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Meeting Minutes

**State Finance and Governance Board
August 20, 2020
3:00 pm
Conference Line: 978-990-5000, access code: 244621#**

A meeting of the State Finance and Governance Board was held via teleconference on Thursday, August 20, 2020, in accordance with the Governor's Executive Order Suspending Certain Provisions of the Open Meeting Law, G.L. c. 30A, § 20, signed and dated March 12, 2020, and pursuant to notice duly given.

Meeting was called to order at 3:04pm.

Board members comprising a quorum:

Lourdes German, Boston College, Board Chair
Brent Andersen, Pilgrim Bay Insurance
Sue Perez, Office of the State Treasurer

Others in attendance:

Kathy Bramlage, Office of the State Treasurer
Jennifer Gonzalez, Massachusetts State College Building Authority ("MSCBA")
Ed Adelman, MSCBA
Poonam Patidar, Mintz Levin
William Archibald, Executive Office for Administration and Finance
Kaitlyn Connors, Executive Office for Administration and Finance

1. Administrative Matters

- I. On a motion made by Mr. Andersen, and duly seconded, members voted to approve the June 18, 2020 meeting minutes.

2. Discussion

- I. *No discussion matters scheduled.*

3. Derivative Reviews

- I. Ms. Bramlage then presented the Commonwealth's request for review of its 2020 College Opportunity Bond transaction, which, as they are statutorily required to be tied to an index and therefore meet the definition of a "derivative" instrument in the Board's regulations.

Ms. Bramlage outlined the proposed transaction, the 26th series of College Opportunity Bonds in the amount of \$7.05M, which will amortize from 2025 until 2040. Ms. Bramlage stated that this transaction will pose minimal risk to the Commonwealth's General Obligation debt portfolio and have a negligible impact on overall debt service.

There were no questions from the Board.

On a motion by Mr. Andersen, and duly seconded, the Board unanimously 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 deemed 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 thereunder and (y) reviewed with no additional conclusions required. The Board further concluded that the items required to be submitted by the Board pursuant to Chapter 6 and any regulations thereunder have been submitted in a manner consistent with the regulations.

4. Waiver Requests

- I. Ms. Bramlage also presented the Commonwealth's new request for a waiver from the presumption of competitive financings. Ms. Bramlage stated that with continued uncertainty and volatility in the fixed income markets due to the ongoing pandemic, a negotiated transaction gives the Commonwealth flexibility in lengths of order periods, pricing dates, and determining the structure of the issue during pricing. Ms. Bramlage further stated that to ensure that all negotiated contingencies can be met in the near-term, the Commonwealth was requesting a waiver from the presumption of competitive financings in the amount of \$2.0B for new money and/or refunding transactions.

Ms. Perez clarified upon the background of this waiver request: The Commonwealth issued \$1.4B in negotiated sales in their most recent transaction (*see Bond Sale Review below*), thus explaining why the Commonwealth was requesting a new \$2.0B waiver.

There were no questions from the Board.

On a motion from Mr. Andersen, the Board unanimously voted to grant a waiver from the presumption of a competitive bidding to the Commonwealth (i) to issue bonds in an aggregate amount up to \$2.0B for new money and/or refunding issues in one or more series and in one or more transactions; (ii) to price the bonds in any such transactions on a date or dates no later than January 31, 2021; and (iii) to sell any such bonds on a negotiated basis.

- II. Ms. Bramlage additionally presented the Commonwealth’s request to extend the expiration date of an existing waiver from competitive sales for the Commonwealth’s transportation bond transactions. Ms. Bramlage explained again that the ongoing pandemic’s impact on the transportation sector and volatile market conditions have provided strong reasons for negotiated transactions, and to ensure that all negotiated contingencies can be met in the near-term, the Commonwealth was requesting a waiver from the presumption of competitive financings in the amount of \$500M for one or more of the transportation bond series.

There were no questions from the Board.

On a motion from Mr. Andersen, and duly seconded, the Board unanimously voted to grant a waiver from the presumption of a competitive bidding to the Commonwealth (i) to issue bonds in an aggregate amount of \$500M for transportation bond issues in one or more series and in one or more transactions; (ii) to price the bonds in any such transactions on a date or dates no later than January 31, 2021; and (iii) to sell any such bonds on a negotiated basis.

5. Closed Transactions/Bond Sale Reviews:

- I. Ms. Bramlage provided details on the Commonwealth’s recent sale of \$1.4B in bonds in three series: \$775M General Obligation Bonds, 2020 Series D, and \$170.565M General Obligation Refunding Bonds, 2020 Series B, and \$45.665M General Obligation Refunding Bonds, 2020 Series C (Federally Taxable). Ms. Bramlage explained that the proceeds of the 2020 Series D Bonds will be used to fund projects in the Commonwealth’s capital improvement plan, while the proceeds from the 2020 Refunding Series B were used to currently refund bonds from three outstanding bond series, and the 2020 Refunding Series C Bonds were used to advance refund bonds from three outstanding bond series.

Ms. Bramlage reported that strong investor demand allowed the Commonwealth to lower yields (by 6 basis points on the tax-exempt series, and by 20 basis points on the taxable series), and upsize the deal by \$275M, providing additional proceeds in a very low interest rate environment: the aggregate transaction resulted in \$147M in net present value savings for the Commonwealth.

Chair German asked if the composition of retail investors differed between the tax-exempt and the taxable series. Ms. Bramlage responded that there typically is not very much interest in taxable bonds from the retail side.

- II. Mr. Adelman provided details on the MSCBA’s recent sale of \$395.735M in its Refunding Revenue Bonds, Series 2020A, which were issued on a taxable basis. Mr. Adelman stated that the MSCBA was able to take advantage of extremely low Treasury rates, achieving present value savings in excess of 7.5% on the transaction, and providing each campus with large debt service savings in FY21 and FY22.

Mr. Adelman outlined how prior to COVID-19, the MSCBA was interested in issuing new money bonds, but market interest plummeted at the outset of the pandemic. Mr. Adelman said a refunding opportunity came into light, but by then the MSCBA began to see the revenue impact of the campus closings—100% of revenue is derived from student fees (predominantly dorm fees. Mr. Adelman further explained: a restructuring and refunding were accomplished simultaneously with the Series 2020A Bonds (there was an amendment to

the waiver request a few months ago to add to the par amount and include the restructuring aspect). Mr. Adelman reported that the MSCBA was able to avoid or eliminate assessments on the on-campus payments in the fall (reducing from \$111M to \$40M in assessments over the course of FY21). The goal was to reduce debt in the near future and then smooth it out beyond this, given the revenue uncertainty for the universities.

Ms. Gonzalez continued the presentation to discuss the MSCBA's savings and investor details. As this was a taxable advance refunding, Ms. Gonzalez reported that there was not much retail interest, but still observed oversubscription from 27 different investors.

Chair German asked if there were any dislocations due to COVID-19, especially being in the higher ed sector. Ms. Gonzalez responded that the MSCBA's results were in line with what the market expected; they did have to answer some questions from investors, but otherwise the transaction was well-received.

6. Discussion on Board Activities

- I.** *No discussion matters scheduled.*

7. Adjournment

- I.** On a motion made by Mr. Andersen, and duly seconded, members voted to adjourn. The meeting was adjourned at 3:35pm.

William Archibald, Secretary