
Debt Management Department Overview

Nicholas F. Marinaro

Office of State Treasurer Steven Grossman

June 11, 2012



Table of Contents

- I. Commonwealth Debt Issuance
 - Short-Term
 - Long-Term
- II. Repayment of Issued Debt
- III. State Qualified Bond Program
- IV. Questions?



Commonwealth Debt Issuance



Commonwealth Debt Issuance

- As the Public Finance Department for the Commonwealth, the Debt Management Department is statutorily responsible for all of the long-term and short-term borrowings.

Long-Term Borrowings

- Used to finance the Commonwealth's capital budget that is developed by ANF over a 5-year time horizon
- Duration of these obligations range from 1 to 30 years and used for such infrastructure as bridges, buildings, prisons, and roads
- The debt financings allows the Commonwealth to make capital investments in long-term public infrastructure and match the depreciation of the asset being financed
- The amount of borrowing, determined by ANF, typically approaches \$2 billion per year and on average can be spread over 5-8 borrowings per year (excluding refundings)

Short-Term Borrowings

- Typically dated in August or September and repaid monthly from April to June
- Per Statute, these borrowings mature within the fiscal year in which they were borrowed
- This liquidity is used to augment the Commonwealth's cash position within one fiscal year
- Note structures that are used may include fixed-rate RANs and Commercial Paper



Repayment of Issued Debt



Repayment of Issued Debt

- Once the Commonwealth enters the capital markets, it is the Debt Management Department's responsibility to account for all borrowings and repayments
- The Commonwealth currently has outstanding debt of more than \$19 billion in principal and close to \$25 billion including interest
- Debt is tracked and monitored through various debt management databases and is appropriated through various line-items in the state's annual budget
- The Debt Management Department is responsible for debt service for 6 different programs:
 - General Obligation Bonds
 - Commonwealth Transportation Fund Revenue Bonds (Accelerated Bridge Program)
 - Special Obligation Revenue Bonds (Gas Tax)
 - Special Obligation Dedicated Tax Revenue Bonds (Convention Center)
 - Federal Highway Grant Anticipation Notes (GANs)
 - State-Qualified Bond Program



Repayment of Issued Debt

- Within each category of outstanding debt there are various outstanding obligations and related contractual agreements such as:
 - Fixed-Rate Debt, Variable-Rate Debt, Auction-Rate Debt, Lines of Credit, Refunding Escrow Agreements, Commercial Paper, Interest Rate Hedge Agreements, and Forward Delivery Agreements
- In most cases, the Debt Management Department acts as its own paying agent
- With respect to repayment of debt other responsibilities include:
 - Maintaining a process and system to ensure the proper allocation of bond proceeds to capital spending
 - Ensuring the bonds that are issued continue to meet IRS tax-exemption compliance through their maturity
 - Calculating federal arbitrage rebate liabilities
 - Ensuring compliance with the SEC's secondary market disclosure requirements
 - Maintaining the Commonwealth's primary communication with Wall Street, including the credit rating agencies and
 - Maintaining investor relations for those institutions or individuals who have chosen to invest in Massachusetts by buying the Commonwealth's bonds.



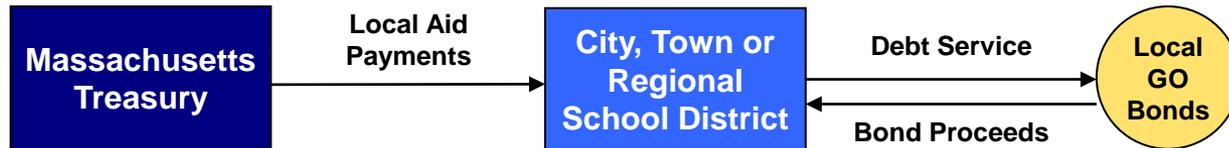
State Qualified Bond Program



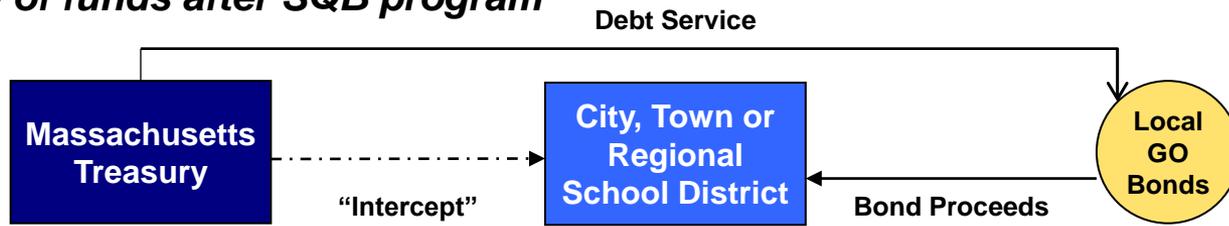
State Qualified Bond Program

- Pursuant to Chapter 44A of the Massachusetts General Laws, cities, towns, and regional school districts may issue general obligation bonds payable from distributable aid appropriated by the Commonwealth once authorized by the MFOB (Municipal Finance Oversight Board).
 - ✓ The city, town or regional school district treasurer certifies to the State Treasurer: delivery date, maturity schedule, interest rates, and dates of payment of debt service on SQBs
 - ✓ The State Treasurer pays debt service on the SQBs and after the payment is made, withholds from the distributable local aid payable the amount sufficient to pay debt service
 - *If at any time, the funds are insufficient to pay debt service, the State Treasurer may withhold other amounts payable to the city, town or regional school district*

Typical flow of funds prior to SQB program



Typical flow of funds after SQB program



State Qualified Bond Program

- The Program is designed to provide state assistance to distressed Massachusetts cities, towns, and regional school districts to efficiently access the capital markets for their borrowings – The program provides a one-notch lower rating to that of the Commonwealth – (Aa1/AA)
- Nothing in Chapter 44A shall be construed to pledge the credit and assets of the Commonwealth to the support of any qualified bonds or to guarantee payment or stand as surety for the payment of any qualified bonds
- Also, pursuant to Chapter 44A the Treasurer's Office is obligated to assess cities, towns and regional school districts for administrative costs associated with qualified bond issues
- The Treasurer's office is finalizing its study of those costs and expects to begin recovering those costs starting in FY13
- Contacts at the Debt Management Department for further information about the SQB program:

Susan McDonald

Director of Operations
smcdonald@tre.state.ma.us
(617) 367-9333 x507
One Ashburton Place, 12th Floor
Boston, MA 02108

John Durgin

Assistant Director of Operations
jdurgin@tre.state.ma.us
(617) 367-9333 x502
One Ashburton Place, 12th Floor
Boston, MA 02108



Questions?

