals pursuant to 976 CMR 2.05 or unless six months have lapsed from the date of Board conclusion.

A State Entity Authorized to Issue Debt which has received a Board conclusion that the items required to be submitted in connection with 976 CMR 2.00 were in fact submitted consistent with the purpose and intent of 976 CMR 2.00 must report to the Board at the Board meeting next following the execution of the Derivative Financial Product transaction. Such report should include, but not be limited to, the results or final terms of the Derivative Financial Product transaction.

2.06: Review of Qualified Conduit Debt Transactions Involving Derivative Financial Products; with Guarantee

- (1) With respect to any proposed Derivative Financial Products that are related to a Qualified Conduit Debt Transaction, the Board's review of such transaction shall be limited to confirming that the transaction constitutes a Qualified Conduit Debt Transaction.

2.06: continued

(2) In order to request a review of any Derivative Financial Products that are related to a Qualified Conduit Debt Transaction, a State Entity Authorized to Issue Debt must submit the following items to the Board prior to such Derivative Financial Product being executed:

- (a) A written description of the proposed Derivative Financial Product transaction(s), including: the parties involved; the schedule; the amount; the security (including any guarantor of payment obligations); and terms.
- (b) A certification of bond counsel to the proposed transaction confirming that the transaction constitutes a Qualified Conduit Debt Transaction pursuant to 976 CMR 2.06.

Not later than five business days following receipt of the material submitted in connection with any Derivative Financial Product related to a Qualified Conduit Debt Transaction, the Secretary of the Board will contact the State Entity Authorized to Issue Debt in writing (which may be by e-mail) to either:

- 1. confirm that, based on the materials provided under 976 CMR 2.00, the transaction constitutes a Qualified Conduit Debt Transaction and either no public funds are at risk in the transaction or the amount of guarantee, if any, is equal to or less than the threshold amount in 976 CMR 2.06(3); or
- 2. notify the State Entity Authorized to Issue Debt that the materials submitted were incomplete or that they fail to demonstrate that the transaction constitutes a Qualified Conduit Debt Transaction.

(3) With respect to any proposed Derivative Financial Products that are related to a Qualified Conduit Debt Transaction with Guarantee, the Board's review of such transaction shall be the same as the review of Qualified Conduit Debt Transactions Involving Derivative Financial Products as described in 976 CMR 2.06(2), provided that the governing board of the related State Entity Authorized to Issue Debt has delegated authority to its staff to extend such guarantee without further approval based on an established threshold dollar value and/or risk rating of such guarantee as may be determined by the governing board from time to time, or provided that the guarantee is not greater than \$1 million.

- (a) With respect to any proposed Derivative Financial Products that are related to a Qualified Conduit Debt Transaction with Guarantee which does not meet the criteria in 976 CMR 2.06, the Board's review of such transaction shall be the same as review of financial transactions involving Derivative Financial Products as described in 976 CMR 2.05.
- (b) A State Entity Authorized to Issue Debt that issues Qualified Conduit Debt Transactions With Guarantee must submit a periodic (but at least quarterly) report of its guarantee programs (Guarantee Program Report). The Guarantee Program Report shall include, but not be limited to: the number and dollar amount of outstanding guarantees by segregated guarantee program and the change in the number and dollar amount of such guarantees from the prior reporting period; the number and dollar amount of guarantees paid during the reporting period with an explanation of the circumstances surrounding such payments. The Board, in its sole discretion, may request further information about the guarantee program.

2.07: Review of Requests for Waiver from Presumption of a Competitively Bid Financing

Statutorily, the Commonwealth may not sell bonds or notes maturing at a time later than three years from their dates on a negotiated basis without receiving a waiver from the Board. In addition, any State Entity Authorized to Issue Debt for which the Secretary of Administration and Finance approves the sale of its bonds or which issues bonds that receive Commonwealth support to the extent that Commonwealth disclosure is used in the marketing of such bonds, may not sell bonds or notes on a negotiated basis without receiving a waiver from the Board, including but not limited to the University of Massachusetts Building Authority, the Massachusetts State College Building Authority, certain of the Massachusetts Department of Transportation bonds, the Massachusetts Clean Water Trust, the Massachusetts Development Finance Agency as issuer of bonds supported by Commonwealth contract assistance and the Woods Hole, Martha's Vineyard and Nantucket Steamship Authority (together with the Commonwealth, "State Entities Authorized to Issue Debt Subject to Waiver Process" or "SESWP"). In the event that a SESWP seeks to sell bonds or notes on a negotiated basis, the SESWP shall submit the following materials to the Board:

2.07: continued

- (1) If not previously submitted, a copy of the SESWP's Debt Management Policy with a certified copy of the board of the SESWP vote or certificate of the authorized official of the SESWP if such State Entity Authorized to Issue Debt does not have a governing board;
- (2) Certified copy of the minutes of a meeting of the governing board of the SESWP or certificate of the authorized official of the SESWP, evidencing awareness and approval that the SESWP will be selling bonds or notes on a negotiated basis; and
- (3) A letter from an authorized official of the SESWP to the Board and presented at a Board meeting requesting a waiver from the presumption of a competitively bid financing and demonstrating that:
 - (a) the process or criteria to determine the method of sale set forth in the SESWP's Debt Management Policy had been thoroughly followed;
 - (b) an explanation for why the SESWP believes negotiation is a better approach;
 - (c) the date beyond which such waiver, if granted, would expire;
 - (d) a "not-to-exceed" amount of bonds to be sold; and
 - (e) a description of the use of proceeds of the subject bonds or notes. Such letter shall be personally presented to the Board by an appropriate official of the SESWP.

Consistent with statute, the Board's presumption is that SESWP bond sales will be conducted on a competitive basis. There may be exceptions to this premise, however, where the anticipated benefit of a negotiated sale can be demonstrated. The Board's review pursuant to 976 CMR 2.00 shall consist of reviewing the items required to be submitted to the Board as described in 976 CMR 2.07(3)(a) through (e). The Board shall either conclude that the items required to be submitted have in fact been submitted in a manner consistent with the purpose and intent of 976 CMR 2.00 and grant a waiver, or that said items have not been submitted consistent with the purpose and intent of 976 CMR 2.00. Any conclusion shall be established by vote of the Board, and confirmed in writing (which may be by e-mail) to the SESWP. Any conclusion will expire six months from the date thereof.

A SESWP that received a waiver pursuant to 976 CMR 2.00 must present results of the sale, including comparative pricing information, to the Board at the next Board meeting following the execution of the negotiated sale.

2.08: Board Contact Information

Whenever a document is required to be submitted to the Board under 976 CMR 2.00, it shall be submitted to:

State Finance and Governance Board
c/o Director of Debt Management and Special Finance Programs
Executive Office for Administration and Finance
State House, Room 373
Boston, MA 02133

REGULATORY AUTHORITY

976 CMR 2.00: M.G.L. c. 6, § 98.

STATE FINANCE AND GOVERNANCE BOARD

Commonwealth of Massachusetts

Executive Office of Administration & Finance

State House, Room 373

Boston, Massachusetts 02133