

## 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:** October 19, 2021

**RE:** June 2021 Cash Defeasance & 2021 Series A Taxable Advance Refunding – Final Results

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At its October 28, 2020 meeting, the MSBA Board authorized the issuance of up to \$500 million in new money to fund capital grants and up to \$2 billion of refunding bonds. At its April 14, 2021 meeting, the MSBA Board authorized the cash defeasance of outstanding bonds in a principal amount not to exceed \$200 million. Inclusive of the two transactions summarized in this memorandum, the MSBA issued \$389,460,000 in a competitive taxable advance refunding transaction that closed September 30, 2020, executed a cash defeasance of \$200 million on June 29, 2021, and issued \$341,520,000 in a competitive taxable advance refunding on September 23, 2021, in accordance with these authorizations. The MSBA has not yet issued any new money bonds this year. This memorandum summarizes the MSBA's two most recent transactions.

**Cash Defeasance.** In June 2021 the MSBA executed a cash defeasance of \$200 million in par amount of outstanding bonds in Series 2015 B & C, 2016A and 2018A. The majority of the bonds have call dates in 2025 (2018A have a call date in 2024), and were issued with 5% coupons and maturities ranging from 2029 through 2039. The Authority utilizes cash defeasance of outstanding bonds to manage its aggregate debt service profile, improve coverage ratios, reduce debt service costs, and achieve net present value savings. PFM Financial Advisors served as the Authority's financial advisor and Omnicap LLC served as bidding agent for the defeasance. The Authority was able to defease \$11.5 million of Series 2015B, \$125.4 million of Series 2015C, \$51.8 million of Series 2016A and \$11.3 million of Series 2018A for a total par amount of \$200.0 million. The Authority received 4 bids to provide US Treasury securities on each of its escrows related to the Series 2015C and Series 2016A bonds and subscribed for SLGS (State and Local Government Series) for the Series 2015B and Series 2018A escrows as US Treasury securities did not provide a cost benefit versus SLGS. The Authority realized net present value dollar savings of approximately \$24.98 million, and a net present value percentage savings of nearly 12.5%.

**Refunding Bonds.** The structuring of the defeasance was combined in a plan of finance that included executing a taxable advanced refunding for selection of the bonds yielding the highest amount of savings to the Authority, including bonds from the Senior Series 2016A, Series 2018A and Series 2019A Bonds.

On September 14, 2021, the Authority held a competitive bid for the issuance of \$341,520,000 million in taxable advance refunding bonds, pursuant to the MSBA's Subordinated Lien. The bonds closed September 23, 2021. All three rating agencies affirmed the MSBA's current ratings on its senior and subordinated lien debt (Moody's Aa2/Aa3 Stable; Standard & Poor's AA+/AA Stable; and Fitch Ratings AAA/AA+ Stable). PFM Financial Advisors served as the Authority's financial advisor and Omnicap LLC served as bidding agent for the transaction.

The Authority received 11 bids. JP Morgan submitted the winning bid at an all-in TIC of 2.647%. \$295.8 million (or approximately 87%) of the refunding bonds were structured with a 10-year par call date on

February 15, 2031. The refunding bonds have an average life of approximately 18.4 years, and so are mostly long-dated. The Authority realized net present value dollar savings of approximately \$59.5 million, and a net present value percentage savings of over 20.0%.

Additionally, of the total debt service reserve funds associated with the Series 2016A Senior Bonds, approximately \$3.02 million was liquidated from the debt service reserve fund and was able to be utilized to reduce the amount of bond proceeds needed to execute this refunding.