



Planned Refunding

of the

**Massachusetts Department of Transportation
Metropolitan Highway System Revenue Refunding Bonds (Subordinated)
Commonwealth Contract Assistance Secured
\$371,380,000 Variable Rate (Term Rate), 2019 Series A**

Board Meeting

September 21, 2022

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Background: 2019 Series A Term Rate Bonds (Subordinated)

- MassDOT issued \$371,380,000 Metropolitan Highway System Revenue Refunding Bonds (Subordinated) Commonwealth Contract Assistance Secured Variable Rate (Term Rate), 2019 Series A (“2019A Bonds”) on 1/24/2019
 - The 2019A Bonds have a mandatory tender “Soft Put” date of 1/1/2023 when the bonds must be refunded or remarketed
 - The 2019A Bonds refunded four series of Subordinated Variable Rate Demand Obligations including 2010 Series A-3 through A-6
 - The 2019A Bonds also partially terminated, or suspended through 1/1/2023 the payments of, an associated interest rate swap with an aggregate notional amount of \$371,380,000
 - The swap counterparties are Barclays (\$123,793,000) and Citibank (\$247,587,000)
- MassDOT plans on issuing bonds prior to the Soft Put date to refund the 2019A Bonds
 - Through a Request for Responses (RFR) conducted on 5/31/2022 from its senior underwriter pool, MassDOT selected Citigroup as book-running senior manager with Bank of America as co-senior and four firms as co-managers in the underwriter syndicate
 - Two refunding structures are being evaluated by MassDOT and its financing team
 - Option A includes issuing variable rate demand bonds to refund 2019A
 - Option B includes issuing term rate soft put bonds to refund 2019A and suspend the swap again

Option A: Refund 2019A Bonds With Variable Rate Demand Bonds

- Option A includes issuing three series of tax-exempt variable rate demand bonds (VRDB). This reestablishes the status quo and is our default position
 - The VRDBs would be issued as 2022 Series A-1, A-2, and A-3 (2022A VRDBs) and structured similarly to the original 2010 Series A-3 through A-6 bonds
 - The total par issued would be \$371,380,000 split between the three series
 - Interest rates on the 2022A VRDBs are reset each week by remarketing agents based on the tax-exempt SIFMA index and liquidity would be provided through standby bond purchase agreements (SBPAs)
 - The swaps would start on 1/1/2023 and MassDOT would pay the counterparties a fixed rate of 4.75% and receive a floating rate based on 68% of 1 month LIBOR
 - The floating rate received on the swaps and the variable rate paid on the bonds technically cancel each other out, putting MassDOT in a synthetically fixed rate structure
- Advantages of Option A is it is a very common structure in the municipal marketplace, is straightforward, includes minimal transaction costs, and is familiar to MassDOT
 - Minuses include the floating rate received on the swap is based on a taxable index (LIBOR) and the variable rate paid on the bonds is based on a tax-exempt index (SIFMA) leaving a basis mismatch between the two indices
 - LIBOR discontinues in June 2023, MassDOT has already adhered to the Fallback Protocol

Option B: Refund 2019A Bonds With a Soft Put Term Rate Bond

- Option B includes issuing refunding bonds structured similarly to the 2019A Bonds. Transaction economics are market driven and Staff will monitor throughout the process as to overall viability.
 - MassDOT would issue tax-exempt refunding bonds with a soft put date (mandatory tender date) 3-5 years from the issue date and pay a fixed rate during that 3-5 year period and the proceeds would be used to refund the 2019A bonds on 1/1/2023
 - A small second series of taxable fixed rate bonds would be issued and the proceeds would be used to partially terminate the swaps and suspend the payments for a period of 3-5 years
 - The partial terminations made to the counterparties would range from \$27-\$48 million* depending on the term of the suspension period
 - This would put MassDOT into fixed rate bonds for the suspension period (3-5 years) and cancel the swap payments for that same period
- Advantages of Option B is it eliminates the basis risk in Option A, it provides MassDOT with fixed debt payments during the suspension period, it eliminates some ongoing costs associated with VRDBs, it may achieve nominal debt service savings, and it reduces the market value on the swap portfolio by the termination payments of \$27-\$48 million
 - Minuses include it is a complex transaction that depends on underlying market conditions
 - Market conditions have been volatile while the Federal Open Market Committee has raised interest rates 3 times this year and is expected to continue raising rates through year-end

* Based on interest rates as of 8/9/2022.

