JSCB

Joint Schools Construction Board

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Minutes

August 12, 2010
8:30 a.m.

Board members present: Mayor Stephanie Miner, Superintendent Dan Lowengard, Pat Body, Ned Deuel, Pat Hogan, Baye Muhammad, Matthew Rayo, Laurie Menkin, Chuck Merrihew and Van Robinson

Board members absent: Ned Deuel

A motion was made by Van Robinson to approve the minutes from the July 22, 2010 meeting. The motion was seconded by Pat Hogan and approved 8-0.

Joe Barry explained that Resolution No. 63-2010 Authorizing the JSCB Chair to execute a LEED certification agreement with the Green Building Certification Institute directs project architects to design to the LEED Silver standard. A motion was made by Van Robinson to adopt Resolution No. 63-2010. The motion was seconded by Pat Hogan and approved 8-0.

Sam Tuzza delivered the Program Manager's report which included an update on the design development program budget and revised MCA EPC from the engineers. The EPC MCA has increased by $1.5M and gives the project a positive variance of $700K. The ad alternates will continue to be designed as ad alternates. City, School District and Gilbane representatives met with SED two weeks ago to review discuss EPC procurement methods. The Superintendent asked if it is possible to expand the scope of work to include Clary and Shea renovations now that there is a positive variance. Sam said that it can be looked into.

Sam presented an updated program schedule. Target dates have changed in order to increase opportunities for bidders to bid on second projects and to accommodate the Christmas and New Year's Day holidays. Laurie Menkin asked if bidding in December could be problematic. Sam said that current market conditions would indicate that it will not be a problem.

Pat Hogan asked how much prep time is needed in each of the schools before construction can start. Sam said the District will have one month to move their personal affects before onsite mobilization. The Superintendent said that he would not like to move students over the April break and that he'd rather wait until the summer if the move could not take place over the December or February breaks. The Superintendent said the move will be done in-house or within the budget.

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The Mayor asked what will happen to the Dr. Weeks project if swing space is not available in January 2011. Sam said that the building would be broken into sections for reconstruction. An additional $3M would be added to each school for the rental of the trailers. The Superintendent said that trailers are not an option for swing space.

Van Robinson asked if there are any restrictive measures, and the Superintendent said that they have 180 days from July 12 that they have to turn it over. The Mayor stated that due to the August 9, 2010 deadline not being made, the City has outstanding liability because of the stipulations of discontinuance. It was clear to all parties—Corporation Counsel, School District attorneys and the developer's attorneys that the closing was supposed to take place by August 9, 2010. The clock started when SED executed the contract in May.

Jeffries consultant Susan Schmelzer delivered a presentation discussing Tranche II borrowing. A brief summary of her presentation is below:

- Overview of Tranche I: Series 2008A Bonds for $49,230,000 issued for ITC, Clary, Shea and Fowler in March 2008. True interest cost of 4.41%
- Market Conditions: Then and Now: Series 2008A Bonds issued before credit crisis unfolded. Since the March 2008 pricing, municipal interest rates have decreased and the yield curve has steepened, but municipal credit spreads have widened.
- Interest Rate Forecast: The consensus view of Wall Street Economists is an increase in the 10-year UST of over 100 bps by the end of 2011.
- Preparing for Tranche II: Issue in either November 2010, March 2011, or part in November 2010 (Tranche II) and the rest in March 2011 (Tranche III)
- Debt Alternatives: "Straight forward" tax-exempt bonds, Build America Bonds (BABs), Qualified School Construction Bonds (QSCBs)

Susan and the board discussed that the bulk of the remaining $35M from Tranche I is reserved for ITC. There was discussion as to when the Tranche II should be borrowed. The bonds will be structured with the 18-month lag taken into account. This issue was considered in detail when borrowing Tranche I, and based on that, the numbers were specific. Estimates were given and put before SED for approval. Susan commented that interest in the 18-month period was looked at and the bond issue was sized accordingly. The interest earned can trigger arbitrage penalties to the IRS and the School District will be obligated to pay it. Capitalized interest can be increased in Tranche II to pay the interest payments before building aid flows.

The option for a BAB expires December 31, 2010. The federal government provides the subsidy. This is subject to federal tax rules.

The Superintendent asked if the JSCB could have borrowed $12M in capitalized interest for Tranche I. Susan said that different structuring models would have been taken. Tranche I was borrowed for renovations at ITC. There was an 18-month capitalized interest built into the bonds.

The federal government allowed QSCBs to be issued to the 100 largest school districts in the country. New York State is expecting to reallocate within the state; SCSD should be able to allocate QSCB to JSCB. QSCBs have a near zero interest rate. Susan recommended getting projects approved and moving forward to help with the cash flow problem. The Mayor mentioned that JSCB funds and bond proceeds cannot be used to pay for swing space. It was discussed that there needs to be “money in the bank” before bidding projects, and the remaining $35M of Tranche I will not cover the costs of Dr. Weeks and H.W. Smith renovations. The amount borrowed in Tranche II is contingent upon swing space, so Susan Schmelzer will return later to continue discussing options.

A motion was made by Chuck Merrihew to adjourn the meeting. The motion was seconded by Pat Body and all were in favor.