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: January 31, 2018

RE: 2018 Series A Debt Issuance Results

On January 24, 2018, the MSBA sold $395,000,000 of 2018 Series A Bonds ("Bonds"). The purpose of the bond issue was to raise funds to retire three series of commercial paper whose letters of credit expire in March 2018. The series Bonds sold at an overall interest rate of 3.86%. The Bonds have an annual principal on June 15, 2018 and February 15th each year from 2019 through 2048. The Bonds will have a final maturity of February 15, 2048 and an average life of 19.24 years.

The Bonds were issued under a subordinate lien.[1] 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. Two of the agencies did assign a rating one notch lower than our senior bonds. Fitch rated our subordinate bonds AA+, the same as our senior bonds.

The Bonds have features that had not been included in prior MSBA bond issues. In the past bonds with maturities of more than 10 years were made callable at the ten year mark. The recent change in the federal tax law eliminated the ability to refund tax exempt bonds with other tax exempt bonds prior to the call date. To respond to this change in tax law, Bonds with maturities in years 2025 through 2038 were made current callable after six years. The MSBA will therefore now be able to call these in 2024 or four years earlier than traditional call period. A second feature was to have the first maturity be 120 days from date of issuance. The short maturity is a permitted investment for the money market funds that had been investors in our commercial paper.

At the time of the bond sale, MSBA had a Senior Debt Service Coverage ratio of over 2.41 and a subordinate coverage ratio of 2.26. The new subordinate debt will not affect the senior coverage ratio. The new debt service will lower the subordinate coverage ratio to 2.14.

The MSBA's next debt issue is not expected until this summer.

[1] Issuing on a subordinate lien allowed one of our past large investors to again participate. The investor has limits to how much of the portfolio can be in any credit. They had reached the limit of our senior lien debt. Bonds being subordinate lien it are considered a different credit and therefore eligible for investment.