



Massachusetts School Building Authority

Timothy P. Cahill
Chairman, State Treasurer

Katherine P. Craven
Executive Director

TO: Board of Directors, Massachusetts School Building Authority
FROM: Katherine Craven, Executive Director
DATE: September 30, 2009
RE: Selection of Underwriters for Upcoming Debt Issues

Since the MSBA's last bond issue in 2007, there have been many significant changes in municipal debt financing. These changes include the departure of several investment banking firms from public finance, the merger of other firms, the entry of new firms in public finance, the demise of several bond insurers, very large increases in fees for bank letters of credit and lines of credit and federal legislation authorizing new municipal debt instruments.¹ Of particular note is that ten firms or 38% of the firms selected by the MSBA as part of its last underwriter procurement are no longer involved with public finance.

Given the significant changes in municipal debt financing, the MSBA issued a Request for Qualifications (RFQ) for Investment Banking Services. Firms were asked to answer fifteen questions and provide appropriate certifications. The evaluation criteria included (1) an understanding of MSBA's program, financing needs and objectives, (2) respondent's capacity to underwrite debt and overall approach to underwriting, (3) the qualifications and experience of the respondent and the respondent's key personnel and (4) status as a minority or woman-owned business. Twenty nine firms responded to the RFQ.

I appointed a selection committee composed of staff from the MSBA and the State Treasurer's Office to review the submissions. After an initial review of the submissions, ten firms were "short listed" and invited for interviews to become a senior underwriter for upcoming MSBA debt issues.

¹ As has been discussed at recent Board meetings, federal legislation has created two new debt instruments. The first is called Build America Bonds (BABs). BABs are sold with the interest received being subject to state and federal income tax. However, the issuer is eligible to receive a federal government subsidy equal to 35% of the interest on the bonds. There is no limit to the amount of BABs that can be issued. The second new debt instrument is called Qualified School Construction Bonds (QSCBs). QSCBs are sold with the investor receiving a federal tax credit in lieu of interest. This in effect provides an issuer with a 0% loan. The amount of the tax credit and the number of years for the tax credit is set each day by the US Treasury. The current credit is 6.11% for 15 years. There is a limit to the amount of QSCBs that can be issued nationally and by each state. The MSBA has been designated as the primary issuer of QSCBs in Massachusetts. Over the next two years there is the potential to issue \$289 million of 0% debt.



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The selection committee sought to have a balance of underwriting strengths in its firm selections. The selection committee selected a pool of eight firms to be designated as senior underwriters² for upcoming debt issues. On an issue by issue basis a firm or firms will be selected to senior manage a debt issue. The selection committee also has designated 13 firms as co-managers³ and eight firms as members of a selling group⁴.

The eight senior underwriter firms are believed to be able to access a wide variety of investors. Several of the firms have successfully managed Build America Bonds debt issues. A couple of the firms have brought Qualified School Construction Bonds to market. These firms also have a capacity to reach traditional tax-exempt investors, both retail and institutional. Several of the firms have strengths in issuing commercial paper and other variable interest rate instruments. The Committee also believes that these firms have excellent financial modeling and the understanding of long term issues facing the authority to facilitate long term planning. The Committee is also recommending MBE and WBE firms at all levels of the underwriting team. The attached sheet lists the firms by designation, MBE/WBE classification, role requested in their application, presence of a Boston banking office and primary contact person.

² Senior managers will have the largest role in a debt issue. They will assist in structuring the deal, preparing investor and rating agency presentations, coordinating activities with the co-managers and selling group. They will take on a higher degree of financial risk and stand to make a greater profit than co-managers or selling group members.

³ The Co-managers' primary role is to sell bonds. They will incur a smaller amount of financial risk and stand to earn a smaller profit than a senior manager.

⁴ The Selling group's sole role is to sell bonds. They do not incur any financial risk and will not be listed on the cover of an official statement.

MSBA Underwriters						
#	Entity	MBE/WBE	Firm's Application	MSBA Selection	Boston Banker?	Primary Contact Person
1	Bank of America Merrill Lynch		Senior	Senior	Yes	Paul Ladd
2	Barclays Capital, Inc.		Senior	Senior	Yes	Paul Haley
3	Citigroup Global Markets, Inc.		Senior	Senior	Yes	Thomas H. Green
4	Goldman Sachs & Co.		Senior	Senior	Yes	Dana Bunting
5	Jefferies & Co.		Senior	Senior	Yes	Arthur Spector
6	JP Morgan		Senior	Senior	Yes	Jamie Oppedisano
7	Morgan Stanley		Senior	Senior	No	William Daley
8	Ramirez & Co., Inc.	MBE/WBE	Senior	Senior	Yes	Mario Marsano
1	Corby Capital Markets, Inc.		Co-manager	Co-manager	No	Robert Harding
2	Edward Jones		Co-manager	Co-manager	No	Richard Ryfell
3	Fidelity Capital Markets		Co-manager	Co-manager	Yes	Lourdes German
4	Janney Montgomery Scott, LLC		Senior	Co-manager	Yes	Kimberly Welsh
5	Loop Capital	MBE/WBE	Senior	Co-manager	No	Derek McNeil
6	M.R. Beal & Company	MBE/WBE	Both	Co-manager	No	Arthur Chan
7	Morgan Keegan		Senior	Co-manager	No	Robert Coven
8	Piper Jaffray		Senior	Co-manager	Yes	Ike Papadopoulos
9	Raymond James		Senior	Co-manager	Yes	Megan Sansons
10	RBC Capital Markets		Senior	Co-manager	No	Daniel Heimowitz
11	Seibert, Brandford Shank's & Co.	MBE/WBE	Senior	Co-manager	No	John Carter
12	Stern Brothers & Co.	MBE/WBE	Co-manager	Co-manager	Yes	Kimberly W. Mooers
13	Wells Fargo Securities		Senior	Co-manager	No	Craig Hrinkevich
1	Cabrera Capital Markets, LLC	MBE/WBE	Senior	Selling group	No	Steven Eaddy
2	Lebenthal & Co.	MBE/WBE	Co-manager	Selling group	No	Gregory Anderson
3	Northeast Securities		Selling group	Selling group	No	Frank McKenna
4	Rice Financial	MBE/WBE	Senior	Selling group	No	Faye Boatright
5	Roosevelt & Cross, Inc.		Both	Selling group	No	Frank DeVecchio
6	Ross, Sinclair & Associates, LLC		Co-manager	Selling group	No	Omar Ganoom
7	Sterne, Agee & Leach, Inc.		Senior	Selling group	No	Michael Biggica
8	Stifel, Nicholas & Co.		Both	Selling group	No	Frank Oh