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Meeting Minutes

State Finance and Governance Board

August 20, 2021

12:00 pm

Conference Line: 978-990-5000, access code: 244621#

A meeting of the State Finance and Governance Board was held via teleconference on Friday, August 20, 2021, 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 12:02pm.

Board members comprising a quorum:

Lourdes German, Harvard University, Board Chair
Brent Andersen, Pilgrim Bay Insurance
Supreo Ghosh, Office of the State Treasurer
Sue Perez, Office of the State Treasurer

Others in attendance:

Kathy Bramlage, Office of the State Treasurer
Kaitlyn Connors, Executive Office for Administration and Finance
Kelly Govoni, Executive Office for Administration and Finance
Poonam Patidar, Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C.

1. Administrative Matters

- I.** On a motion made by Mr. Andersen, and duly seconded, members voted to approve the April 26, 2021 meeting minutes.
- II.** Chair German recognized Kaitlyn Connors for serving as interim Secretary to the Board for the summer and thanked her for her assistance with Board matters over the last couple of months. Ms. Connors then introduced Kelly Govoni, Director of Special Projects for the

Executive Office for Administration and Finance, as the new board Secretary, replacing Kaitlyn Connors.

2. Derivative Reviews

- I. Ms. Kathy Bramlage from the Office of the State Treasurer presented the Commonwealth's request for review of its 2021 College Opportunity Bond transaction, which is statutorily required to be tied to an index and therefore meet the definition of a "derivative" instrument in the Board's regulations.

Ms. Bramlage explained that College Opportunity Bond program was established to assist families saving for college by enabling parents (or a child's beneficiaries) to lock-in future tuition rates at today's prices by purchasing Tuition Certificates that are backed by Commonwealth general obligation bonds and are guaranteed to cover a fixed percentage of tuition and mandatory fees in the year they mature, regardless of how much tuition has increased since the time of purchase.

The Commonwealth then issues general obligation bonds of various maturities that bear accreting interest at CPI plus 2% to meet participating education institutions tuition and mandatory fees lock-in. There is also a current interest rate of 0.5% of the original unaccreted principal amount that is assigned to MEFA.

Ms. Bramlage explained that the proposed transaction, represents the 27th series of College Opportunity Bonds in the amount of \$7.8M, which will amortize from 2026 until 2041. Ms. Bramlage stated the transaction will pose minimal risk to the Commonwealth's General Obligation debt portfolio and have a negligible impact on overall debt service, given the relative size of the transaction. Ms. Bramlage noted that the submission to the Board included a Treasurer's certificate as well as a report from an independent financial advisor that provides information related to the risk of the derivative product.

Ms. Bramlage then reviewed the amortization schedule found on slide 6 of the presentation. She also indicated that as of July 31, 2021 the Commonwealth had approximately \$24.7 billion outstanding as part of its General Obligation portfolio, of which approximately 96% or \$23.3 billion is fixed and 5% (\$1.4 billion) is variable. Of the variable rate debt, approximately \$588 million is synthetically fixed, which leaves \$764 million as true variable rate debt.

Because of the variable nature of the CPI, the Commonwealth, to some extent, will be at risk for payments above its ordinary borrowing costs in the event of certain magnitudes of increase in the CPI Index during the life of the College Opportunity Bonds. Similarly, during periods in which the CPI-indexed rate is low, the Commonwealth may benefit.

Chair Germain asked if consumption patterns in CPI-based bonds are changing given concerns over inflation. Ms. Bramlage responded by reiterating that these bonds represent such a small percentage of the portfolio and therefore shifts presents minimal risk. She acknowledged that it will be interesting to watch CPI and see whether this is a permanent or short term as we continue to move through the pandemic. Chair Germain agreed.

There were no further questions from the Board.

On a motion by Mr. Andersen, and duly seconded by Ms. Perez, 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 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 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.

3. Closed Transactions/Bond Sale Reviews:

- I. Ms. Bramlage provided details on the Commonwealth’s recent sale of \$689.4M in bonds for the Commonwealth Transportation Fund in three series: \$187.3M in “new money” sustainability bond series 2021A, \$212.7M in “new money” series 2021B, and \$289.4M in current refunding bonds, series 2021C. She reported that the bonds were rated AAA by Kroll, Aa1 by Moody’s and AA+ by S&P.

Ms. Bramlage noted that the Series A Sustainability Bonds were structured as term bonds with maturities in 2050 and 2051 and a 9-year par call. Proceeds from these bonds will fund sustainability projects for the Commonwealth Transportation Fund, specifically the Green Line Extension. She also noted that this was the first issuance of Sustainability Bonds for the Commonwealth Transportation Fund.

Ms. Bramlage then reviewed the Series B and Refunding Series A bonds. She noted that the Series B bonds were structured as serial and terms bonds with a final maturity in 2046 and subject to either a 7 or 9-year call depending on the maturity date. Proceeds from this series will be used to fund projects for the Commonwealth Transportation Fund. Ms. Bramlage then explained that the Refunding Series A bonds were structured as serial bonds amortizing in 2022 through 2043. These bonds are subject to a 10-year par call, and proceeds used to refund bonds from two outstanding bond series.

Ms. Bramlage reported that prior to pricing, the syndicate executed a comprehensive marketing strategy that targeted both institutions and retail investors and included an investor road show. She indicated that the transactions generated strong demand with retail order flow of \$300 million in orders on the first day of the retail pricing. She also reported that on the morning of the institutional market conditions led the team to restructure lower coupon maturities in response to demand. Overall, the three series were 1.7 times oversubscribed and the aggregate transaction resulted in \$92.7 million in net present value savings.

Ms. Bramlage then noted that results of the bond transaction, including average maturities could be found on slide 12 of the presentation.

Chair Germain then asked if there were any questions, comments or observations from the group. There were no further questions from the Board.

4. Waiver Requests

- I.** Ms. Bramlage also presented the Commonwealth's new request for a waiver from the presumption of competitive financings, stating that the last waiver they had received had been used up. Ms. Bramlage explained that the Commonwealth benefits from these waivers as it provides flexibility in terms of pricing dates, as well as lengths of order period. With a competitive sale the Commonwealth presets a date, whereas with a negotiated sale, the Commonwealth is able to watch the market and time the sale to its advantage. Ms. Bramlage explained that in a negotiated sale the Commonwealth can set a retail order period to help attract new retail investors, like mom and pop shops.

Ms. Bramlage reported that having this flexibility was important to managing through the pandemic, indicating that uncertain market conditions due to COVID-19 have required significant pre-sale marketing in order to ensure broad market support and assist in structuring that will provide the best results for the Commonwealth.

Ms. Bramlage then reiterated the request, further stating 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.

Chair Germain asked if there had been any major shifts in composition of investors in terms of retail vs. institutional when the Commonwealth has gone to market. Ms. Bramlage responded that she had expected to see a jump in retail, but it was actually slow to start. She noted that low rates have investors rethinking. However, she pointed out that she has seen very strong flows into mutual funds from the institutional side which has come in stronger.

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 February 28, 2022; and (iii) to sell any such bonds on a negotiated basis.

5. Discussion on Board Activities

- I. *No discussion matters scheduled.*

6. Adjournment

- I. On a motion made by Mr. Andersen, and duly seconded, members voted to adjourn. The meeting was adjourned at 12:19pm.

Kaitlyn Connors, Interim Secretary