



**Massachusetts Bay
Transportation Authority**

Debt Management/Derivative Policies Revision

Joint Meeting of the MassDOT and Fiscal and Management Control Board

Patrick Landers

March 23, 2020

Debt Management Policy

- **Even-Numbered Years (Debt Management Policy):** to be formally adopted at least every two years and the adopted policies or evidence that there has been no material changes to the most recently filed policies, shall be filed with the FAB by March 31st of each even-numbered year (976 CMR CFR 2.04)
- In accordance with the debt policy, we have reviewed our debt management policy in concert with bond counsel and our legal advisors and recommend making the following changes:
 - In pursuing a refunding, the current policy calls for greater than 2% savings per year. This is unnecessary. The revision proposes to exclude this provision, which will allow greater flexibility in shaping the MBTA debt profile.
 - The Commonwealth permits state authorities to enter into direct purchases. The revision proposes adding the option for direct purchase for greater flexibility and to provide liquidity in difficult markets.



Debt Management Policy



Debt Management Policy: Refunding Savings

Current

MBTA staff will monitor the debt portfolio to identify and evaluate possible refunding opportunities. Advance and current refundings will be considered when aggregate present value debt service savings of the refunding bonds as compared to the debt service on refunded bonds are at least 3% and annual debt service savings is at least 2%. Refundings may involve the issuance of tax-exempt or taxable refunding bonds. Refundings may also be blended with a new money issue to achieve a lower cost of capital to fund new projects.

Proposed – replace entire paragraph

MBTA staff will monitor the debt portfolio to identify and evaluate possible refunding opportunities. Advance and current refundings will be considered when aggregate present value debt service savings of the refunding bonds as compared to the debt service on refunded bonds are at least 3% and annual debt service savings is at least 2%. Refundings may involve the issuance of tax-exempt or taxable refunding bonds. Refundings may also be blended with a new money issue to achieve a lower cost of capital to fund new projects.



Debt Management Policy: Private Placement

Current

MBTA bonds will be sold (i) on a competitive basis or (ii) on a negotiated basis with an underwriting team selected by competitive process, in either case, depending on market conditions, debt-structuring issues and other factors. For each bond sale, MBTA staff will provide a memorandum to the Board of Directors, and while the Control Board is in existence, to the Control Board, setting forth the factors that justify the method of sale.

Proposed – added language in bold

MBTA bonds will be sold (i) on a competitive basis, **(ii) through private placement,** or (iii) on a negotiated basis with an underwriting team selected by competitive process, ~~in either case, depending on market conditions, debt-structuring issues and other factors.~~ For each bond sale, MBTA staff will provide a memorandum to the MassDOT Board, and while the Control Board is in existence, to the Control Board, setting forth the factors that justify the method of sale. **The decision will be based on a variety of factors including, but not limited to, the complexity of the sale, market conditions, transaction cost, and investor engagement.**

Derivatives Policy



Derivatives Policy

In accordance with policy, we have reviewed our derivatives policy in concert with bond counsel and our legal advisors and recommend making the following changes:

- Update policy in accordance with 976 CMR 2.00, requiring a vote of the MassDOT Board of Directors and a review of the State Finance and Governance Board prior to entering into any derivatives product.
- Include language restricting the state laws governing derivative products to New York or Massachusetts Law and in favor of Massachusetts as a governing jurisdiction.
- Revise language to state that rating downgrades would not automatically trigger termination and that the Authority has the right to terminate at any time at the MBTA's discretion.



Derivatives Policy: Request of the Joint Board

Current

Each Derivative entered into by the Authority shall be subject to an independent review and analysis by a Derivatives advisor and include a finding that its terms and conditions reflected a fair market value as of the date and time of its execution.

Proposed – added language in bold

Each Derivative entered into by the Authority shall be subject to an independent review and analysis by a Derivatives advisor, which shall include **a detailed description of the derivative product; a description of risks/benefits;** and a finding that its terms and conditions reflected a fair market value as of the date and time of its execution. **All Derivative contracts should be approved by the Board of Directors and the Fiscal and Management Control Board (per 976 CMR 2.00) and presented to the State Finance and Governance Board for review.**

Derivatives Policy: including language identifying body of laws governing derivative contracts

Current

None

Proposed

Governing Law and Jurisdiction

Swap agreements shall be governed by the laws of the Commonwealth or the State of New York with a preference to Massachusetts as the governing jurisdiction. Except when deemed otherwise acceptable or appropriate in light of the overall transaction, jurisdiction for any claims against the MBTA shall be limited to Massachusetts courts.



Derivatives Policy: update termination trigger language

Current

Ratings-based downgrade provisions triggering termination shall be included and should reflect the relative credit strength of the Authority in comparison with the Derivatives Provider. This comparison should give weight to the prevailing greater credit strength of public sector entities as compared with for-profit corporations and financial institutions;

Proposed

Ratings-based downgrade provisions ~~triggering termination~~ shall be included and should reflect the relative credit strength of the Authority in comparison with the Derivatives Provider. This comparison should give weight to the prevailing greater credit strength of public sector entities as compared with for-profit corporations and financial institutions;



Request of the Joint Boards

VOTED: That members of the Fiscal and Management Control Board (the “FMCB”) hereby recommend to the Board of Directors of the Massachusetts Department of Transportation (“MassDOT”) that it approve the Debt Management and Derivatives Policies of the Massachusetts Bay Transportation Authority (the “MBTA”) in the form presented at this meeting.

VOTED: That the members of the Board of Directors of the Massachusetts Department of Transportation (“MassDOT”) accept the recommendation of the Fiscal and Management Control Board and hereby approve the Debt Management and Derivatives Policies of the Massachusetts Bay Transportation Authority in the form presented at this meeting.

