JP Morgan Basis Swap Termination

Phase Two: De-Risking the Swap Portfolio

Board of Directors Meeting

David W. Pottier, Chief Financial Officer October 15, 2018

* Preliminary, subject to change.

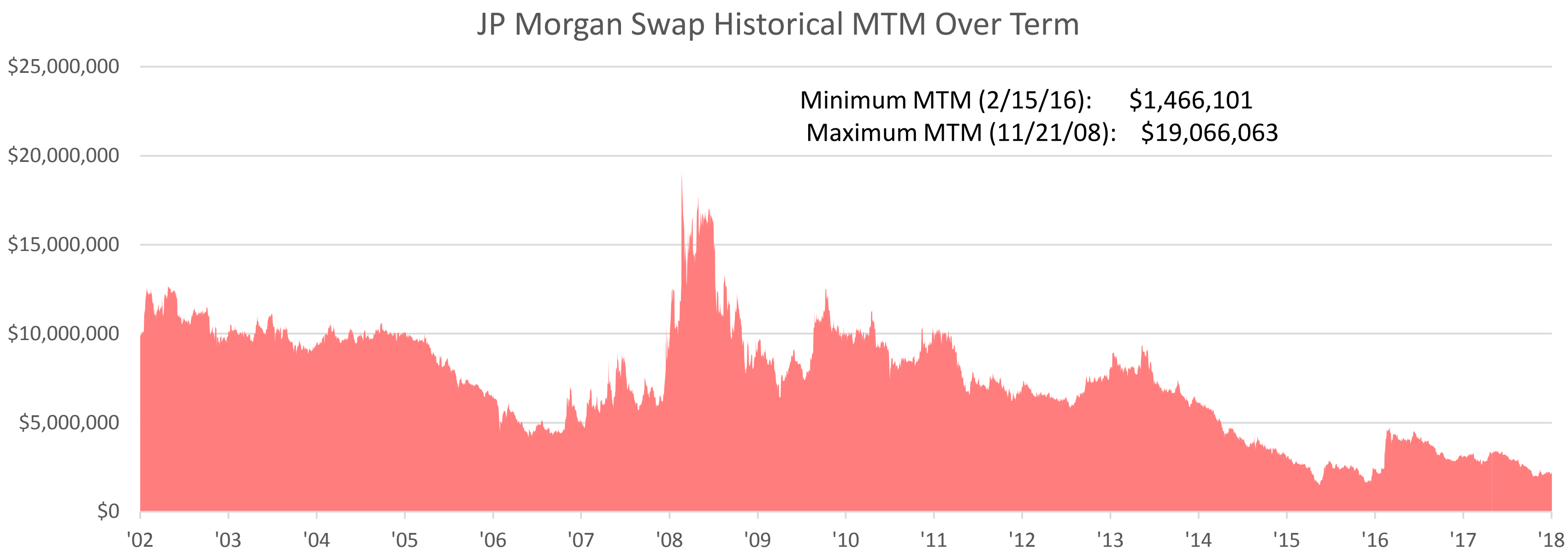
JP Morgan Basis Swap Termination Overview

- Proposed transaction: terminate the $100 million basis swap with JP Morgan
  - A basis swap is a pay floating/receive floating swap where the payments on each leg of the swap are based on different floating rate indices
    - The JP Morgan basis swap is an agreement to pay JP Morgan floating payments based on SIFMA (tax-exempt floating rate) and receive floating payments based on 67% of 3-month LIBOR
  - In June of 1999 MassDOT entered into an option with Morgan Guaranty Trust Company of New York ("JP Morgan")
    - MassDOT received $5.35 million option premium as part of the option agreement
    - JP Morgan received the option to exercise the swap based upon certain events that would indicate a material change in tax policy
    - JP Morgan exercised its option on October 1, 2002 to enter into the swap
    - The swap is scheduled to terminate (mature) on July 1, 2029
    - The swap is not associated with any outstanding debt
    - Payments are secured by MassDOT's general fund
  - The mark-to-market (MTM) on the swap is negative $2.3 million[1]
    - MassDOT must post collateral if the MTM exceeds $15 million

[1] Based on October 3, 2018 rates, subject to change.

Transaction Highlights

- Swap termination costs paid for from monies in the MTA General Fund
  - The $5.35 million remains in the in the MTA General Fund and is available to make the termination payment
- Reduction of $100 million in outstanding swap notional amount
- Transaction consistent with Risk Management (§ 9) guidelines of MassDOT's Interest Rate Swap Management Policy
- Termination costs near historic lows of MTM

