MEMORANDUM

TO: Board of Directors, Massachusetts School Building Authority

FROM: John K. McCarthy

DATE: September 26, 2012

RE: Refunding Authorization

In June 2012, the MSBA sold $766.1 million of refunding bonds in order to reduce future debt service on the MSBA's 2005 Series A bonds. The decline in interest rates and time elapsed since the date of the original issuance of the debt, enabled the MSBA to issue refunding bonds which will result in a gross savings of $77.1 million from future debt service. In present value terms, these savings represent $56.6 million, or 7.003%, of the bonds being refunded.

Staff has continued to monitor debt markets since the issuance of the refunding bonds in June 2012, and believes that the current interest rate environment presents an additional opportunity to issue refunding bonds and achieve substantial savings from current debt service on portions of the remaining 2005 Series A bonds.

As of September 1, 2012, approximately $1.3 billion of the 2005 Series A bonds remain outstanding following the issuance of the 2012 Series A refunding bonds. Of the $1.3 billion in 2005 Series A bonds outstanding, approximately $1.09 billion were issued with an optional redemption at par, meaning that these bonds are eligible to be advanced refunded today. Based on market conditions at this time, staff recommends issuing an aggregate principal amount of up to $1.0 billion of refunding bonds, in one or more series of refunding debt issuances, to achieve further savings on future debt service on the 2005 Series A bonds.

While staff anticipates this additional refunding will generate significant debt service savings, it is not anticipated that the refunding of additional 2005 Series A bonds will equal, or better, the savings associated with the issuance of the 2012 Series A refunding bonds. The 2005 Series A bonds that were identified as candidates that could achieve the greatest debt service savings were refunded through the issuance of the 2012 Series A bonds in June 2012. The bonds refunded through the issuance of the 2012 Series A bonds were primarily bonds maturing in nine to 15 years. It is anticipated that the candidates that will be associated with the greatest amount of savings and efficiency for the next refunding of 2005 Series A bonds will be bonds maturing primarily in five to eight years and 15 to 18 years. Staff recommends a minimum savings requirement be achieved for the refunding of these bonds, and that the minimum be set to require the net present value of the aggregate debt service savings associated with each potential refunding be at least 5% of the principal amount of the refunded bonds. A minimum net present value aggregate savings requirement of 6% of the par amount of the refunded bonds was established for the 2012 Series A issuance.

At the June 6, 2012 Board meeting, staff recommended that three investment banking firms (Citi, Jefferies & Company, and J.P. Morgan) serve as senior managers for a series of potential issuances that were anticipated to refund portions of the 2005 Series A bonds. These firms performed well on the first transaction and have provided ongoing market updates and refunding analysis since the issuance of the 2012 Series A bonds in June. Staff recommends that these firms continue to serve as senior managers on this next transaction to refund additional portions of the 2005 Series A bonds. Additionally, there will be 17 firms that serve as co-managers on these potential refunding issues. All firms serving as underwriters were selected pursuant to an RFQ issued in 2009 and updated in September 2011.