



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

**State Finance and Governance Board
October 18, 2018
3:00 pm
Executive Office for Administration and Finance
State House, Room 373**

A meeting of the State Finance and Governance Board was held on Thursday, October 18, 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 3:09 pm.

Board members comprising a physical quorum:

Kate Holahan, Associated Industries of Massachusetts, Acting Board Chair
Sue Perez, Office of the State Treasurer
Supreo Ghosh, Office of the State Treasurer

Others in attendance:

John Giammarino, Citi
John Malpiede, Citi
Chris Valentino, Omnicap
David Pottier, MassDOT
Anna Tenaglia, MassPort
Kathy Bramlage, Office of the State Treasurer
Mengru Crystal Pu, Intern – Executive Office for Administration & Finance
Paul Haley, Barclays

1. Administrative Matters

- I.** On a motion made by Ms. Perez and duly seconded, members voted to approve the September 20, 2018 meeting minutes.

2. Discussion

- I.** *No discussion matters scheduled*

3. Derivative Reviews

- I.** Mr. Pottier reviewed MassDOT's proposed refunding bond issue in order to terminate one existing interest rate swap transaction and replace the associated variable rate debt with fixed rate bonds. The termination would include a \$83.1M notional amount UBS swap, which are associated with 2010 A-2 bonds and are associated with a larger UBS swap. Also included would be the partial termination of \$371.380M on notional amount of UBSS swaps associated with 2010 A-3 through A-6 bonds and suspension of payments on the swap through the soft put date of 1/1/2023. The proposal would continue MassDOT's objective of de-risking debt and swap portfolios. The transactions would close in late December or early January.

On a motion made by Ms. Perez, and duly seconded, the Board voted that it had received satisfactory information regarding the proposed Massachusetts Department of Transportation ("MassDOT") transactions involving termination and novation of derivative financial products by MassDOT and deemed the submission deems 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. Pottier reviewed the Massachusetts Department of Transportation's proposed termination of a \$100M notional amount basis swap with JP Morgan. MassDOT is proposing the termination in order to mitigate risks associated with the swap portfolio at a termination about near historical low range of the mark-to-market on the swap. Among the other benefits, the termination would continue MassDOT's objective of de-risking its swap portfolio.

On a motion made by Ms. Perez, and duly seconded, the Board voted that it had received satisfactory information regarding the proposed Massachusetts Department of Transportation ("MassDOT") transaction involving termination of a derivative financial product by MassDOT 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.

- III.** Ms. Tenaglia reviewed the Massachusetts Port Authority's ("MassPort") proposed bond sale that would total \$107.5M and include a variable rate structure. The structure would offer a

lower interest rate than the best proposed fixed-rate option by approximately 100 basis points. Additionally, it would provide more favorable prepayment features. The interest rate will be determined by a formula equal to 80% of 1-month LIBOR, or a replacement rate once LIBOR is phased out, plus a fixed spread. The bonds would be offered at a five year term – by the end of the term, MassPort should have received the Commonwealth’s Funds and redeemed all subordinated obligations, and would be subject to optional redemption at any interest reset date. The sale would close in November.

Mr. Ghosh asked if there was to be any commitment fee associated with the deal. Ms. Tenaglia noted that the fee had been waived.

On a motion made by Ms. Perez, and duly seconded, the Board voted that it had received satisfactory information regarding the proposed Massachusetts Port Authority (“MassPort”) transaction involving a new derivative financial product by MassPort and deems 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.

4. Waiver Request

- I.** Mr. Pottier reviewed MassDOT’s request to issue two series of Revenue Refunding Bonds, \$371.380M in Series B and \$71.780 in Series C, on a negotiated basis. MassDOT proposed to refund variable rate bonds associated with both series, as well as the termination or partial termination of the UBS swaps associated with both series. Both sets of refundings and terminations are projected to generate savings of \$5.038M on a net present value basis, based on September 27, 2018 rates (subject to change), but negative savings at the time of sale are possible based on market conditions. The transactions would close in late December or early January.

On a motion made by Ms. Perez, and duly seconded, the Board voted to grant a waiver from the presumption of a competitive financing to the Massachusetts Department of Transportation with respect to the issuance of refunding bonds in a par amount not to exceed \$500,000,000 and that MassDOT be authorized to sell such bonds, in one or more issues, on a negotiated basis not later than April 30, 2019.

- II.** Ms. Bramlage reviewed the Office of the State Treasurer’s request for a waiver from a competitive sale. Ms. Bramlage noted that the Commonwealth’s use of negotiated sales as a percentage of total sales of 27% (by par amount sold) has been significantly lower than the market average of 73%. Due to the profile of the upcoming transactions that are expected to include a new money tax-exempt and a potential taxable refunding transaction, the State Treasurer’s Office has determined that a waiver from the requirement of a competitive sale is needed.

On a motion made by Ms. Perez, and duly seconded, the Board voted to authorize the Commonwealth (i) to issue bonds in an aggregate amount of \$1,500,000,000 for new money 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 April 30, 2019; and (iii) to sell any such bonds on a negotiated basis.

5. Review of Closed Transactions:

- I. Ms. Bramlage reviewed the Commonwealth's sale of \$726.565M in bonds in two separate series during the week of August 27th, 2018. The bonds were sold on a negotiated basis, with \$500M in a "new money" series and \$226.565M in a refunding series. Proceeds from the "new money" GO series will be used to fund certain authorized capital projects for the Commonwealth. Proceeds from the refunding series will be used to refund prior bonds.

There were no questions from the Board.

6. Adjournment

- I. On a motion made by Ms. Perez, members voted to adjourn. The meeting was adjourned at 3:43 pm.

Frank Gervasio, Secretary