



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

**State Finance and Governance Board
May 17, 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, May 17, 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 11:03 am.

Board members comprising a physical quorum:

Sue Perez, Office of the State Treasurer
Supreo Ghosh, Office of the State Treasurer
Katherine Holahan, Associated Industries of Massachusetts
Brent Andersen, Pilgrim Bay

Others in attendance:

Charles Karimbakas, MassHousing
Kathy Connolly, MassHousing
Brandon Wolanski, Barclays
Joe DaBreo, PFM
John Markowitz, MBTA

1. Administrative Matters

- I. On a motion made by Mr. Andersen and duly seconded, members voted to approve the April 19, 2018 meeting minutes.
- II. On behalf of Secretary of Administration and Finance (A&F) Heffernan, Board Secretary Mark Attia requested the Board approve Frank Gervasio of A&F as the new Board Secretary. Chair German voiced the Board's deep appreciation for all of his efforts, most especially his work on the Board's annual report and updated website. Mr. Attia also thanked the Board.

On a motion made by Mr. Andersen and duly seconded, members voted to approve Mr. Gervasio as the new Board Secretary.

2. Discussion

- I. *No discussion matters scheduled*

3. Derivative Reviews

- I. Mr. Karimbakas reviewed MassHousing's intention to incorporate the use of variable rate debt, in combination with its present use of fixed rate debt, to finance the agency's Single Family Housing Revenue Bond program. Mr. Karimbakas also offered the opinion of Cfx, MassHousing's municipal advisor, who agreed the inclusion of some variable rate debt would reduce interest rate risk and enable the agency to lower the future cost of debt. This will allow MassHousing to provide lower mortgage rates to its borrowers, maintain positive net income, and grow its balance sheet.

Mr. Karimbakas stated that the first variable rate transaction with associated hedges is expected to be priced and closed prior to June 30th, the end of the agency's fiscal year.

Chair German inquired about the details of the first transaction expected to close by the end of June. Mr. Karimbakas stated that \$15M in variable rate debt is expected to be issued by this time, and approximately 75% of this, or \$12M, would be hedged via interest rate swap.

Mr. Ghosh inquired about the timing of MassHousing using synthetic fixed debt when it has not done so previously. Mr. Karimbakas answered that the Agency had previously not seen the need to use these types of instruments before, but that swaps do offer advantages over fixed rate debt.

Ms. Perez inquired why the agency chose to forgo the prepayment optionality that MassHousing's more traditional debt offers. Mr. Karimbakas' response was the optionality to cancel a swap at par with no additional expense on or after a specified date in most cases, and a conversation ensued regarding the benefits of prepayment optionality and the ability to terminate swaps prior to the end of the agreement. The swap would include a termination option.

Chair German inquired as to why MassHousing decided to hedge new variable rate debt, when a small part of MassHousing's portfolio is presently un-hedged variable rate debt. Mr. Karimbakas replied that this portion of the portfolio is quite aged, and due to favorable terms MassHousing has never felt the need to enter into a swap to hedge against it.

On a motion made by Mr. Andersen and duly seconded, members voted that the State Finance and Governance Board (the “Board”) had received satisfactory information regarding the proposed Massachusetts Housing Finance Agency (“MassHousing”) and deemed the submission (i) 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 (ii) 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 stated that as a result of the federal Tax Cuts and Job Act has, the MBTA seen an increase in interest payments made on its Senior Sales Tax Series 2017A Bonds. The bonds, which were acquired by State Street via a direct purchase agreement in March 2017, included a mechanism in which MBTA interest payments increase if the corporate tax rate falls. The MBTA was left with the option to pay the higher interest rate or to terminate the agreement with no breakage fee prior to July 2018.

As a result, the MBTA issued a Request for Responses from banks to (i) provide a liquidity facility for a new variable rate issue or (ii) convert the existing obligation to a new Bank Direct Purchase. The Authority received proposals from 10 banks, including 6 for a liquidity facility for new variable rate issue and 5 for direct purchase proposals for the 2017A bonds.

In the event the bonds cannot remarketed successfully, the Authority has a standby bond purchase agreement in place with State Street Bank to provide funds through a draw on a liquidity facility, the terms of which are yet to be negotiated.

Chair German inquired if the MBTA would feel comfortable proceeding with the State Street standby bond purchase agreement in the case the bonds are unable to be remarketed. Mr. Markowitz remarked that the MBTA would be comfortable moving forward with the agreement in that case, due to State Street’s well renowned reputation.

On a motion made by Mr. Andersen and duly seconded, members voted that pursuant to 976 CMR 2.05, the Board had reviewed the MBTA’s proposed derivative financial product and concluded that the materials required to be submitted pursuant to 976 CMR 2.05(1) have been submitted, evidencing compliance with the level 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.

4. Waiver Request

- I.** *No waiver requests scheduled.*

5. Review of Closed Transactions:

- I.** *No closed transactions scheduled*

6. Adjournment

- I. On a motion made by Mr. Andersen, members voted to adjourn. The meeting was adjourned at 11:35 am.

Frank Gervasio, Secretary