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Meeting Minutes

State Finance and Governance Board
September 22, 2022
11:00 am
Zoom URL: https://mass-gov-anf.zoom.us/j/86527332296?pwd=V0I4bWlWOGFPeUcwaGNSMWRlMmpuUT09
Password: 386515
Teleconference Line: 713-353-7024, conference code: 319738#

A meeting of the State Finance and Governance Board was held via teleconference on Thursday, March 17, 2022, in accordance with Section 20 of Chapter 20 of the Acts of 2021.

Meeting was called to order at 11:01AM

Board members comprising a quorum:

Kaitlyn Connors, Assistant Secretary for A&F, Acting Board Chair
Sue Perez, Office of the State Treasurer
John Durgin, Office of the State Treasurer
Brent Andersen, Pilgrim Bay Insurance

Others in attendance:

Kelly Govoni, Executive Office for Administration and Finance, Board Secretary
Kathleen Bramlage, Office of the State Treasurer
Dan Aldridge, Office of the State Treasurer
David Pottier, Massachusetts Department of Transportation
Beth Pellegrini, Massachusetts Department of Transportation
Jeff Smith, Omnicap Group LLC
Anna Tenaglia, Massachusetts Port Authority
Kenneth Ciriello, Massachusetts Port Authority
Poonam Patidar, Mintz Levin

1. **Administrative Matters**

   I. Ms. Connors called the meeting to order and conducted the roll call. On a motion made by Mr. Andersen, and duly seconded, members voted to unanimously to approve the June 16, 2022, meeting minutes.

2. **Discussion**

   I. *No discussion matters scheduled.*

3. **Waiver Requests**

   I. Ms. Bramlage from the Treasurer's Office presented their Waiver request to the Board.

   Waiver request from TRE. Duly seconded by John Durgin. So moved unanimously. Ms. Bramlage explained that the Commonwealth's use of SFG waivers from competitive sales continues to be prudent. TRE approaches all transactions under the assumption that most bonds will be sold on a competitive basis. However, when market conditions or the structure of the bonds warrant the flexibility of a negotiated sale, the Commonwealth has sought waivers from the requirements of Section 53 of Chapter 29 of the M.G.L.'s. The Commonwealth will seek a waiver from competitive sales in certain situations. Recently, uncertain market conditions due to the impact of COVID-19, Federal Reserve Bank action as well as volatile economic conditions, including rising inflation rates have required significant pre-sale marketing in order to ensure broad market support and assist in structuring that will provide the best results for the issuer.

   Ms. Bramlage noted that given the current volatility in the fixed income markets, a negotiated transaction gives the Commonwealth the flexibility for pricing dates as well as lengths of order periods. A negotiated pricing also gives the Commonwealth flexibility in setting the structure (including coupons and optionality) of the issue during the pricing. Offering bonds to retail investors during an early order period is a strength of a negotiated transaction and is not available in a competitive sale. The flexibility to offer a retail order period in a negotiated transaction provides the Commonwealth the ability to support the retail investment community, specifically Massachusetts retail, and also allows GO bonds to be more widely held. While retail orders have been smaller during the current market environment, a negotiated transaction gives the Commonwealth flexibility to take advantage of the retail interest when it returns to historical levels.

   Ms. Bramlage concluded by noting that to ensure that all negotiated contingencies can be met in the near-term, the State Treasurer's Office requests a waiver from the presumption of competitive financings in the amount of $2.5 billion for new money and/or refunding transactions. The requested waiver will expire on March 31, 2023

   On a motion made by Mr. Andersen and duly seconded, the Board voted unanimously to authorize the Commonwealth (i) to issue bonds in an aggregate principal amount up to $2,500,000,000 for new money and/or refunding 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 March 31, 2023; and (iii) to sell any such bonds on a negotiated basis.

II. Mr. Pottier from the Massachusetts Department of Transportation presented their Waiver request to the Board. Mr. Pottier explained that the Office of the CFO, in coordination with the advice from MassDOT's Financial Advisor, has followed the procedures set forth in Section 5 of their Debt Policy to determine that selling the refunding bonds on a negotiated basis is preferred over a competitive sale. Mr. Pottier explained that MassDOT believes a negotiated basis is better for a number of reasons, which he described in the materials submitted to the board. A few of which include that a negotiated sale allows MassDOT and the financing team to pre-market the bonds, which is essential given the infrequency of their bond issuances; and A negotiated sale will help MassDOT develop a bigger and more diverse investor base by educating investors about our credit and lien structure.

On a motion made by Mr. Andersen and duly seconded, the Board voted unanimously 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 $450,000,000 and that MassDOT be authorized to sell such bonds, in one or more issues, on a negotiated basis not later than December 31, 2022.

