

MEMORANDUM

TO: MSBA Board of Directors
FROM: Maureen Valente, Chief Executive Officer and John K. McCarthy, Executive Director / Deputy CEO
DATE: March 18, 2016
RE: FY 16 Budget Update Through The Month Ending February 29, 2016 and Overview of FY 17 Budget Process

The following is a summary of the Massachusetts School Building Authority's ("MSBA's") FY 16 year to date spending under the Administrative Operations and Grant Programs Budget through February 29, 2016, and an overview of the FY 17 Budget development.

Our goal is to present FY 17 recommendations to the Board which will support the payment of grants, current operations of the Authority, establishment of new initiatives, and maintenance of senior lien coverage levels at approximately 2x. Our Plan of Finance includes a new money issue with a par amount and structure that will likely vary between \$400 million and \$550 million depending on the amount of proceeds generated by the couponing, amount of Pay-go, the impact of the refunding and defeasance, and the final FY 16 SMART fund amount. We hope to raise sufficient funds to support approximately one year of Capital Pipeline payments. This would potentially delay the next new money issue into FY 18, when the full FY 17 SMART fund amount would be used for coverage calculation purposes.

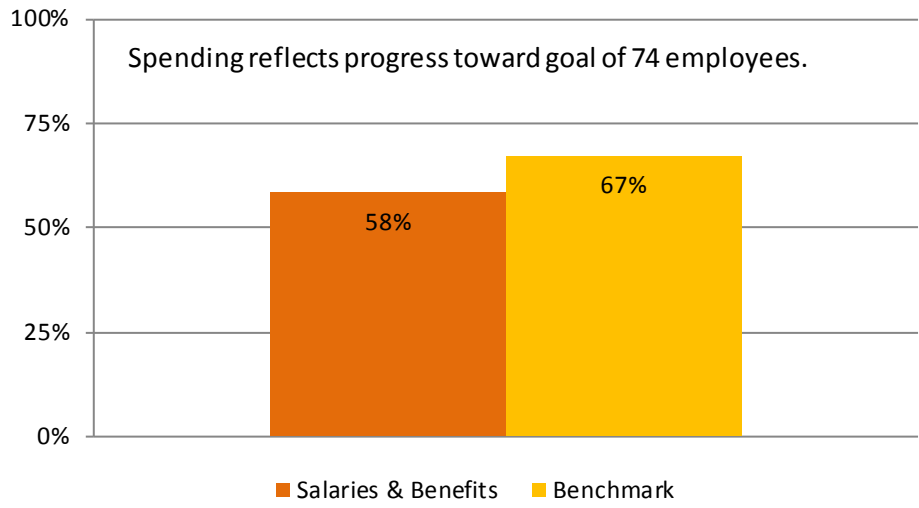
To build the FY 17 Capital Pipeline grant payment estimate, we have detailed a methodology for the Core, Accelerated Repair, Green Repair, Science Lab, and the Waiting List Conversion projects. Projects are grouped by phase into Eligibility, OPM Selection, Designer Selection, Feasibility Study, Schematic Design, Approved Project Vote Pending, Design Development, year construction is expected to be completed for those in Active Construction, Building Complete, and Closeout. Based on the category, monthly or FY cash flow estimates are made for each project.

For Core projects in Active Construction, Capital Planning assisted Finance by asking the OPMs to complete a monthly cash flow template. This will allow us to use data with a consistent format which hopefully will be received in a narrow band of time. We have already received five dozen responses, which will be used in our buildup of the FY 17 request.

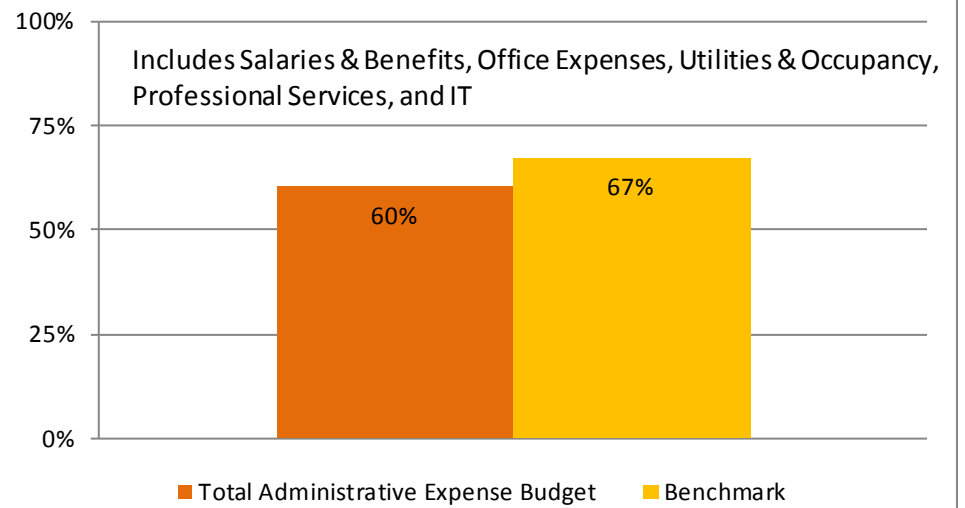
For Accelerated Repair projects, a statistical analysis was conducted to determine the average number of requests and amount of time from invitation to closeout and final payment. This empirical data will be used to project grant payments on Accelerated Repair projects through the end of FY 16, including final payments approved at the March and May Board meetings, and into FY 17.

