

## MEMORANDUM

**TO:** Board of Directors  
Massachusetts School Building Authority

**FROM:** James A. MacDonald, First Deputy Treasurer, Chief Executive Officer  
John K. McCarthy, Executive Director, Deputy Chief Executive Officer

**DATE:** December 4, 2017

**RE:** Results of Defeasance

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As you may recall at the October 25, 2017 meeting the Board authorized the defeasance<sup>1</sup> of up to \$80,000,000 of existing Massachusetts School Building Authority (MSBA) debt. On November 27, 2017 the MSBA the defeasance escrow will be funded with the combination of securities and cash needed to make future debt service payments associated with the specific CUSIPs. Principal totaling \$76,385,000 and future interest payments of \$13,984,250 were defeased. This will reduce future MSBA debt service by \$90,369,250.

The cost of the securities purchased to defease the debt was \$84,222,833.91. These securities were obtained through a competitive bid process on November 16, 2017. There were four bids submitted with the lowest (best) bid coming from Cantor Fitzgerald, L.P. The MSBA will also deposit \$1,628.31 to the defeasance escrow.

By defeasing debt the MSBA is able to improve its Debt Service Coverage Ratio (“DSCR”)<sup>2</sup> and be viewed as a stronger credit. This defeasance is projected to improve the MSBA’s Senior Lien DSCR by approximately nine points from the current 2.34 to 2.43.

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<sup>1</sup> A defeasance consists of placing funds in escrow to pay the debt service of the bonds until their maturity or call date. The funds are invested in highly rated securities, such as US Treasury and federal agency securities. The bond trustee serves as the holder of the escrow and pays the debt service.

<sup>2</sup> A Debt Service Coverage Ratio is calculated by dividing annual revenue by highest annual debt service. The higher the ratio the better the credit profile. Each rating agency and many financial analysts calculate the ratio in slightly different ways.