MEMORANDUM

To:	Board of Directors, Massachusetts School Building Authority
From:	John K. McCarthy, Executive Director
Date:	March 27, 2013
Subject:	MSBA 2013 Series A Bond Issuance and Proposed Defeasance

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To date, the Massachusetts School Building Authority ("MSBA") has issued approximately $5.9 billion of "new money" bonds to support the Authority's grant programs. Additionally, the MSBA has issued approximately $1.7 billion of refunding bonds in order to reduce interest costs associated with previously issued bonds. As of March 1, 2013, the MSBA had approximately $5.2 billion of bonds outstanding.

The MSBA most recently issued bonds to support the MSBA's capital pipeline through the issuance of $1 billion 2011 Series B bonds in November 2011. As of March 22, 2013, the bond proceeds remaining from the 2011 Series B issuance were approximately $100 million. To date in fiscal year 2013, the MSBA's New Program grant payments to school districts have averaged $11.4 million per week. The year-to-date and more recent weekly payment averages suggest that the MSBA will spend down the remaining 2011 B bond proceeds over the course of the next two months. Accordingly, staff recommends that the MSBA prepare for the next issuance of bonds to support the projects in the capital pipeline.

Staff is recommending that the MSBA issue its tenth series of bonds backed by the MSBA's dedicated sales tax revenue. The interest rate environment for municipal securities remains attractively low, and accordingly staff is recommending a fixed rate issuance through a negotiated sale. Factors considered in the determination to issue through a negotiated sale include the anticipated size of the transaction, the marketing strategy for the transaction, and the complexity of the amortization structure, including the incorporation of a defeasance of outstanding MSBA bonds to coincide with the issuance of new debt.

The attached vote authorizes the issuance of up to $750 million of additional bonds. The MSBA anticipates releasing a Preliminary Official Statement in advance of the bond sale with a printed par amount of $500 million for the issue. The MSBA would like to have the flexibility to increase the size of the issue during the pricing, dependent upon market conditions, and accordingly is requesting a maximum authorization to issue bonds with a par amount up to $750 million during this sale. Additionally, the attached vote authorizes the defeasance of a par amount up to $40 million of outstanding MSBA bonds.

Rating agencies and investors look at the coverage ratio of revenues divided by maximum annual debt service as an important indicator of an issuer's ability to pay back the bonds. To enhance coverage, staff is recommending a defeasance of certain outstanding MSBA bonds that, upon execution, will legally retire the MSBA's obligations with respect to these bonds. To execute the defeasance the MSBA will use non-borrowed funds to establish an irrevocable escrow account into which it will deposit enough proceeds from the purchase of U.S. Treasury securities to satisfy the remaining debt service on these bonds. The MSBA is targeting principal maturities of August 2013, 2014, 2016 and 2021. The maturities and amounts that have been selected for the defeasance will maximize debt service coverage for MSBA bonds by reducing the amount of MSBA debt outstanding following the close of the transaction. It is important to note that of the $40 million the MSBA is allocating for this defeasance, the MSBA's trustee would be required to set aside $26.6 million towards debt service on these bonds between April 2013 and August 2014 even absent this proposed defeasance, pursuant to the debt service funding requirements in the MSBA's trust agreement. Staff would execute the defeasance as soon as practicable following an affirmative vote of the Board in order to include the benefit of the defeasance in the materials provided to the rating agencies in preparation for the issuance of the 2013 Series A bonds.

The final size of the 2013 Series A bond issue will be determined by market demand on the day of pricing. The MSBA has been working closely with the senior managing underwriters on analysis of various amortizations for this issuance. One structure currently under consideration is to issue approximately $75 million bonds maturing from 1-11 years and then amortize the remaining bonds with longer maturities ranging from 18-30 years. Retail investors will be given the opportunity to participate in a retail order period for certain maturities. As has been the case for recent MSBA bond issuances, the environment for long-term interest rates makes the issuance of bonds with long final maturities advantageous from the borrower's perspective.

The senior underwriters for this issuance will be Bank of America Merrill Lynch, and Ramirez and Co. These firms have been qualified by the MSBA to serve as senior managers for negotiated bond issuances pursuant to a Request for Qualifications ("RFQ") process completed in January 2013. The selection of these two firms to serve as the senior managers for this particular transaction was determined following a procurement process during which a Request for Information submitted by all members of the qualified pool of senior managers in February 2013. In addition to the two senior underwriters, the 2013 Series A issuance will be supported by 20 additional firms serving as co-managers. These firms have also been qualified to serve as co-managers pursuant to the RFQ completed by the MSBA in January 2013.

At this time, we have requested that the senior underwriters review the MSBA's Preliminary Official Statement and recommend any changes that may improve the marketing of the bonds. The underwriters continue to work with the MSBA on financial modeling, preparation of rating agency and investor marketing materials, and preparing the investor relations strategy for the transaction.

Bond Counsel for the issue will be Mintz, Levin, Cohn, Ferris, Glovsky, and Popeo, P.C. Disclosure counsel for the issue will be Greenberg Traurig, LLP. Each of these firms has been qualified pursuant to a procurement process conducted for bond and disclosure counsel services in February 2013.

The current closing schedule for this issuance is targeted for the first two weeks of May 2013.