

MEMORANDUM

TO: Board of Directors, Massachusetts School Building Authority
FROM: Maureen Valente, Chief Executive Officer and John K. McCarthy, Executive Director
DATE: November 6, 2015
RE: Defeasance Authorization to Accompany Refunding

On November 17, 2015, the MSBA expects to complete a large refunding of callable bonds issued in 2007. The bonds being refunded have a call date of August 15, 2017. The refunding is projected to reduce annual debt service by meaningful amounts in all years that have a callable bond maturity being refunded. In addition to the callable bonds there are maturities in 2016 and 2017 which are non-callable. Staff recommends a defeasance of the non-callable August 15, 2016 and August 15, 2017 maturities of the 2007 Series A. The defeasance will end MSBA's financial obligations with respect to these bonds. To execute the defeasance, the MSBA will use non-borrowed funds (sales tax revenues) to purchase U.S. Treasury securities and establish an irrevocable escrow account to satisfy the remaining debt service on these bonds.

The reason for a defeasance of the non-callable bonds is to improve the Authority's coverage ratios. The key ratio that is looked at by investors and rating agencies is the Maximum Annual Debt Service (MADS) divided by available Revenue (mostly sales tax revenue). By doing the defeasance and refunding, MADS will be reduced by approximately \$21,000,000 and thereby improve our coverage ratios.

It is important to note that, of the approximately \$39 million the MSBA would allocate for this defeasance, the MSBA's trustee will have already set aside \$5 million by early December 2015, and would be required to set aside the additional \$34 million towards debt service on these bonds between December 2015 and July 2017 even absent this proposed defeasance, pursuant to the debt service funding requirements in the MSBA's trust agreement. Staff intends to execute the defeasance in December 2015 in conjunction with the refunding.

Staff intends to discuss the proposed defeasance with the Administration, Operations and Finance Subcommittee at a November 13, 2015 meeting.