

**Massachusetts Bay
Transportation Authority**

Investment Policy Update & Vote on Bank Contract

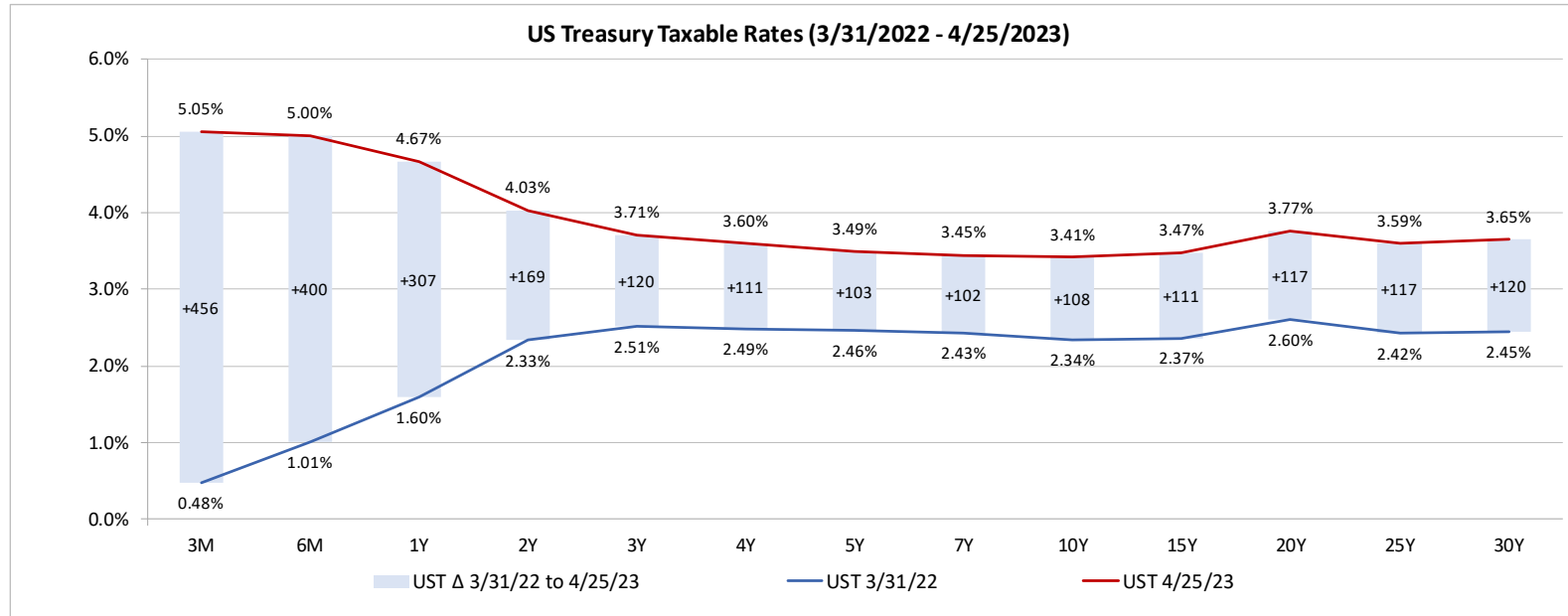
MBTA Board of Directors

May 25, 2023

Market Update

Yield curve inversion presents near-term investment opportunities

The following chart shows changes in the yield from March 31, 2022



An inversion in the yield curve creates an opportunity for legal arbitrage. The MBTA has pursued these opportunities over a number of fronts, resulting in an expected positive savings of over \$45 million.

Description	Date	NPV in \$M	
		Savings	Comments
Cash defeasance	22-Sep	21.00	
Cash defeasance on Taxable Bond	7-Mar	3.50	
2023 Bond Issuance (March 23)	23-Mar	4.10	
Total		28.60	
<i>RRIF Drawdown for BAN refunding</i>		<i>17.00</i>	<i>Expected June 1, 2023</i>
Expected Grand Total		45.60	



Investment Policy Update

The MBTA investment policy was last updated in 2021. By its terms, the policy requires biennial review, and reauthorized, as amended, by the Board.

The investment policy provides guidelines for investment of operating funds, bond proceeds and debt service funds.

Suggested changes are mainly administrative.

Highlights include:

- Updated language to reflect sunseting of the Fiscal Management and Control Board.
- Made more explicit the ability to attain federal insurance through an ICS (Insured Cash Sweep) or CDARS (Certificate of Deposit Registry Service)
- Codified practice of seeking bids from at least three qualified institutions for investment agreements.
- Modernized investment table to incorporate new developments in the market.
- Eliminated certain redundant provisions in the policy to avoid confusion.

