



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

Annual Report
Fiscal Years 2018 & 2019

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

Katherine Holahan
Vice President,
Government Affairs,
Associated Industries
of Massachusetts

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”).

This report provides a summary of the board’s mission, operations, and other findings as of the end of Fiscal Years 2018 and 2019, 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 2020.

Sincerely,

The Massachusetts State Finance and Governance Board

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A. State Entities List

B. Regulations Governing the Board, 976 CMR 2.00

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 has been the Treasurer of the Massachusetts Republican Party since 2003.

Katherine Holahan

Vice President, Government Affairs

Associated Industries of Massachusetts

Katie's policy focus at Associated Industries of Massachusetts is workforce development and education, as well as healthcare. Before joining AIM, Katie spent seven years in the office of the Massachusetts House Minority Leader and three years in the office of the House Ways and Means Committee, gaining particular experience in workforce and economic development issues. She holds a bachelor's degree from Fairfield University and a master's degree from Boston College.

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 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 a MBA in Finance from Sloan School of Business at MIT and a Bachelor's 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 YEARS 2018 & 2019

In Fiscal Years 2018 and 2019, a wide array of issuers came before the Board to present their agencies' proposed transactions. 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 also came before the Board in Fiscal Years 2018 and 2019.

Fiscal Year 2018

At the board's August 2017 meeting, the Treasurer's Office requested the Board review the continuation of the Commonwealth's College Opportunity Bond program. The 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 over 70 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.

As in years prior, the Board's review of the Commonwealth's College Opportunity Bond program's use of derivative financial instruments was satisfactory. This was the 23rd series of College Opportunity bonds issued in order to finance this tuition assistance program.

The Commonwealth also came before the Board with a request to sell \$750 million in Commonwealth bonds via negotiated sale. As of August 2017, when the request was made, negotiated sales accounted for just 37% of par value of Commonwealth bonds sold since 2016, compared to a market average of 76% at that time. During the review, the Treasurer's Office stated that given the complexity and size of the deal, and uncertain market conditions, a negotiated sale would be in the best interest of the Commonwealth. The board agreed with the assessment, and granted the request.

That November, the negotiated sale of just over \$593 million in Commonwealth Transportation Fund bonds proceeded through two series of issuances. The proceeds of the first deal, a new money issuance of \$350 million, financed the Accelerated Bridge Program and Rail Enhancement Program projects. The second deal, a refunding of series over \$243 million, resulted in gross savings of \$13.4 million for the Commonwealth.

The Commonwealth also sought an additional derivative review later on in the fiscal year. The Treasurer's Office presented details of a proposed issuance of \$120.4 million in SIFMA-based index bonds at the Board's January 2018 meeting, and noted several benefits that would be realized with the issuance, including reducing the Commonwealth's bank exposure, diversifying its variable rate portfolio, and eliminating costs typically associated with traditional variable rate demand bonds. After its review, the Board voted to approve of the Commonwealth proceeding with the transaction.

At the Board's April 2018 meeting, the Massachusetts Department of Transportation ("MassDOT") sought a Board review of a proposed issuance of \$138.25 million in fixed rate bonds to be sold via a negotiated sale. These refunding bonds would replace \$137.855 million in variable rate demand bonds originally issued in 2010. Additionally, MassDOT planned to terminate the swaps serving as hedges to the 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.

Fiscal Year 2019

The Treasurer's Office returned to the Board in August 2018 for a review of the proposed issuance of the 24th series of College Opportunity Bonds. The Treasurer's Office noted that as of July 31 2018, the accreted value of College Opportunity Bonds outstanding was \$79.8 million, and that upon 2019 issuance, that total would reach \$87.9 million. The Board's findings regarding the proposed derivative transaction were satisfactory.

The Treasurer's office also sought a waiver from a competitive sale in October, 2018. At that time, it was noted that negotiated sales accounted for just 27% of the Commonwealth's bond par value sold, compared to the market average of 73%. 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 \$1.5 billion in money bonds through a negotiated sale. The waiver for the sale would expire on April 30, 2019.

In February 2019, the Treasurer's Office reported the results of the deal. With the Board's approval, the Commonwealth sold \$996.265 million in bonds in January 2019 - \$500 million in a new money series, \$50 million in a new money taxable series, \$318.32 million in a refunding series, and \$77.945 million in a forward delivery refunding series. The refunding series resulted in gross savings of \$99.2 million.