APPENDIX

Debt Profile Summary

Outstanding Debt as of 9/1/2022											
Series	Indenture & Lien	Base CUSIP	Type	Avg Coup	Final Maturity	- Credit Ratings -			Outstanding	Accreted Value	
						Moody's	S&P	Fitch			
Metropolitan Highway System (Senior)											
1997 Series A CABs	MHS SR	576018	Fixed	5.62%	1/1/29	A2 Stable	A+ Negative	A+ Stable	\$ 42,006,617	165,213,869.90	
1997 Series C CABs	MHS SR	576018	Fixed	5.49%	1/1/23	A2 Stable	A+ Negative	A+ Stable	9,226,975	35,599,790.35	
2010 Series A	MHS SR	57563C	Variable	VR	1/1/37		See Below		207,665,000	207,665,000	
2019 Series A	MHS SR	57563C	Fixed	5.00%	1/1/37	A2 Stable	A+ Negative	A+ Stable	436,180,000	436,180,000	
Subtotal									\$ 695,078,592	\$ 844,658,660	
Metropolitan Highway System (Subordinated)											
2018 Series A	MHS SUB	57563C	Fixed	5.00%	1/1/29	Aa2 Stable	AA Stable	AA+ Stable	135,690,000	135,690,000	
2019 Series A	MHS SUB	57563C	Term Mode	5.00%*	1/1/39*	Aa2 Stable	AA Stable	AA+ Stable	371,380,000	371,380,000	
2019 Series B-1	MHS SUB	57563C	Fixed	5.00%	1/1/37	Aa2 Stable	AA Stable	AA+ Stable	51,230,000	51,230,000	
2019 Series B-2 (Taxable)	MHS SUB	57563C	Fixed	2.94%	1/1/25	Aa2 Stable	AA Stable	AA+ Stable	5,590,000	5,590,000	
2019 Series C	MHS SUB	57563C	Fixed	5.00%	1/1/35	Aa2 Stable	AA Stable	AA+ Stable	157,900,000	157,900,000	
Subtotal									\$ 721,790,000	\$ 721,790,000	
Total									\$1,416,868,592	\$1,566,448,660	

* Term Rate of 5.00% through January 1, 2023 Mandatory Tender Date. Final Maturity is 1/1/2039.

Detailed Summary of Variable Rate Debt as of 9/1/2022										
Series	Indenture & Lien	CUSIP	Mode	Avg Coup	Bond Maturity	- Credit Ratings -			Outstanding	
						Moody's	S&P	Fitch		
Metropolitan Highway System (Senior)										
2010 Series A-1	MHS SR	57563CBF8	VRDB LOC	VR	1/1/37	Aa1/VMIG1	AA+/A-1+	AA+/F1+	\$ 100,000,000	
2010 Series A-2	MHS SR	57563CCZ3	VRDB LOC	VR	1/1/37	Aa1/VMIG1	AA+/A-1+	AA+/F1+	107,665,000	
Subtotal									\$ 207,665,000	
Metropolitan Highway System (Subordinated)										
2019 Series A	MHS SUB	57563C	Term Mode	5.00%*	1/1/39*	Aa2 Stable	AA Stable	AA+ Stable	\$ 371,380,000	
Subtotal									\$ 371,380,000	
Total									\$ 579,045,000	

* Term Rate of 5.00% through January 1, 2023 Mandatory Tender Date. Final Maturity is 1/1/2039.

Swap Profile Summary

MassDOT Swap Valuation (Mark-to-Market) as of 9/1/2022					
Description	Senior Swap	Subordinated Swaps	Total	Subordinated Swap Allocation	
	UBS AG	Citi and Barclays		Citibank Portion	Barclays Portion
Full Rate / On-Market Rate	4.750000%	4.750000%	-	4.750000%	4.750000%
Full Notional	207,665,000	371,380,000	579,045,000	247,587,000	123,793,000
Allocable Notional	207,665,000	371,380,000	579,045,000	247,587,000	123,793,000
Allocable Amount %	100.00%	100.00%	-	66.67%	33.33%
Full MTM Value	(57,894,977)	(115,319,229)	(173,214,206)	(77,400,549)	(37,918,680)