Primary
Objectives of
the Investment
Policy
Safety,
Liquidity,
Return and
Sustainability

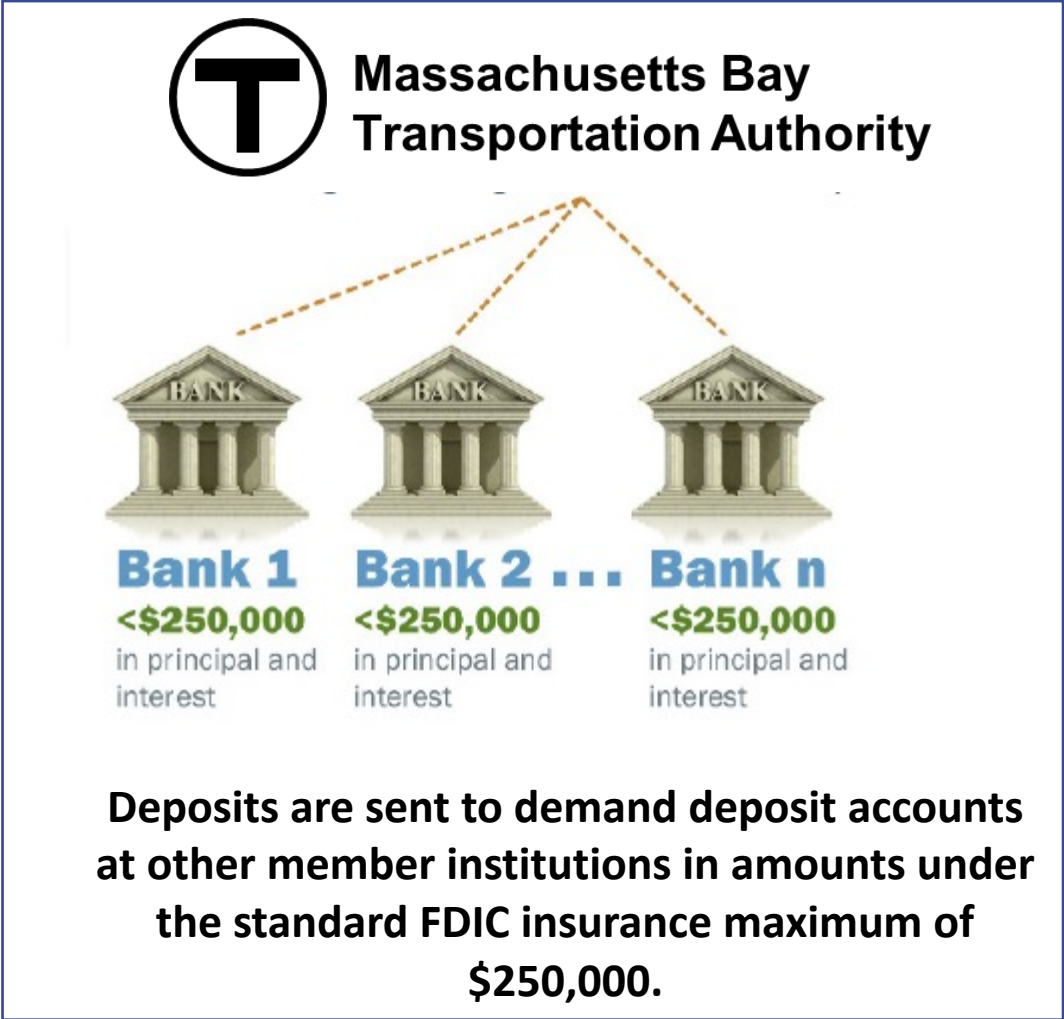


Insured Cash Sweep

Per the MBTA Investment Policy, funds held in Authority bank accounts must be federally insured or collateralized.

To spread investment risk over multiple institutions and earn higher yields, the MBTA is pursuing an opportunity with its primary banking partner, Citizens, to attain federal insurance through an ICS (Insured Cash Sweep), whereby balances are distributed at other banks in increments of less than \$250,000 in order to maintain complete FDIC protection.

Current Citizens Holdings: \$92 million



Investment Performance and Funds Under Management

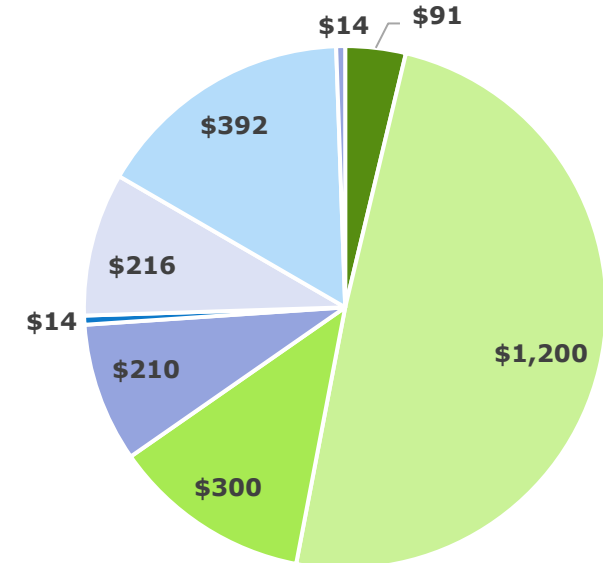
Per Clause 11 of the Investment Policy, the investment officer shall report on the status of the investment portfolio to the Board of Directors at least annually.