MassDOT returned to the Board in October 2018 for both a review of derivative transactions and with a request for a waiver from a competitive sale. Their presentation focused on the agency's plan to terminate multiple swaps and replace variable rate bonds with fixed rate ones.

MassDOT proposed the termination of an existing interest rate swap transaction, and the replacement of the associated variable rate debt with fixed rate bonds. The process would involve the termination of an \$83.1 million notional swap, and the partial termination of \$371.38 million notional swap – both of which were executed in relation to variable rate bonds issued by the agency in 2010. The proposal would continue MassDOT's objective of de-risking debt and swap portfolios. The transactions would close in late December or early January.

MassDOT also proposed the termination of a \$100 million notional amount basis swap with a different counterparty. MassDOT said that the termination would mitigate risks associated with the agency's swap portfolio at a termination about near historical low range of the mark-to-market on the swap.

Additionally, MassDOT presented on its proposal to issue two series of Revenue Refunding Bonds, \$371.380 million for Series B and \$71.780 million for Series C, on a negotiated basis. MassDOT proposed to refund variable rate bonds associated with both series, as well as the termination or partial termination of the swaps associated with both series, as referenced above. The refunding and terminations were projected to generate savings of \$5.038 million on a net present value basis, based on September 27, 2018 rates. MassDOT did note negative savings were possible based on market conditions at the time of sale. As with the terminations, these negotiated deals would close in late December or early January. After its review of all of the proposed transactions, the Board agreed that it had received the necessary information, and granted its approval to MassDOT.

The Treasurer's Office requested an additional waiver at the Board's final meeting of Fiscal Year 2019 in June. The waiver would run through the end of December 2019, and allow for up to \$2 billion in negotiated sales. The Treasurer's Office again noted that the use of these waivers continued to be used prudently, but given market conditions, it would be beneficial to have the flexibility a waiver would allow for. In addition, this flexibility, and ability to offer a retail order period, would allow the Commonwealth the ability to support the retail investment community, specifically Massachusetts retail.

After the presentation, the Board voted to grant the waiver for the Commonwealth to proceed with the negotiated sales.

- ***Massachusetts Bay Transportation Authority***

Fiscal Year 2018

In March 2017, the Massachusetts Bay Transportation Authority (“MBTA”) entered into a direct purchase agreement with State Street Bank. The \$211.8 million 2017A bonds contained a provision that would increase the MBTA’s interest rate payments if the federal corporate tax rate were to fall. However the MBTA was also granted the ability to terminate the deal without any breakage fees if it did so prior to July 2018.

Upon passage of the Tax Cuts and Jobs Act, which reduced the federal corporate tax rate from 35% to 21%, the MBTA’s interest rate payments on the bonds increased from 70% of 3-month London Interbank Offering Rate (“LIBOR”) plus 48 basis points to 85.077% of LIBOR plus 58.328 basis points. As a result, the MBTA issued a Request for Responses with the goal of refinancing the 2017A bonds through a new variable rate issue, which would be supported by a liquidity facility provided by a commercial bank, or by converting the existing obligation to a new bank direct purchase. The MBTA received proposals from 10 banks, including six for a liquidity facility for new variable rate issue and five for direct purchase proposals for the 2017A bonds. After reviewing the responses, it was determined the best method to refinance the bonds would be through the issuance of multimodal variable rate bonds supported by a liquidity facility, a “backstop” for variable rate municipal debt in the case the debt is put back to issuing agency.

The MBTA also came before the Board in September of 2017 to present its plans to issue Sustainable Sales Tax New Money Bonds and Sales Tax Bond Anticipation Notes, as a discussion item. The fact that a portion of the issuance was designated as “Sustainable” was a first among transportation authority issuers across the United States. Due to the sustainability designation, the issuance incorporated a focus on achieving environmental and social outcomes, in addition to fiscal outcomes across various MBTA projects that would be financed with the proceeds of the bonds. In presenting the issuance to the Board, the MBTA indicated that sustainable outcomes are in strong alignment with the MBTA’s mission and positioned the bonds to be marketed to sustainability focused investors, widening demand for the MBTA’s bonds to new investor audiences. The issuance was structured to be compliance with the MBTA Debt Policy and the use of the competitive sale mechanism was intended to generate strong demand, and competitive pricing, from various underwriting firms to achieve a low cost of capital. In addition, the MBTA presented aspects of its sustainability reporting framework developed in consultation with leading experts and institutions of higher education focused on target social outcomes related to the projects that would be financed with the bond proceeds.

