Massachusetts School Building Authority

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To: Board of Directors, Massachusetts School Building Authority
From: Katherine Craven, Executive Director
Date: July 27, 2011
Subject: Results of 2011 Series A (QSCB) Bond Issue

On July 20, 2011, the MSBA sold $142,380,000 of Qualified School Construction Bonds ("QSCB"). The QSCB bonds were sold with a 4.885% coupon and a maturity of July 15, 2028. On the date of the MSBA QSCB bond sale, the U.S. Treasury had set the maximum permitted subsidy at 5.10%. Since the interest rate on these bonds is less than the Treasury limit that was set for that day, the Authority borrowed the QSCBs at an effective interest rate of 0%.

As with the MSBA's previous QSCB issue, these bonds were issued as subordinate debt of the MSBA. This means the existing senior bondholders of MSBA are paid first and then the subordinate bondholders. The bonds received excellent ratings of AA/Aa2/AA from the three rating agencies. These ratings are one notch lower than the Authority's senior debt of AA+/Aa1/AA+.

The bond trust agreement associated with this bond sale requires the MSBA to make monthly interest deposits and to make annual payments to a sinking fund in an amount that is sufficient to fund the principal of this debt at maturity. The interest is paid every six months to bondholders. The federal government will then reimburse the MSBA. The annual sinking fund deposit is equal to 1/17th of the par amount of the bond issue. The sinking fund will be used to retire the bond issue at maturity in 17 years. Earnings on the sinking fund will be applied to MSBA debt service.
J.P. Morgan, Citi, and Morgan Stanley were the senior underwriters for the bond issue. As expected, the buyers were largely institutional investors, including insurance companies and money managers.

This issue effectively completes the MSBA's issuance of QSCB bonds.