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Meeting Minutes

State Finance and Governance Board

March 17, 2022

11:00 am

Zoom URL: <https://mass-gov-anf.zoom.us/j/82350452760>

Teleconference Line: 713-353-7024, conference code: 319738#

A meeting of the State Finance and Governance Board was held via teleconference on Thursday, March 17, 2022, in accordance with Section 20 of Chapter 20 of the Acts of 2021.

Meeting was called to order at 11:01AM

Board members comprising a quorum:

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

Others in attendance:

Kelly Govoni, Executive Office for Administration and Finance, Board Secretary
Kathleen Bramlage, Office of the State Treasurer

1. Administrative Matters

- I. On a motion made by Mr. Andersen, and duly seconded, members voted to approve the January 20, 2022, meeting minutes.

2. Discussion

- I. *No discussion matters scheduled.*

3. Waiver Requests

- I. Ms. Bramlage explained that the Commonwealth's use of SFG waivers from competitive sales continues to be prudent. The Treasurer's Office approaches all transactions under the assumption that most bonds will be sold on a competitive basis. However, when market conditions or the structure of the bonds warrant the flexibility of a negotiated sale, the Commonwealth has sought waivers from the requirements of Section 53 Chapter 29 of the M.G.L.'s. Ms. Bramlage noted that the Commonwealth will seek a waiver from competitive sales in certain situations. Recently, uncertain Market conditions due to the impact of COVID-19, Federal Reserve Bank action as well as volatile economic conditions, including rising inflation rates 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 issuer. Ms. Bramlage noted that given the current volatility in fixed income markets, a negotiated transaction gives the Commonwealth the flexibility for pricing dates as well as lengths of order periods. A negotiated pricing also gives the Commonwealth flexibility in setting the structure of the issue during the pricing. Ms. Bramlage explained that offering bonds to retail investors during an early order period is a strength of a negotiated transaction and is not available in the competitive sale. The flexibility to offer a retail order period in a negotiated transaction provides the Commonwealth the ability to support the retail investment community, specifically Massachusetts retail, and also allows GO bonds to be more widely held. While retail orders have been smaller during the current market environment, a negotiated transaction gives the Commonwealth flexibility to take advantage of the retail interest when it returns to historical levels. Thus, to ensure that all negotiated contingencies can be met in the near-term, the State Treasurer's Office requests a waiver from the presumption of competitive financings in the amount of \$2.0 billion for new money and/or refunding transactions. The requested waiver will expire on September 30, 2022.

Chairwoman German asked if Board members had any questions. There were no question from Board members.

On a motion made by Mr. Andersen and duly seconded, the Board voted to authorize the Commonwealth (i) to issue bonds in an aggregate principal amount up to \$2,000,000,000 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 September 30, 2022; and (iii) to sell any such bonds on a negotiated basis.

Ms. Bramlage presented the second waiver request. Ms. Bramlage explained that due to the potential profile of an upcoming transaction that is expected to include a new money transaction, and a potential refunding depending on market conditions, for the Commonwealth Transportation Fund (CTF), the State Treasurer's Office has determined that a waiver from the

requirement of a competitive sale is needed. Ms. Bramlage noted that the flexibility required of these transportation bond transactions can best be accomplished through a negotiated method of sale due to both complex structuring considerations and credit parameters. Marketing is needed to tell the story of these bonds, as the CTF is backed by pledged revenues from transportation taxes and fees. Ms. Bramlage noted that market volatility has been high due to economic concerns, including inflation, and proposed action from the Federal Reserve Bank. A negotiated pricing offers flexibility on pricing dates and the ability to assess investor demand. Furthermore, negotiated sales allow the issuer to offer bonds to retail investors during an early order period. Competitive sales are sold on an all-or-none basis to an institution. By holding an early order period for retail investors, it invites citizens to invest directly in their state and allows Commonwealth bonds to be more widely held. A negotiated sale also allows for more investor outreach, including investors from different parts of the country, different types of investors and first-time investors in Massachusetts bonds. To ensure that all negotiated contingencies can be met in the near-term, the State Treasurer's Office requested a waiver from the presumption of competitive financings in the amount of \$1.0 billion for new money and/or refunding transactions for the Commonwealth Transportation Fund. The requested waiver will expire on September 30, 2022.

Chairwoman German asked if Board members had any questions. There were no question from Board members.

On a motion made by Mr. Andersen and duly seconded, the Board voted to authorize the Commonwealth (i) to issue bonds in an aggregate principal amount up to \$1,000,000,000 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 September 30, 2022; and (iii) to sell any such bonds on a negotiated basis.

4. Derivative Reviews

- I. *No discussion matters scheduled.*

5. Closed Transactions/Bond Sale Reviews:

- I. Ms. Bramlage explained that in November 2021, the Commonwealth sold \$302.5M in bonds in one series. The bonds were sold on a negotiated basis to refund the General Obligation Refunding Bonds Series 2007 A and to terminate the associated interest rate swap. Ms. Bramlage noted that Citigroup served as the book-running manager for the bond issue. The full syndicate was made up of 7 firms and the syndicate selection was based on a formal RFP process. Ms. Bramlage noted that the bonds are rated AA+ by Fitch, Aa1 by Moody's and AA by S&P. The bonds were structured as serial bonds with maturities ranging from 2022 to 2025 and are non-callable. Ms. Bramlage explained that the bonds were scheduled to be priced on Tuesday, November 9th but strong investor feedback during the pre-marketing period resulted in a decision to accelerate the pricing to Monday, November 8th. This enabled the Commonwealth to take advantage of market demand and to go ahead of heavy new issue municipal supply slated for Tuesday. Ms. Bramlage noted that yields on the MMD high grade municipal index remained flat on pricing day, while US Treasury yields moved higher creating richer ratios on the front end of the yield curve which drove the swap termination costs lower. The bonds received \$938 million in orders from 23 investors, which represented a 3.1x overalls

subscription rate. This robust demand resulted in a reduction in yields up to 2 basis points. The aggregate transaction resulted in \$4.3 million in net present value savings.

Chairwoman German asked if Board members had any questions. There were no question from Board members.

6. Discussion on Board Activities

- I.** Chairwoman German brought up the Board's Annual Report. Chairwoman German noted that she has reviewed and suggested comments to Ms. Govoni's draft version of the report. Chairwoman German noted that the report follows the template that was established several years ago by the Board and that Ms. Govoni did a great job highlighting key trends the Board saw during COVID19. Chairwoman German noted that Ms. Govoni will circulate the report via email and Board members will have the ability to comment on it. Ms. Govoni will then schedule a working call with Board members to discuss any changes and filing the report. Chairwoman German asked Board members if they agreed with that approach and Board members agreed.

7. Adjournment

- I.** On a motion made by Mr. Andersen, and duly seconded, members voted to adjourn. The meeting was adjourned at 11:12AM.

Kelly Govoni, Secretary