

MEMORANDUM

To: Board of Directors,
Massachusetts School Building Authority
From: John K. McCarthy, Executive Director
Date: November 12, 2014
Subject: Request for Information (“RFI”) to MSBA Pre-Qualified Commercial Paper (“CP”) Dealers

To date, the Massachusetts School Building Authority (“MSBA”) has issued approximately \$6.4 billion of “new money” bonds, and \$300 million bond anticipation notes, to support the MSBA’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 November 1, 2014, the MSBA had approximately \$5.8 billion of bonds and notes outstanding.

The MSBA most recently raised funds to support the MSBA’s capital pipeline through the issuance of \$300 million 2014 Series A notes in July 2014. As of November 1, 2014, the bond proceeds remaining from the 2014 Series A issuance were approximately \$140 million. To date in fiscal year 2014, the MSBA’s New Program grant payments to school districts have averaged approximately \$11.2 million per week. The year-to-date and more recent weekly payment averages suggest that the MSBA will spend-down the remaining 2014 Series A proceeds during the next 10-12 weeks. The timing of the spend-down of the remaining note proceeds is consistent with the anticipated spend down at the time of the 2014A note sale. Accordingly, staff recommends that the MSBA prepare for the next issuance of bonds to support grant payments for projects in the capital pipeline.

As part of its financial planning, MSBA staff has been discussing, for a number of months, the re-establishment of a CP program. The benefits of a CP program for the MSBA would include flexibility in raising funds for the MSBA’s Capital Pipeline (additional security and liquidity for the take out of the 2014 Series A Notes), efficient cost of funding (access to short-term rates and reduced negative carry on unspent proceeds), and preservation of debt service coverage ratios prior to the take out of the 2014A notes and planned new money issuance in fiscal year 2016.

Staff discussed the proposed CP program with the Administration, Operations and Finance Subcommittee (“Subcommittee”) a November 10, 2014 meeting, and the Subcommittee expressed unanimous support for establishing the program. The attached vote, which staff recommends the Board of Directors (“Board”) approve at the November 19, 2014 meeting of the Board, would authorize the establishment of a commercial paper program with a maximum principal amount of notes outstanding not to exceed \$450 million. The vote authorizes the Executive Director to execute all of the activities that are anticipated in order to establish the program and issue the notes.

The commercial paper dealers for this program would be Bank of America Merrill Lynch, J.P. Morgan, and US Bank. These firms were qualified by the MSBA to serve as commercial paper dealers pursuant to a Request for Qualifications (“RFQ”) process completed in January 2013. The selection of these three firms to serve as dealers for this particular program was determined following a procurement process that requested the MSBA’s pre-qualified dealers respond to a Request for Information distributed to all members of the pre-qualified pool of commercial paper dealers in September 2014.

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 was qualified pursuant to a

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procurement process conducted for bond and disclosure counsels services in February 2013, and have served in these roles for the MSBA since that time.

At this time, staff has requested that the commercial paper dealers and counsel begin reviewing the disclosure and note documents, and recommend any changes that may improve the marketing of the notes. After a vote of the Board on this recommendation, staff would procure credit enhancement or liquidity for the notes and the issuing and paying agent, finalize disclosure and note documents, and prepare necessary rating agency and investor marketing materials. Staff anticipates providing an update on the status of the commercial paper program at the January 2015 meeting of the Board.