

MEMORANDUM

TO: Board of Directors, Massachusetts School Building Authority
FROM: John K. McCarthy
DATE: November 7, 2012
RE: 2012 Series B Refunding – Results

At the October 3, 2012 meeting of the MSBA Board of Directors (“the Board”), the Board authorized the issuance of up to \$1 billion of refunding bonds to refund a portion of the MSBA’s outstanding callable debt. On October 10th and 11th, the MSBA sold \$916.3 million of refunding bonds in order to refund approximately \$987.3 million of outstanding 2005 Series A bonds and realize significant debt service savings. This transaction will reduce the MSBA’s future gross debt service by more than \$115 million. In present value terms, this issuance will generate savings of \$93.4 million, or 9.46% of the bonds being refunded. This refunding will reduce the MSBA’s debt service through fiscal year 2031. All of the bonds refunded were bonds originally sold as part of the MSBA’s first bond issue in 2005.

The refunding bonds have a par amount of \$916,350,000 and a true interest cost of 2.93%. The refunded bonds, with the exception of \$1.8 million scheduled to mature on 8/15/2025 that carried a 4.25% coupon, each had a 5% coupon. The par amount of the refunded bonds totaled \$987,330,000. The 2012 Series B refunding bonds were issued with a ten year call at par, and received ratings of AA+, Aa1, and AA+ by Fitch, Moody’s, and S&P, respectively. During the retail order period on October 10, 2012, over \$113 million of the 2012 Series B refunding bonds were sold to retail investors. The yields on the 2012 Series B bonds ranged from 0.73% for the August 2017 maturity, to 3.00% for the August 2030 maturity which sold at par with a 3% coupon.

The 2012 Series B refunding bonds, together with the 2012 Series A bonds, will generate gross debt service savings totaling more than \$191 million over the next 18 years, and the average annual gross savings impact from these two issuances will be greater than \$10 million during that time period. Following the issuance of the 2012 Series B bonds, \$314 million of 2005 Series A Bonds remain outstanding, and of that amount, \$104.9 million is callable. At this time, staff does not recommend refunding the remaining 2005 Series A callable bonds, but will continue to monitor the municipal securities market and inform the Board of opportunities for debt service savings through the issuance of additional refunding bonds.