**MEMORANDUM**

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

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

**DATE:** June 12, 2017

**RE:** Bond Defeasance Results Update

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At the May 12, 2017 meeting of the Massachusetts School Building Authority ("MSBA") Board of Directors ("Board"), the Board authorized the defeasance of up to $ 46 million of MSBA bonds. The primary purpose of defeasing bonds was to improve the MSBA Debt Service Coverage Ratio[1] in order to maintain a coverage ratio of having revenues greater than 2 times debt service.

On May 25, 2017 the MSBA completed the defeasance[2] of $45.185 million of MSBA bonds. The bonds defeased were $36.605 million of the 2015 Series B and $8.580 million of the 2015 Series C. Bonds defeased mature in every fiscal year from 2018 through 2024.

At a cost of $51.114 million the defeasance reduced MSBA debt service by $54.563 million. The savings are spread over the next seven years. This has the beneficial result of lowering the MSBA senior lien Maximum Annual Debt Service ("MADS") from $398.722 million to $391.761 million. The defeasance also lowered the senior lien and subordinate lien combined MADS from $428.294 million to $421.333 million. The reduction in MADS improves the MSBA DSCR by approximately .04. This defeasance will assist the MSBA in maintaining a DSCR of over 2 times as it issues debt in the future.

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[1] MSBA's Debt Service Coverage Ratio (DSCR) is calculated by dividing the amount of revenue for a recent 12 month period with data by the highest or Maximum Annual Debt Service (MADS) in any future year. The specific methodology to calculate DSCR differs among the rating agencies and other analysts.

[2] Debt is defeased by placing funds (US Treasury securities or securities issued by agencies of the Federal Government) with an Escrow Agent (usually the Bond Trustee). The Escrow Agent then uses those funds to pay the debt service on the debt service payment dates. Funds placed with the escrow agent continue to generate interest income which reduces the amount required to be deposited in the escrow.