The MBTA came before the Board in May of 2018, and presented its request to proceed with the new variable rate instrument. During the review, the MBTA's finance team noted that as of the beginning of that month, just \$633 million of its \$5 billion in outstanding principal was variable rate debt. The Board reviewed the MBTA's request to proceed with this refinancing option, and voted to approve it.

- ***Massachusetts Clean Water Trust***

Fiscal Year 2018

In April 2018, the Massachusetts Clean Water Trust (the "Trust") requested that the Board grant a waiver from competitive sale for its issuance of up to \$300 million in Series 21 State Revolving Fund Green Bonds. The proceeds of the bonds would finance construction or upgrade of municipal water treatment facilities, installation of advanced water treatment technologies, and other projects focused on improving water quality throughout the Commonwealth. A negotiated sale would not only permit the Trust walk potential investors through the complexity of the transaction, but also allow the bonds to be marketed specifically to green bond investors. After its review, the Board granted the Trust's request.

Following the approval, the Trust issued approximately \$163.460 million in new money Green Bonds. When providing a summary of the results of the transaction, the Trust's staff noted that their ability to conduct a negotiated sale allowed them to reach more investors, and to demonstrate the value of the projects that were to be financed. The proceeds were able to assist 37 different communities with various projects.

Fiscal Year 2019

At the Board's last meeting of Fiscal Year 2019, the Trust returned with a request for the Board to grant a waiver from a competitive sale for its issuance of its Series 22 State Revolving Green Bonds. The Trust anticipated issuing \$300 million, and again cited the benefits a negotiated sale would have. As a result, the Board approved the waiver for this issuance.

- ***Massachusetts Housing Finance Agency***

Fiscal Year 2018

The Massachusetts Housing Finance Agency ("MassHousing") came to the Board's May 2018 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 Single Family Housing Revenue Bond 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 \$15 million in variable rate debt, \$12 million of which would be hedged through an interest rate swap. The deal was expected to be priced and closed by the end of that fiscal year.

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

Fiscal Year 2019

MassHousing again came before the Board in September 2018 to seek approval for the issuance of variable rate debt. MassHousing proposed issuing \$24 million in variable rate debt which would finance the construction of a 108 unit Chapter 40B development to be located in Chelmsford. MassHousing's presentation noted that in this case, borrower of the funds opted for variable rate debt in order to take advantage of low tax-exempt weekly interest rates. In order to protect the project against the possibility of rising short-term interest rates, the proposed transaction would require the borrower, also the developer of the units, to purchase a 5-year interest rate cap at a SIFMA rate of 4%.

After its review, the Board voted that it had received the information necessary for MassHousing to proceed with the proposed derivative transaction.

- ***Massachusetts Housing Partnership***

Fiscal Year 2018

In May 2017, the Board voted to grant the Massachusetts Housing Partnership ("MHP") the ability to execute \$50 million in forward-starting swaps over a six month period. The Board's decision allowed MHP 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. Without this timing flexibility granted by the Board, MHP would not be able to adequately hedge its interest rate risk immediately as it arises.

At the Board's January 2018 meeting, MHP requested another \$50 million, six month extension for their swap program. MHP noted the program had been functioning extremely well – at the time, 4 swaps had been executed totaling \$13.6 million in notional exposure, supporting the construction or rehabilitation of 265 apartment units. After its review, the Board granted MHP an additional waiver for a \$50 million swap program through June 30, 2018. After the close of

the fiscal year, MHP reported that in total, the program had supported the construction or rehabilitation of 434 apartment units.

Fiscal Year 2019

The Board voted to grant additional waivers to MHP during Fiscal Year 2019 as well – once in August 2018, November 2018, and May 2019. During the May meeting, MHP noted that 10 swaps had been executed with a combined notional of \$62.3 million, supporting the construction or rehabilitation of 821 apartment units. At that time, an additional \$20.1 million in swap executions were in MHP’s project pipeline.