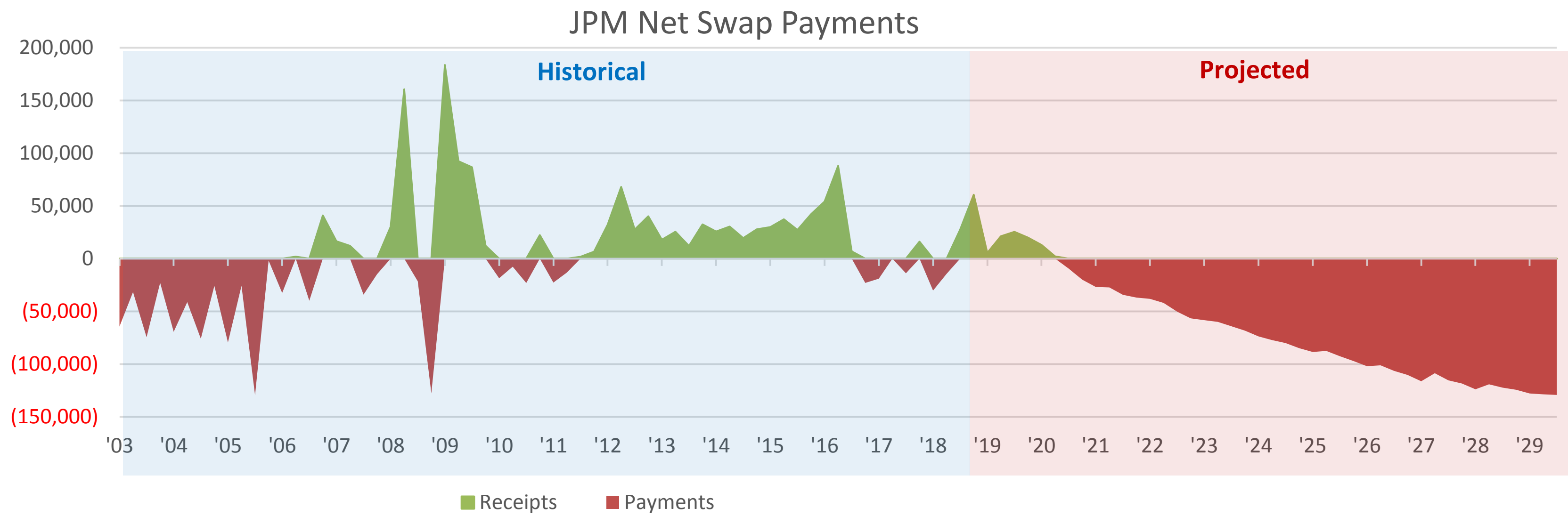


Historical and Projected Performance

- MassDOT is currently a net receiver of payments on the swap
  - MassDOT has received $316,000 in net receipts to date on the swap
  - Projection is MassDOT will be a net payer of $2.9 million over remaining term[1]

Time Period	Receipts	Payments	Net	MTM
Historical	18,152,184	(17,835,691)	316,493	-
Projected	23,421,394	(26,363,270)	(2,941,875)	(2,314,782)

  - The following graph shows historical and projected net payments over the swap term



[1] Based on October 3, 2018 rates, subject to change.

Transaction Benefits

- Continue MassDOT's objective of de-risking swap portfolio
- Terminate $100 million in notional amount of swap portfolio
- Terminate at near historical low mark-to-market with original option premium
  - Termination payment funded out of original $5.35 million swap option premium that remains on deposit in the MTA General Fund
  - Terminating at current low MTM = overall net positive on swap transaction
    - $5.35mm swap premium + $316,000 net receipts - $2.3mm termination cost[1]
- Eliminates swap associated risks
  - Swap currently does not hedge any debt
  - Eliminates LIBOR phase-out risks (phasing LIBOR out in 2021)
  - Eliminates potential to have to post collateral in the future
- Positive credit rating factor for Senior Lien
  - Eliminates risk in portfolio and potential for increased liability on Senior Lien

[1] Based on October 3, 2018 rates, subject to change.

Transaction Considerations

- Transaction is subject to market conditions
  - MTM is near historical lows but has been lower
  - Relationship between variable tax-exempt rates and taxable LIBOR rates
- Forego potential positive basis
  - Basis risk is the difference between floating rates received on swap based on LIBOR and floating payments made on the swap based on tax-exempt variable rates
  - Basis risk can be positive or negative but has been positive most recently
- Forego potential to terminate swap in future at a lower MTM

MassDOT's Current Swap Portfolio

#	Counterparty	Notional	Pay	Current Pay Rate (%) [1]	Receive	Current Receive Rate (%) [1]	Current Net Rate (%)	Effective Date	Maturity Date	Hedged Bonds	MTM [1]
Outstanding Swaps as of 10/1/2018											
1	UBS AG	207,665,000	4.750%	4.750%	68% of 1M LIBOR	1.298%	3.452%	07/01/08	01/01/37	2010 SR A-1 & A-2	-74,880,000
Phase Two Termination (JPM Swap)											
4	JPM Chase	100,000,000	SIFMA	1.450%	67% of 3M LIBOR	1.577%	-0.127%	10/01/02	07/01/29	N/A	-2,310,000
Phase Two Termination (A-2) & Suspension (A-3-A-6)											
2	UBS AG	83,100,000	4.875%	4.875%	68% of 1M LIBOR	1.298%	3.577%	01/01/08	01/01/37	2010 SUB. A-2	-27,805,000
3	UBS AG	371,380,000	4.750%	4.750%	68% of 1M LIBOR	1.298%	3.452%	01/01/09	01/01/39	2010 SUB. A-3- A-6	-143,045,000
Phase One Terminations (A-1 & A-7) [2]											
-	UBS AG	43,625,000	5.000%	5.000%	68% of 1M LIBOR	1.298%	3.702%	01/01/08	01/01/29	2010 SUB. A-1	-10,375,000
-	UBS AG	94,230,000	5.000%	5.000%	68% of 1M LIBOR	1.298%	3.702%	01/01/09	01/01/29	2010 SUB. A-7	-23,530,000
Total		900,000,000									-281,945,000

[1] Rates as of 10/3/2018, settlement date of 11/15/2018. Values include accrued interest.

[2] MTM = termination costs on termination date (terminated on 5/1/2018, settlement date of 5/10/2018).