



THE COMMONWEALTH OF MASSACHUSETTS
EXECUTIVE OFFICE FOR
ADMINISTRATION AND FINANCE
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Meeting Minutes

**State Finance and Governance Board
August 16, 2018
11:00 am
Executive Office for Administration and Finance
State House, Room 373**

A meeting of the State Finance and Governance Board was held on Thursday, August 16, 2018 in the Executive Office for Administration and Finance, State House, Room 373, Boston, Massachusetts, pursuant to notice duly given.

Meeting was called to order at 11:05 am.

Board members comprising a physical quorum:

Lourdes German, Lincoln Institute of Land Policy, Board Chair
Sue Perez, Office of the State Treasurer
Brent Andersen, Pilgrim Bay Insurance

Others in attendance:

Paul Bradley, Massachusetts Bay Transportation Authority
John Markowitz, Massachusetts Bay Transportation Authority
Kathleen Bramlage, Office of the State Treasurer
Elizabeth Fontaine, Massachusetts Educational Financing Authority
Anne Lewis, Massachusetts Housing Partnership
Mark Curtiss, Massachusetts Housing Partnership

1. Administrative Matters

- I. On a motion made by Mr. Andersen and duly seconded, members voted to approve the June 21, 2018 meeting minutes.

2. Discussion

- I. *No discussion matters scheduled*

3. Derivative Reviews

- I. Ms. Bramlage detailed the Commonwealth's proposed issuance of \$8.1M in College Opportunity Bonds of various maturities that bear accreting interest at CPI plus 2%. The bonds, per Massachusetts General Law, are to be placed directly with the Massachusetts Educational Financing Authority ("MEFA"), and will allow MEFA to operate its prepaid tuition program, known as "U. Plan", that is run in partnership with nearly 80 Massachusetts public and private colleges and universities. These colleges and universities agree to lock-in tuition and mandatory fees at CPA plus 2%, allowing parents/a child's benefactor to also lock-in tuition at "today's price" through their purchase of Tuition Certificates.

Ms. Bramlage further stated that the Tuition Certificates are backed by are backed by general obligation bonds of the Commonwealth, which serve as a perfect hedge to the Tuition Certificates. Additionally, the issuance of \$8.1M of CPI-based bonds will have negligible impact on the overall debt service. Massachusetts General Law also prescribes that the bonds be sold with a variable rate, which triggers the needs for a Board review.

On a motion made by Mr. Andersen and duly seconded, the Board voted that it had received satisfactory information regarding the proposed College Opportunity Bond transaction involving a new derivative financial product by the Commonwealth of Massachusetts for the U. Plan and deems the submission (x) consistent with the purpose and intent of Sections 97 and 98 of Chapter 6 of the Massachusetts General Laws ("Chapter 6") and regulations promulgated thereunder and (y) reviewed with no additional conclusions required. The Board concluded that the items required to be submitted to the Board pursuant to Chapter 6 and any regulations promulgated thereunder have been submitted in a manner consistent with the regulations.

- II. Mr. Markowitz spoke regarding the Massachusetts Bay Transportation Authority's request for the Board to review of a transaction involving the substitution and/or extension of existing standby bond purchase agreements providing liquidity support for its General Transportation System Variable Rate Demand Obligations, 2000 Series, consisting of Subseries A-1 and Subseries A-2 ("GTS 2000 Series Bonds") with new and/or extended standby bond purchase agreements. Mr. Markowitz noted that because each standby bond purchase agreement includes an alternative rate, in the event of a failed remarketing, based on an index, this transaction technically includes a "derivative financial product" subject to the regulations, and necessitates a Board Review.

Mr. Markowitz provided additional information on both subseries of the GTS 2000 Series Bonds, of which there are \$147M outstanding and subject to put by holders. The liquidity facilities for both subseries are set to expire in September 2018. After canvassing the market, the MBTA selected Barclays to provide the liquidity for both

subseries. The new facility terms will produce \$200K in savings over 4 years, and comply with the MBTA Debt Policy which was renewed in July 2018.

On a motion made by Mr. Andersen and duly seconded, the Board voted that pursuant to 976 CMR 2.05, the Board had reviewed the proposed “derivative financial product” of the Massachusetts Bay Transportation Authority (the “MBTA”) and concluded that the materials required to be submitted pursuant to 976 CMR 2.05(1) had been submitted, evidencing compliance with the level of diligence required to be undertaken by the MBTA under the regulations and, with respect to any such proposed transaction that constitutes a replacement of derivative financial products, evidencing that the transaction is consistent with the mission of the MBTA and the financial risk to the MBTA resulting from the transaction is limited and modest relative to its entire financial portfolio.

- III.** Mr. Curtiss spoke regarding the Massachusetts Housing Partnership’s (“MHP”) request for a renewal of the programmatic waiver approved by the Board previously. Mr. Curtiss stated that most recently, the Board had approved of the waiver for a \$50M swap program that had expired on June 30th, 2018. The program allows MHP to offer forward rate commitments to its borrowers under its HUD/Treasury Risk-Sharing program. Mr. Curtiss noted that the program, which allowed for the execution of 6 swaps totaling \$37.5M in notional exposure, supported the construction/rehab of 434 apartments.

Mr. Curtiss additionally noted that MHP’s updated swap policy permits MHP to execute forward-starting, fixed-pay, cash settled interest rate swaps in order to provide rate locks with terms of up to 48 months. The updated policy was provided to the Board.

On a motion made by Mr. Andersen and duly seconded, the Board voted that it had received satisfactory information regarding the transaction items related to the Massachusetts Housing Partnership’s forward-starting swaps in the aggregate notional amount not to exceed \$50,000,000 to be executed between August 16th, 2018 and December 31, 2018 and deemed the transaction reviewed with no additional conclusions required.

4. Waiver Request

- I.** *No discussion matters scheduled*

5. Review of Closed Transactions:

- I.** *No closed transactions reviewed*

6. Adjournment

- I.** On a motion made by Mr. Andersen, members voted to adjourn. The meeting was adjourned at 11:20 am.

Frank Gervasio, Secretary