

MEMORANDUM

TO: Board of Directors, Massachusetts School Building Authority
FROM: Jim MacDonald, Chief Executive Officer and John K. McCarthy, Executive Director,
Deputy Chief Executive Officer
DATE: August 21, 2019
RE: 2019 Series A Debt Issuance Results

On July 17, 2019, the MSBA sold \$300,000,000 of 2019 Series A Bonds (“Bonds”). The purpose of the bond issue was to raise funds to provide construction grants to cities, towns and regional school districts in FY2020. The series Bonds sold at an overall interest rate of 3.8%. \$47 million of bonds have an annual principal payment on February 15th each year from 2020 through 2029, and \$253 million from 2040 to 2049. The structure included two term bonds, with par amounts of approximately \$111 million in 2044 and \$142 million in 2049.

The Bonds were issued under a subordinate lien. The bonds received ratings of AA+, Aa3 and AA by Fitch, Moody’s, and S&P, respectively. Because the bonds were sold on a subordinate lien basis, ratings were expected to be one notch lower than the current ratings on MSBA senior lien bonds.

The Bonds have features that have been included in more recent MSBA bond issues. Most commonly in the past, bonds with maturities of more than 10 years were made callable in 10 years. In response to the change in the federal tax law eliminating the ability to refund tax exempt bonds with other tax-exempt bonds prior to the call date, the MSBA has incorporated shorter call periods when cost-effective. Of the Bonds, those with maturities in years 2045 through 2049 (approximately \$142 million) are currently callable after seven years in February 2026. The MSBA will therefore now be able to call these three years earlier than the traditional call period, providing the Authority with additional flexibility to restructure and/or defease outstanding debt to manage coverage and overall debt levels.

At the time of the bond sale, MSBA had a Senior Debt Service Coverage ratio of over 2.7 and a subordinate coverage ratio of 2.28. The new subordinate debt will not affect the senior coverage ratio.

The MSBA’s next debt issue is not expected until the spring or summer of 2020.