Massachusetts School Building Authority

Steven Grossman
Chairman, State Treasurer

Katherine P. Craven
Executive Director

MEMORANDUM

To: Board of Directors, Massachusetts School Building Authority
From: Katherine P. Craven, Executive Director
Date: September 21, 2011
Subject: Authorization for the 2011 Series B Bond Issue

As expected, this year the MSBA is distributing school construction grants at a faster pace than in previous years as more projects in the MSBA's Capital Pipeline progress into active construction. To date, the MSBA has distributed more than twice the dollar amount of grants in this fiscal year as compared to the same period last year. This requires the issuance of additional debt to meet the ongoing reimbursement requests by cities, towns, and regional school districts.

We are recommending that the MSBA issue its seventh series of bonds backed by the Authority's dedicated sales tax revenue. Fortunately, long-term, tax-exempt borrowing rates are very low.[1] Accordingly, we are recommending the issue be fixed rate. The attached vote authorizes the issuance of up to $1 billion of additional bonds. The actual amount of the borrowing is expected to be between $500 million and $1 billion.

The final sizing of the bond issue will be determined by market demand on the day of pricing. The debt structure currently under consideration is to issue bonds with a short (1-10 years) final maturity and bonds with a long (20-30 years) final maturity and few bonds with an intermediate final maturity. This "Barbell Structure," so-called, is similar to the structure of the MSBA's 2009 bond issuance. The shorter maturities in the 1-10 year range will be geared toward retail investors. The current environment of low long-term interest rates makes the issuance of bonds with long final maturities advantageous from the borrower's perspective.

The senior underwriters for the issue will be Barclays Capital, Bank of America Merrill Lynch, and Citi. The MSBA had included these firms in its pool of eligible senior underwriters pursuant to an RFQ issued in 2009. We recently asked members of the pool to update their qualifications and provide recommendations for the upcoming bond issue. A committee of staff reviewed the updates and recommendations prior to designating the three firms selected. Besides the three senior underwriters, the debt issue will have 20 additional firms serving as co-managers. The co-managers also were selected pursuant to the 2009 RFQ.

At this time, we have requested the senior underwriters to review the MSBA's Official Statement and to recommend any changes that may improve the marketing of the bonds. The underwriters are also preparing financial models, recommending an investor relations strategy, and identifying investors that may warrant a one-on-one meeting.

[1] A recent report stated that long–term, tax-exempt rates on September 9, 2011 were lower than 99.9% of the time since 1986.

Bond Counsel for the issue will be Mintz, Levin, Cohn, Ferris, Glovsky, and Popeo, P.C. Disclosure counsel for the issue will be determined based on a request for updated qualifications that is due back to MSBA staff on Thursday, September 22, 2011.

Our goal is to have the financing complete by November 1, 2011. The specific timing will depend on obtaining ratings, determining market conditions, and avoiding conflicts with other large issuers.

Attachment: Vote