We will continue to refine the projections over the next couple of months in order to have recommendations ready for an A&F subcommittee meeting to be scheduled prior to the May 25th Board meeting.

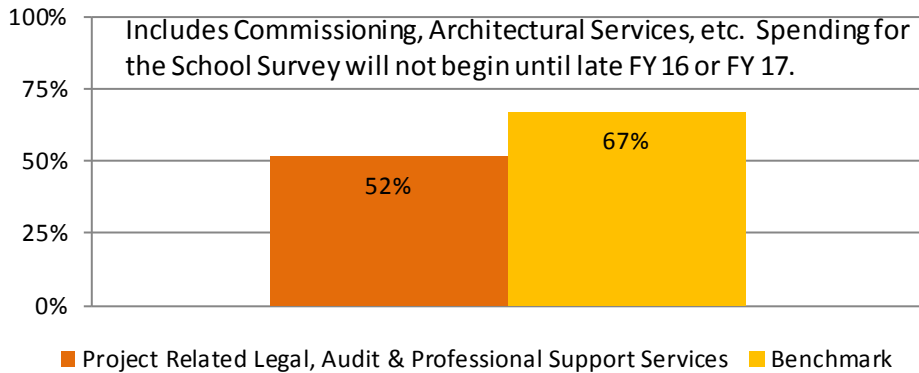
FY 16 Year to Date Spending



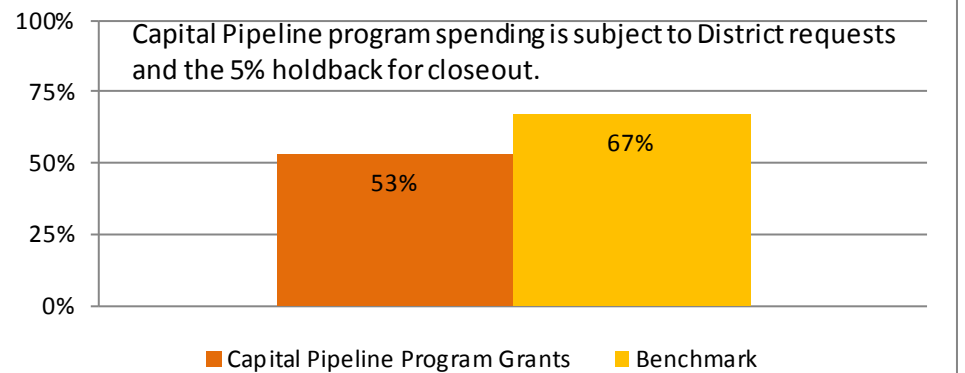
FY 16 Year to Date Spending



FY 16 Year to Date Spending



FY 16 Year to Date Spending



MSBA Administrative Operations and Grant Programs Budget

Expense Category	FY 15	FY 16					FY 17	
	FY15 Expenditures (7/1-6/30)	FY16 Budget	FY16 YTD Expenditures 7/1-2/29	Variance (FY16 Budget)	%(FY16 Budget)	Projected FY16 Expenditures	FY17 Budget	Variance (FY16 Budget)
Administrative Expense Budget								
Salaries & Benefits ^[1]	\$ 5,771,037	\$ 6,766,138	\$ 3,944,595	\$ (2,821,542)	58.3%	\$ 6,194,791	\$ 7,411,962	\$ 645,824
General & Administrative Office Expenses ^[2]	\$ 232,517	\$ 314,711	\$ 226,774	\$ (87,937)	72.1%	\$ 333,847	\$ 390,433	\$ 75,722
Occupancy & Utilities ^[3]	\$ 652,516	\$ 1,005,314	\$ 766,285	\$ (239,029)	76.2%	\$ 1,131,198	\$ 1,122,821	\$ 117,507
Consulting & Professional Support Services ^[4]	\$ 252,937	\$ 215,000	\$ 103,041	\$ (111,959)	47.9%	\$ 116,596	\$ 175,450	\$ (39,550)
Information Technology ^[5]	\$ 143,785	\$ 179,445	\$ 80,870	\$ (98,575)	45.1%	\$ 106,040	\$ 174,787	\$ (4,658)
Total Administrative Expense Budget ^[6]	\$ 7,052,793	\$ 8,480,608	\$ 5,121,566	\$ (3,359,042)	60.4%	\$ 7,882,472	\$ 9,275,454	\$ 794,846
Other Post Employment Benefits (OPEB) ^[7]	\$ 100,000	\$ 100,000	\$ 100,000	\$ -	100.0%	\$ 100,000	\$ 100,000	\$ -
Capital Pipeline Professional Support Services & Issuance Related Costs								
Project Related Legal, Audit & Professional Support Services ^[8]	\$ 6,219,824	\$ 8,049,184	\$ 2,896,989	\$ (5,152,195)	36.0%	\$ 4,628,217	\$ 5,920,000	\$ (2,129,184)
Cost of Issuance ^[9]	\$ 932,954	\$ 2,650,500	\$ 2,616,383	\$ (34,117)	98.7%	\$ 3,416,383	\$ 3,250,000	\$ 599,500
Total Capital Program Professional Support Services	\$ 7,152,778	\$ 10,699,684	\$ 5,513,372	\$ (5,186,312)	51.5%	\$ 8,044,599	\$ 9,170,000	\$ (1,529,684)
Arbitrage Rebate^[10]	\$ 1,226,558	\$ -	\$ 11,842,422	\$ 11,842,422	n/a	\$ 11,842,422	\$ 1,750,000	\$ 1,750,000
Grant Program								
Prior Grants ^[11]	\$ 197,946,924	\$ 185,093,670	\$ 83,857,227	\$ (101,236,443)	45.3%	\$ 184,937,437	\$ 170,850,561	\$ (14,243,109)
Waiting List ^[12]	\$ 26,534,249	\$ 25,489,887	\$ 20,561,882	\$ (4,928,005)	80.7%	\$ 24,981,110	\$ 23,658,888	\$ (1,830,999)
Capital Pipeline Program Grants ^[13]	\$ 544,518,569	\$ 585,000,000	\$ 311,646,550	\$ (273,353,450)	53.3%	\$ 495,000,000	\$ 585,000,000	\$ -
Total Grant Program	\$ 768,999,742	\$ 795,583,557	\$ 416,065,659	\$ (379,517,898)	52.3%	\$ 704,918,547	\$ 779,509,449	\$ (16,074,108)
Grand Total - Operating Budget	\$ 784,531,871	\$ 814,863,849	\$ 438,643,019	\$ (376,220,830)	53.8%	\$ 732,788,041	\$ 799,804,903	\$ (15,058,946)

