

Attachment A

FINANCING PROCESS OF STATE SCHOOL BUILDING PROGRAM

STEP 1 - SECURE PMIA LOAN

PMIB approves loan of \$408,000,000 for the estimated 3 months cash flow needs. Currently, the rate at which the State Lease-Purchase Fund earns interest is slightly higher than the interest rate paid to the PMIA. The loan will generate earnings of approximately \$1,650 per week; this amount will decrease as expenditures are made and Commercial Paper is issued.

STEP 2 - COMMERCIAL PAPER

Every other week, Commercial Paper is issued to cover expenditures incurred within the loan account. Commercial Paper is a short term issuance, no more than 270 days. Interest on Commercial Paper is paid for by the General Fund.

STEP 3 - SALE OF BONDS

Treasurer sells bonds and redeems Commercial Paper. The bonds reimburse expenditures already incurred thereby avoiding any arbitrage charges or penalties for not using bond proceeds within two years. The accounting and tracking of bond proceed expenditures is virtually eliminated. This process also allows the scheduling of bond sales to coincide with favorable interest rates and market conditions.