4. Derivative Reviews

I. Ms. Bramlage from the Office of the Treasurer presented their Derivative review request for College Opportunity Bonds to the Board. Ms. Bramlage explained that the College Opportunity Bond program was established in 1994 as one of the first prepaid tuition programs in the country to assist families saving for college tuition. The program was developed statutorily in conjunction with officials from Massachusetts Educational Financing Authority (MEPA), the Governor's Office and the State Treasurer's Offices, as well as representatives from the higher education community. MEFA operates the program in partnership with nearly 80 Massachusetts public and private colleges and universities. Ms. Bramlage noted that parents (or a child's benefactor) can "lock-in tomorrow's tuition at today's prices" by purchasing Tuition Certificates. Ms. Bramlage explained that Tuition Certificates are backed by general obligation bonds of the Commonwealth and are guaranteed to cover a fixed percentage of tuition and mandatory fees in the year they mature regardless of how much tuition has increased since the time of purchase.

Ms. Bramlage noted that the Commonwealth then issues general obligation bonds of various maturities that bear accreting interest at CPI plus 2% to meet participating colleges' and universities' tuition and mandatory fees lock-in. There is also a current interest rate of 0.5% of the original unaccreted principal amount that is assigned to MEFA. These bonds are held by MEFA to serve as a perfect hedge to the offsetting value of the Tuition Certificates. As the securities are placed directly with MEFA, there is no secondary trading market for the bonds. Should the program participant decide to not attend one of the nearly 80 Massachusetts public and private colleges and universities, the participant will receive their initial principal investment plus the accreted value.

Ms. Bramlage explained that the Massachusetts General laws prescribe that the rate on the bonds is tied to an index (CPI) and are therefore defined as variable rate pursuant to the State Finance and Governance Board regulations. The provisions of the College Opportunity Bond program, including the variable rate nature of the bonds, are established in statute. Ms.

Bramlage noted that with the SFGB's review, the Commonwealth will issue the 28th series of College Opportunity Bonds in the amount of $7.2 million, and the bonds will amortize from 2027 until 2042.

Ms. Bramlage noted that The Commonwealth is seeking SF&G Board review of the 2022 College Opportunity Bond transaction because it meets the definition of a "derivative" instrument. The Series 2022 College Opportunity Bonds are being structured according to statute. The College Opportunity Bond program has obvious public policy benefits, as evidenced by its place in the Massachusetts General Laws as well as the long-term success of the program.

On a motion made by Mr. Andersen and duly seconded, the Board voted unanimously that it received satisfactory information regarding the proposed College Opportunity Bond transaction involving a new derivative financial product by The Commonwealth of Massachusetts for the U. Plan and deems the submission (x) 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 (y) reviewed with no additional conclusions required. The Board concludes 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 from the Massachusetts Department of Transportation presented their Derivative review request to the Board. Mr. Pottier explained that MassDOT is undertaking the proposed refunding bond issue to refund the 2019A Bonds which have a mandatory tender date of January 1, 2023, when the bonds must be refunded or remarketed. MassDOT is considering two refunding structures, one which may not involve any interest rate swaps and one which may require the partial termination of the two interest rate swaps. Should MassDOT pursue the second alternative involving the partial termination of the two interest rate swaps, the Department shall issue term rate refunding bonds with a fixed interest rate for a three-to five-year period and partially terminate two existing interest swaps. The term rate bonds would include a soft-put mandatory tender date at the end of the three-to five-year period, similar to the structure of the 2019A Bonds. In addition to refunding the 2019A Bonds which must be refunded by January 1, 2023, the primary benefit of the refunding includes mitigating risks associated with the variable rate debt portfolio and swap portfolios at a net neutral cost or small present value benefit. This transaction will only be pursued under favorable market conditions which the Department is monitoring as it works on refunding the 2019A Bonds. If market conditions are unfavorable, MassDOT shall issue variable rate demand bonds ("VRDO") to refund the 2019A Bonds, and the two interest rate swaps will restart on January 1, 2023, in which case the Department will be in a synthetic fixed-rate mode.

Mr. Pottier noted that the soft-put term rate refunding bond and partial swaps termination alternative shall only be pursued by the Department if the refunding and benefits of the transaction meet the Risk Management (Section 8) and Refunding (Section 14) guidelines of MassDOT's Debt Policy. The refunding and associated swap terminations eliminate several risks in the MHS debt portfolio, including reducing the negative mark-to-market on the swaps by approximately $27-$48 million, depending on whether the term is for three years, four years, or five years, at no additional cost to MassDOT. Under favorable market conditions, this transaction would eliminate several risks associated with variable rate bonds and eliminate swap associated risks.

On a motion made by Mr. Andersen and duly seconded, the Board voted unanimously that it received satisfactory information regarding the proposed Massachusetts Department of Transportation ("MassDOT") transactions involving the issuance of variable rate bonds either enhanced by standby bond purchase agreements or standalone variable rate bonds with the partial termination of outstanding derivative financial products by MassDOT 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 concludes 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.

