Massachusetts School Building Authority

Timothy P. Cahill
Chairman, State Treasurer

Katherine P. Craven
Executive Director

TO: Board of Directors, Massachusetts School Building Authority
FROM: Katherine Craven
DATE: January 27, 2010
RE: Financing Results of December Bond Sale

On December 10, 2009, the Authority sold two bond issues with a par amount of $600,000,000. The first series was for $150,000,000 and was sold as a traditional tax-exempt bond issue. The tax-exempt bonds were for maturities 2010 through 2019.[1] The second bond series was for $450,000,000 and was sold as a new type of taxable bond called a Build America Bond (BAB). The final BAB maturity is in 2039.[2] The bonds were rated AA+ by Standard & Poor's, Aa2 by Moody's and AA by Fitch Ratings.

On December 9, 2009, in anticipation of pricing the bonds the following day, the MSBA's senior underwriter conducted a retail order period. This allowed orders to be submitted on behalf of retail investors.[3] The investor response was greater than anticipated and allowed the size of the tax-exempt series to both be increased from $100,000,000 par to the $150,000,000 par and repriced to lower the yield. The interest cost of the tax-exempt series was 2.0831% and the average life of the bonds is 4.047 years.

The success of pricing and sizing the tax-exempt issue allowed the BABs series to be decreased in size from $500,000,000 to $450,000,000. The BABs were sold with an interest rate of 3.759% and an average life of 25.89 years. The MSBA BABs were priced 25-30 basis points lower than two comparably rated BAB issues on the same day.

The combined true interest cost (TIC) of the two series was 3.64%. This interest rate was lower than previous MSBA bond issues. The 2005 issue was sold at a 4.37% rate and the 2007 issue was sold at a 4.23% interest rate.

The bonds were issued through a 22 firm underwriter syndicate. The lead firm was Ramirez & Co. Inc., and Merrill Lynch & Co. served as co-senior manager.

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[1] The recent pattern has been for tax-exempt bonds to carry a lower interest cost than BABs for shorter maturities and for BABs to have a lower interest rate than tax-exempts for longer maturities. In December 2009, a "AA" Rated 30-year maturity BAB could be issued for approximately 75 basis points lower effective yield than a comparably rated 30-year tax-exempt bond.
[2] A major advantage of issuing BABs is a 35% subsidy on interest payments by the federal government.
[3] Retail investors are viewed as the most desirable investor for a debt program. Retail investors usually accept a slightly lower yield than institutional investors and generally hold bonds to maturity.