MEMORANDUM

TO: Board of Directors, Massachusetts School Building Authority

FROM: James MacDonald, Chief Executive Officer and Mary Pichetti, Executive Director

DATE: June 12, 2025

RE: Defeasance Authorization to Accompany Refunding

On or about August 28, 2025, the MSBA expects to complete a large refunding of currently callable bonds issued in 2015, 2016, and 2018. Additionally, we are working on a tender offer to existing bond holders which was authorized by the Board in February along with the new money and current refunding. The combined current and tender refundings are projected to reduce annual debt service by meaningful amounts that will assist us with managing the Maximum Annual Debt Service (MADS). In addition to the callable bonds there are non-callable maturities that could be escrowed or tendered as well as lower coupon or less efficient refunding candidates that could be helpful for structuring purposes.

Staff recommends up to $400 million be allocated to this purpose. 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 or to fund the purchase of the bonds directly from the investors who participate in the tender.

The reason for a defeasance of the non-callable, structuring, or lower coupon 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).

Staff intends to execute the defeasance in August 2025 in conjunction with the refunding.