5. Closed Transactions/Bond Sale Reviews:

I. Ms. Bramlage presented a bond sale review of the CTF 2022 Series A & B Bonds to the Board. Ms. Bramlage explained that in June 2022, the Commonwealth sold $350.0 million in Commonwealth Transportation Fund bonds in two series. The bonds were sold on a negotiated basis with $200.0 million in a "new money" sustainability bond series and $150.0 million in a "new money" series. Both series were issued to fund capital projects for the Rail Enhancement Program. Wells Fargo served as the book-running manager for the bond issue. The full syndicate was made up of 8 firms. The syndicate selection was based on a formal RFP process. The bonds are rated AAA by Kroll, Aa1 by Moody's and AA+ by S&P. The bonds were structured as term bonds with the Series A maturing in 2050 with an optional redemption in 2031 and the Series B maturing in 2052 with an optional redemption in 2032.

Ms. Bramlage explained that the Bonds were scheduled to be priced on Wednesday June 22nd. In the week leading up to the pricing, the market experienced ongoing volatility, with MMD rates increasing by 25 basis points on the news that the Fed had raised the fed funds rate by 75 basis points. Despite the market volatility the Treasury market rallied on pricing day and yields on treasuries declined by 10-15 basis points in early trading. At the conclusion of the order period, investor orders totaled $845 million or 2.8 times oversubscribed. As a result, yields were lowered in both series by 3 basis points and the deal was upsized by $50.0 million. Ultimately, there were $893.6 million in orders from 37 investors, including $2.7 million in retail orders. The sustainability bond series received $594.1 million in orders.

Mr. Bramlage then provided bond sale review on the Special Obligation Revenue Bonds – UITF. She explained that In August 2022, the Commonwealth sold $2.68 billion in Special Obligation Revenue taxable bonds for the Unemployment Insurance Trust Fund (UITF) in two series. The bonds were sold on a negotiated basis with $1.996 billion in a non-callable bond series (Series A) and $684.5 million in a series of super sinker bonds (Series B). The bonds were issued to repay a federal loan that was made to the Commonwealth to finance unemployment insurance benefits during the pandemic, as well as to fund an incremental deposit to the UITF to create a reserve for future benefit payments and to help manage overall employer rates. Jefferies served as the book-running manager for the bond issue and Bank of America was the co book-running manager. The full syndicate was made up of 12 firms. The syndicate selection was based on a formal RFP process. The bonds are rated AAA by Fitch, AAA by Kroll and Aa1 by Moody's. The Series A were structured with bonds amortizing semi-annually from 2023 through 2031 and the Series B mature on 7/15/2031 and have an estimated average life of 3.593 years (based on initial projections).

Mr. Bramlage noted that Bonds were priced on Tuesday August 16th. The market continued to experience unprecedented volatility during the week of pricing triggered by inflationary and recessionary concerns and corresponding Fed policy. With the market volatility as well as an inverted US Treasury yield curve, bonds were priced to have a positive slope and encourage participation in the short end of the curve. At the conclusion of the order period, investor orders totaled $5.1 billion or 1.9 times oversubscribed. Participation in the deal came from over 130 investors, including orders from US government entities and some international investors from Norway and the UK. The deal was the largest ESG municipal financing to date and was the first unemployment insurance financing to address the costs arising from the COVID-19 pandemic.

II. Ms. Tenaglia and Mr. Ciriello from the Massachusetts Port Authority presented a bond sale review on the 2022 Green Bond Issue. Ms. Tenaglia explained that the sale date of the $120.9 million of Series 2022-A (ATM) Green Bonds was July 12, 2022. She noted that all in TIC was 3.91% and they funded $116.4 million of the Terminal E Project as well as capitalized interest, a deposit to the 1978 Reserve Account, and costs of issuance. Ms. Tenaglia noted that they were designated as Green Bonds supported by a 2nd Party Opinion from Kestrel Verifiers and achieved a ratings update from S&P to "AA" to restore all three of the Authority's ratings at the "double-A-flat" level (AA/AA/Aa2). Ms. Tenaglia noted that bonds were issued in a programmatic approach with a portion of the Series 2021-E Bonds to create a target debt service profile for all bonds issued for Terminal E.

Mr. Ciriello explained the results of the Green Bond Issue. He noted that the sale of the Series 2022-A Bonds were very successful despite a more challenging market backdrop in 2022 relative to the past several years. Massport benefitted from a relatively good day in the market, an attractive structure, the Green Bond designation, and its status as the highest rated Airport in the country. 32 Investors participated in the sale including Massachusetts Retail investors. ESG Investors were allotted $50 million in bonds (Eaton Vance, *Alliance Bernstein, *Allspring, and *Nuveen). He noted that the Authority was able to tighten spreads along the curve between 5-7 basis points in most maturities reducing interest costs. The value of the S&P rating agency upgrade by 1 notch to AA provided an approximate savings of $500,000 in debt service. Only a few other airports have issued "Green" bonds and only two used a second party opinion.

6. Discussion on Board Activities

I. *No discussion matters scheduled.*

7. Adjournment

I. On a motion made by Mr. Andersen, and duly seconded, members voted to adjourn. The meeting officially adjourned at 11:30 AM.

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Kelly Govoni, Secretary