

MEMORANDUM

To: Board of Directors, Massachusetts School Building Authority
From: Jack McCarthy, Executive Director
Date: March 27, 2012
Subject: MSBA Loan Program Status
East Somerville Community School Loan and Amendment to Project Funding Agreement

MSBA Loan Program Status

M.G.L c.70B §3 authorizes the MSBA to finance the local share of costs for approved projects. The MSBA Board of Directors (“Board”) voted, on April 26, 2006, to establish a loan program to assist communities with financing a portion of project cost inflation associated with the 428 projects that were on the Waiting List for funding prior to the creation of the MSBA. Prior to the establishment of the loan program, the MSBA had made significant efforts to address cost inflation associated with Waiting List projects, but despite updating MSBA grant amounts for Waiting List projects by over \$1.4 billion in order to reflect inflation-adjustments for projects approved for the Waiting List by the DOE, a number of Waiting List projects were still facing cost pressures. The authorized loan program was established with a maximum cap of \$150 million.

The general terms established for MSBA loans were for up to 30 years at a 2% interest rate on a level principal amortization schedule, with principal and interest payments due annually on November 1. The MSBA required districts interested in taking advantage of the loan program to file an application with the MSBA no later than August 31, 2006, and only projects on the Waiting List that had started construction after January 1, 2005 were eligible to apply for this program. Additionally, in order to apply for a loan the MSBA required that a district be in good-standing with MSBA’s Audit department, having complied with submittal requirements for all audit materials requested by the MSBA for any Prior Grant or Waiting List projects. The MSBA also required that a district seeking approval for a loan must have signed a Project Funding Agreement with the MSBA for any Waiting List projects that were under, or would be under, construction, and could demonstrate to the satisfaction of the MSBA that substantial progress would have been made on the project by July 1, 2009.

The MSBA received loan applications related to 46 projects from 25 different districts on the Waiting List, with a total request for over \$330 million in loans. After reviewing the loan applications, the MSBA approved maximum loan amounts totaling approximately \$145 million for 21 Waiting List projects in November 2006. The MSBA set the maximum loan amount for any one project at \$15 million. The MSBA also established a requirement in the loan agreements that ensure districts reach at least 95% of the MSBA grant amount before requesting the proceeds of the approved loan. A detail of the approved and executed loan amounts is provided in Attachment 1.

To date, the MSBA has executed and disbursed approximately \$132 million towards 21 loans for the approved Waiting List projects to date. An additional \$5 million is anticipated to be disbursed during fiscal year 2012, representing the remaining total of principal to be disbursed from the approved loan amounts. It is estimated that districts approved for loans will not request approximately \$7.8 million of the \$145 million in maximum approved loan amounts, due to either decreased final project budgets, or having alternatively financed projects outside of the MSBA’s loan program. In total, the amount of unutilized loan funds from the maximum \$150 million cap set for the program is approximately \$13.2 million. To date, the MSBA has received principal repayments totaling approximately \$14.5 million from executed loans.

East Somerville Community School Loan and Amendment to Project Funding Agreement

A fire in the southeast wing of the East Somerville Community School on December 9, 2007 required that the building be immediately closed, and for the entire enrollment of approximately 550 students to be relocated to other facilities across the District. On January 14, 2009, the MSBA issued a letter to the City of Somerville advising the City to proceed with an Emergency Statement of Interest for the facility. In order to address the issues presented in the Emergency Statement of Interest, the Board authorized a Maximum Total Facilities Grant of \$15,273,879, at the September 29, 2010 Board meeting, for an addition and renovation project at the East Somerville Community School.

As this project was the result of an Emergency Statement of Interest filed by the City, the City had not budgeted for this project as part of its capital plan, and throughout the project it has been difficult for the City to identify resources to meet the City's share of the cost for this unforeseen capital project. Furthermore, the City has been challenged to meet additional cost pressures on the project as the estimated Total Project Budget has increased by nearly \$6 million since the Board approved the Project Scope and Budget Agreement on September 29, 2010.

On December 13, 2011, the MSBA received a formal request from the City of Somerville for additional financial assistance in the form of a low-interest loan in the amount of \$5.8 million. The City has requested the loan as a low-cost alternative funding source to finance a portion of the City's estimated share of \$14 million in project costs which will not be covered by insurance proceeds or the MSBA Total Facilities Grant, which remains at \$15,273,879.