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

Fiscal Year 2019

During the Board’s first meeting of the fiscal year, the Massachusetts State College Building Authority (“the Authority”) requested the Board to grant a waiver from competitive sale of \$85,000,000 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.

This waiver was requested initially in October of 2016, but after Board approval, the deal never occurred in the expected time frame due to market conditions. The Authority recognized that conditions had improved by 2017, and felt an issuance of refunding bonds would result in significant present value and annual debt service savings based on market conditions in 2017. After a second review in August 2017, the Board granted the request.

In December 2017, the Authority closed on a \$70,725,000 advanced refunding of its Series 2009B bonds, which financed the construction of the Treehouse Residence at the Massachusetts College of Art and Design. The refunding resulted in stabilized future debt service payments and \$12,745,369 in net present value savings for the Authority.

- ***Massachusetts Water Resources Authority***

Fiscal Year 2019

At the Board’s March 2018 meeting, the Massachusetts Water Resources Authority (“MWRA”) requested approval for its plan to replace its \$50 million 2008 Series F Bond, which was backed by a standby purchase agreement with the Bank of New York Mellon, and its \$50.61 million 2012 Series F Bonds, a direct purchase agreement held by the Royal Bank of Canada. Both counterparties had informed the MWRA that they were unable to extend the agreements.

Following a competitive procurement process, the MWRA determined the best replacement for the existing agreements would be two separate floating rate direct purchase agreements with two new counterparties – one \$50 million agreement with U.S. Bank, and one \$50.61 million agreement with TD Bank. Due to the derivative nature of the transactions, a Board review was required. The MWRA laid out the reasons as to why it felt this was the best way forward during its presentation to the Board, primarily that the direct purchase agreements would reduce exposure to bank credit risk, diversify the MWRA’s variable rate debt portfolio, and eliminate remarketing risk.

The Board reviewed and approved the MWRA’s request to proceed with the agreements.

CONCLUSION: THE YEAR AHEAD









As noted throughout this report, the Board's purpose is to promote transparency, public accountability, and adherence to best practices related to debt and derivative financial products. In Fiscal Year 2020, the Board will continue to discharge its statutory mandate by executing its review function with respect to derivative transactions in accordance with the statutes and regulations that govern the Board. In addition, 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.

As the Board further considers the parameters and scope of its role, additional activities it may pursue in Fiscal Year 2020 include considering ways to enhance the resources and content that appears on the Board's website. The Board's website is the primary medium via which it informs the public and debt-issuing state entities in Massachusetts that come before the Board. Accordingly, a key priority in the coming year for the Board is to ensure that the website reflects accurately, timely, and comprehensive information with respect to the Board's activities, meetings, and the debt issuance information related to transactions that come within the Board's legislative mandate and purview.



The Board will also continue to undertake objective reviews of the statutes and regulations that govern its work. Although such review may potentially result in no changes to the current statutes or regulations that govern the Board's work, attention to this will ensure that the Board actively considers and evaluates the regulation's burdens and inefficiencies on governmental entities who come before the Board and any substantive changes that may be prudent in furtherance of the Board's mission and work with issuers. To that end, the Board expects to specifically consider the definition of "derivative financial product" as it appears in various statutes and regulations that govern the Board and assess the degree to which changes could be introduced in the future to that definition as a potential area of legislative or regulatory reform.

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:

- Mass Development Restricted Funds Investment Policy and Guidelines 
- Massachusetts Department of Transportation Debt Issuance and Management Policy 
- Massachusetts Department of Transportation Interest Rate Swap Management Policy 
- Massachusetts Department of Transportation Board Vote 
- Massachusetts Educational Financing Authority Debt Management Policy 
- Massachusetts Housing Finance Agency Debt Management Policy 
- Massachusetts Housing Finance Agency Master Swap Policy 
- Massachusetts Port Authority Debt Issuance and Debt Management Policy 
- Massachusetts State College Building Authority Debt Management Policy
- Massachusetts Water Pollution Abatement Trust Debt Management Policy 
- Massachusetts Water Pollution Abatement Trust Debt Management Procedures 
- Massachusetts Water Resources Authority Capital Finance Management Policy 
- Massachusetts School 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 Educational Financing Authority Investment Policy 
- Massachusetts Housing Finance Agency Investment 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>

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