

## 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 1, 2018  
**RE:** 2018 Series B Debt Issuance Results

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On July 10, 2018, the MSBA sold \$200,000,000 of 2018 Series B Bonds (“Bonds”). The purpose of the bond issue was to raise funds to provide construction grants to cities, towns and regional school districts in FY2019. The Bonds were sold via a competitive bid process. Ten bids were received for the bonds. The winning bid was submitted by Bank of America Merrill Lynch. The cover bid, or next lowest bid, was submitted Morgan Stanley & Co.

The bonds sold at an overall interest rate of 4.030696%. The cover bid was very close at 4.033598. The Bonds have an annual principal payment February 15<sup>th</sup> each year from 2039 through 2048. The Bonds will have a final maturity of February 15, 2048 and an average life of 25.506 years.

The Bonds were issued under a subordinate lien. As expected the bonds again received ratings of AA+, Aa3 and AA by Fitch, Moody’s, and S&P, respectively. At the same time of rating the 2018 B Subordinate Bonds Fitch reviewed the rating on MSBA senior lien bonds and raised the ratings to AAA.

The 2017 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 2039 through 2043 were made current callable after six years. The MSBA will therefore be able to call these Bonds in 2024 or four years earlier than the traditional call period. Bonds maturing after 2043 will still have a traditional ten-year call.

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 approximately 2.18.

The next time the Authority will need to issue debt is mid to late 2019.