INTEREST EARNINGS FY12 – FY23

	Operating	Capital	Total
2012	\$ 1,496,873	\$ 207,214	\$ 1,704,087
2013	\$ 1,202,022	\$ 599,123	\$ 1,801,146
2014	\$ 779,604	\$ 379,591	\$ 1,159,195
2015	\$ 1,065,426	\$ 563,374	\$ 1,628,800
2016	\$ 1,973,154	\$ 589,756	\$ 2,562,910
2017	\$ 8,043,237	\$ 509,197	\$ 8,552,434
2018	\$ 18,588,570	\$ 4,892,024	\$ 23,480,594
2019	\$ 25,644,818	\$ 5,241,138	\$ 30,885,956
2020	\$ 24,219,801	\$ 1,817,544	\$ 26,037,346
2021	\$ 16,846,839	\$ 379,287	\$ 17,226,126
2022	\$ 18,940,907	\$ 2,063,898	\$ 21,004,805
2023 YTD	\$ 15,986,781	\$ 15,256,263	\$ 31,243,044

The MBTA has an established investment committee comprised of the CFO, comptroller, and budget director, which is supported by the MBTA's investment advisors. This committee votes to approve active investment strategies.

MBTA Holdings as of April 26 (in millions)



- Collateralized Bank Account
- MMDT Money Market
- Custody Account: US Treasuries
- Federal Agency
- Forward Delivery Agreement
- Sweep
- US Treasuries
- Other

Debt Service Funds held by Trustee is in shades of blue
 Authority funds is in shades of green
 Total assets under management = \$2.4B

Vote

The Board of Directors of the Massachusetts Bay Transportation Authority hereby approves the Investment Policy in the form presented to the Board on May 25, 2023.



Authorization to Enter into Citizens Bank Cash Management Agreements



Procurement of commercial and custody bank

- Citizens Bank serves as the MBTA's primary bank and offers the following services: checking printing; accounts payable; accounts receivable; lockbox services, among others.
- The existing contact with Citizens Bank expired at the end of April.
- The MBTA conducted a procurement July-October to ensure sufficient time to onboard a new banking partner if needed. The Authority received five (5) responses from Bank of America, Citizens, PNC, JP Morgan, and TD Bank.
- Citizens Bank had the most competitive offer from a technological and pricing standpoint. In addition to waiving all fees in favor of a compensatory balance, Citizens offers an interest rate of 10 basis points below the Federal Funds rate. The MBTA plans to utilize FDIC insurance through IntraFi on all balances held at Citizens. By using IntraFi Network Deposits, the MBTA accesses multi-million-dollar FDIC protection through a single bank relationship. The MBTA Clarfeld Citizens Custody Account is currently being charged .5 basis points on all current and incoming assets. Example: $\$1\text{MM} \times .00005 = \500 (Annual Balance: $\$300\text{M} = \$150,000$)
- The no-fee contract with Citizens Bank is for an initial period of four (4) years, with two three-year extension options. Additionally, a Citizens Bank subsidiary (Clarfeld) will manage certain Authority investment accounts.
- Per the Investment Policy, independent third-party safekeeping institutions are selected by the Authority's procurement team and approved by the Board. The Board is being asked to authorize this contract with a vote detailed on the following page.



Authorization to Enter into Citizens Bank Cash Management Agreements

Authorization to Enter into Citizens Bank Cash Management Agreements

That the Board of Directors of the Massachusetts Bay Transportation Authority (the “Authority”) hereby authorizes the General Manager, or his designee, to execute, on behalf of the Authority, the following agreements and related cash management documents, the terms of which were negotiated following a procurement process and including terms consistent with the Authority’s Investment Policy.

- a. Cash management agreement between the authority and Citizens Bank;
- b. Insured Deposit Agreement by and between the Authority and Citizens Bank, National Association; and
- c. IntraFi Network Deposits DDA-MMDA Deposit Placement Agreement by and between the Authority and Citizens Bank, N.A., May 25, 2023.



Appendix



Proactive Portfolio Management – MBTA Treasury

An inversion in the yield curve creates an opportunity for legal arbitrage. The MBTA has pursued these opportunities over a number of fronts:

- In September 2022, the MBTA defeased \$228M for net budgetary savings in FY23 and FY24 of **\$56 million (NPV: \$21 million)**.
- On March 7, the MBTA executed a defeasance of our 2021B Taxable Bonds to achieve **\$3.5 million in net present value savings**
- The 2023 Bond Issuance (March) was structured to take advantage of permitted arbitrage earnings in the debt service fund and in the project fund. The present value earnings is projected to be \$300,000 for the debt service fund and \$3.8 million for the project fund for a combined **legally-permitted arbitrage earnings of \$4.1 million**.
- We are currently pursuing an early draw on the RRIF loan to defease Bond Anticipation Note (BANs) for **potentially millions of dollars** in expected present value savings

Opened custody account

- The MBTA **formed an Investment Committee** comprised of the CFO, comptroller, and budget director, which is supported by the MBTA's investment advisors.
- Guided by the Investment Committee, the MBTA has **utilized US Treasuries to maximize Deficiency Fund earnings** in the newly established custody account.
- The MBTA is **also investing the float in the debt service fund** set asides, the duration of which is prescribed in the trust agreement. This allows us to maximize yield over that holding period.