Subsequent to the original loan request, the City finalized contracts with its new Owner's Project Manager and the Construction Manager (CM) and has submitted a revised Total Project Budget for the MSBA's review. The MSBA and the City have worked together to understand the effect of the revised budget on the MSBA's grant and the City's share of the revised Total Project Budget. Based on these discussions, staff recommends that the Project Funding Agreement should be amended to transfer funds from the owner's and construction contingency to the construction budget, including the associated grant funds, with no increase to the maximum Total Facilities Grant, subject to the following conditions:

- The MSBA will not participate in any change orders or any other contingency expenditures that may be identified. Any such costs will be the sole responsibility of the City.
- The City and its consultants must acknowledge that the maximum Total Facilities Grant of \$15,273,879 is a not-to-exceed amount, subject to audit by the MSBA and is further capped by category. Any further changes to the revised Total Project Budget would result in a recalculation of the maximum Total Facilities Grant.
- The CM will provide a full accounting of the buy savings and the use of the Guaranteed Maximum Price Contingency, and the City will submit such accounting to the MSBA.
- The MSBA's sitework cap policy of 8% of the building costs has been applied to the budget.

Based on the above, the City has requested that the MSBA consider increasing its original loan request from \$5.8 million to \$6.25 million.

In addition to amending the PFA, staff recommends authorizing the MSBA to execute a low-interest loan for \$6.25 million to assist the City with financing the City's share of this project since this unforeseen capital project is the result of an Emergency Statement of Interest, which the City did not have the ability to incorporate into a longer term capital plan. The loan will assist the City with meeting some of the financial challenges presented by this project by allowing them to finance a portion of the project with a low-cost source of funding. The loan would be made under the same terms for interest and amortization that apply to all other loans the MSBA has executed through the Low Interest Loan Program.

Neither this proposed loan assistance nor the amendment to the PFA will result in an increase to the Board's maximum authorized grant of \$15,273,879 for this project. Further, with the loan of \$6.25 million and the proposed amendment to the PFA, the City agrees that it will not be eligible for any additional loan amounts nor any increases to the maximum Total Facilities Grant.

Attachment 1

MSBA ID#	District	School Name	Max Approved Loan Amount	Loan Paid	Date Paid
W20014203	Everett	Everett High	11,235,383	11,235,383	10/26/2007
W20024220	Chicopee	Comprehensive	12,670,272	12,670,272	11/8/2007
W20034420	Milford	Brookside Elementary	2,416,174	2,416,174	11/15/2007
W20024221	Milton	Cunningham Elementary	6,787,577	6,787,577	12/13/2007
W20014209	Littleton	Littleton Middle	2,142,297	2,142,297	1/23/2008
W20034223	Somerville	Dr. Albert F. Argenziano	8,738,522	8,738,522	2/12/2008
W20034414	Lexington	Fiske Elementary	1,803,049	1,803,049	2/20/2008
W20004114	Hull	Lillian Jacobs	4,077,160	4,077,160	3/13/2008
W20034409	Fairhaven	East Fairhaven	1,487,142	1,487,142	3/27/2008
W20034411	Melrose	Melrose Middle	5,286,908	3,398,187	4/2/2008
W20014153	Waltham	Fitzgerald Elementary	6,416,312	6,416,312	6/26/2008
W20014155	Waltham	Whittemore Elementary	6,556,446	6,556,446	6/26/2008
W20014150	Fall River	Ralph Small Elementary	4,045,520	4,045,520	10/23/2008
W20014061	Fall River	Slade Elementary	2,912,613	2,912,613	10/23/2008
W20024323	Cambridge	War Memorial	2,552,358	2,100,000	6/25/2009
W20054427	Swampscott	Swampscott High	7,986,202	7,047,346	10/14/2009
W20014144	Revere	Paul Revere Elementary	6,474,935	5,990,850	6/21/2010
W20054426	Quincy	High School	15,000,000	15,000,000	1/26/2011
W20014216	Newton	High School	15,000,000	11,000,000	3/30/2011
W20004048	Worcester	North High	15,000,000	10,000,000	6/28/2011
W20034382	Cambridge	Rindge & Latin	5,946,543	5,946,543	7/12/2011
Total			144,535,413	131,771,393	

Notes:

- Cambridge (War Memorial) loan amount was executed for \$452K less than maximum approved loan amount at the request of the District.
- Melrose loan was executed for \$1.9M less than maximum approved loan amount because Melrose had previously issued permanent financing for a portion of the project.
- Newton loan received first disbursement of \$11M disbursed on 3/30/2011. Due to project budget reduction the district will not require the remaining \$4M authorized.
- Revere loan was executed for \$484K less than maximum approved loan amount due to decrease in total project budget.
- Swampscott loan was executed for \$939K less than maximum approved loan amount at the request of the District.
- Worcester loan will be executed in two disbursements. First disbursement of \$10M disbursed on 6/28/2011. Second disbursement date TBD based on project closeout schedule.