

MEMORANDUM

TO: Board of Directors, Massachusetts School Building Authority
FROM: John K. McCarthy
DATE: January 7, 2015
RE: 2015 Series A Refunding Bonds Issuance – Update

At the November 19, 2014 meeting of the Massachusetts School Building Authority (“MSBA”) Board of Directors (“Board”), the Board authorized the issuance of a defeasance and refunding of the MSBA’s 2005 Series A bonds outstanding.

On December 18, 2014, the MSBA executed a defeasance of the two August 2015 maturities of the 2005 Series A bonds retiring debt with a total par amount of approximately \$73 million. As previously described, the source of revenue for the defeasance was a combination of dedicated sales tax collections previously set aside with the trustee for this debt service (\$24.7 million) and unrestricted sales tax from the MSBA (\$51.9 million) that would have been required to be set aside for this debt service from the monthly collections between December 2014 and July 2015 even absent the defeasance.

On January 7, 2015, the MSBA sold \$76.315 million of 2015 Series A refunding bonds via competitive bid, in order to realize significant debt service savings for the MSBA. There were bids received from 13 different firms for the bonds. The 13 bids ranged from a true interest cost of 0.13% to 0.36% with coupons ranging from 0.75% - 5%. Pursuant to the Notice of Sale published for the sale of the bonds, the purchase of the bonds was allocated to the bidder submitting the lowest true interest cost. Bank of America Merrill Lynch submitted the bid with the lowest true interest cost at 0.13% with a 5% coupon, and was awarded the purchase of the bonds. As part of this transaction to refund \$104.88 million of 2005 Series A bonds, \$28.8 million was released from the debt service reserve fund investment for MSBA’s 2005 Series A bonds, \$2.6 million was released from the debt service fund for MSBA’s 2005 Series A bonds, and approximately \$1.3 million was allocated from sales tax revenue. Of the amount released from the debt service reserve investment, approximately \$26.4 million was deposited into the escrow fund established for the refunding of \$104.88 million of 2005 Series A bonds, and approximately \$2.4 million was allocated to the MSBA’s rebate fund, as the MSBA anticipates that amount from the release of the debt service reserve fund investment will be required to be rebated to the federal government as part of the next annual arbitrage rebate calculation later in calendar year 2015.

Memo from John K. McCarthy

January 14, 2015

Page 2 of 2

This refunding transaction resulted in a present value debt service savings of \$23.6 million, or 22.5% , of the bonds being refunded. This refunding will reduce the MSBA's debt service annually in fiscal years 2017 - 2031.

The 2015 Series A refunding bonds have a par amount of \$76.315 million and a true interest cost of 0.13%. The bonds refunded bonds all had coupons of 4.25% and 5%, and had a par amount totaling \$104.88 million. The 2015 Series A refunding bonds were sold with a one year maturity and received the highest short term ratings of F1+, MIG1 and SP-1+, by Fitch, Moody's, and S&P, respectively.

Staff will continue to monitor the interest rates and the municipal market environment to determine other opportunities to achieve savings by refunding additional MSBA bonds.