[1] Total headcount as of June 30, 2014 was 65, and 58 as of June 30, 2015. Total headcount as of February 16, 2016 was 60. FY16 Budget assumed headcount of 77 at June 30, 2016, and included the transition of 2 IT and 2 capital planning staff extensions to MSBA payroll by the close of FY16. However, due to departures, the current estimate for June 30, 2016 is 74, and some of those positions may not be filled until FY 17.

[2] FY16 Budget included one-time expense associated with transition to new phone system. FY16 budgeted amounts include approximately \$65K for training and professional development.

[3] FY16 Budget reflects full year annualizing of new lease executed during FY15.

[4] FY16 budget amount continues funding for annual audited financial statements, arbitrage rebate analysis, and includes funding for an update of analysis of the economic impact of MSBA's capital program.

[5] FY16 Budget reflects transition of two consulting staff extension positions to permanent positions following the close of Q1. One transition has happened. We hope to fill the other position by June 30, 2016.

[6] FY16 Budget reflects full annualization of new lease, and anticipation of phased hiring throughout the fiscal year to arrive at an employee headcount of 77 at June 30, 2016. Head count is more likely to be 74 by June 30, 2016.

[7] The FY15 and FY 16 Budgets included a transfer of an additional \$100K to the MSBA's OPEB Trust in order to mitigate the potential budgetary impacts of future actuarial valuations.

[8] FY16 Budget and Expenditures include commissioning of MSBA projects, project management services, information systems development, and architectural technical services that support the MSBA's Capital Pipeline as well as funding for an update of the MSBA's School Survey. MSBA staff has begun work on the School Survey; however, expenditures for consultants won't likely occur until FY 17.

[9] FY16 Budget reflects annualization of the commercial paper program established during FY15 Q3, and assumes the execution of two bond issuances during the fiscal year. One new money, two refundings, and one defeasance were executed in FY 16.

[10] Reflects actual arbitrage rebate made in FY 16 for the 2005 Series A bonds.

[11] FY16 Budget reflects annual estimate of audited payments scheduled through June 30, 2016.

[12] FY16 Budget includes funding for the annual payments, and anticipates the remaining project in closeout receives a final payment prior to June 30, 2016. All original Waiting List projects have been audited. Three conversion projects and annual payments will continue to impact this line.

[13] FY16 Budget reflects estimate of grant payments based on cash flows for projects progressing through the MSBA's Capital Pipeline.

Capital Pipeline - Project Related Support Services Detail

	FY15 Expenditures (7/1-6/30)	FY16 Budget	FY16 YTD Expenditures (7/1-2/29)	% of FY16 Budget	Projected FY16 Expenditures	FY17 Budget	Variance (FY16 Budget)
Commissioning Consultants ^[1]	\$ 4,150,823	\$ 3,800,000	\$ 1,973,712	51.9%	\$ 2,932,372	\$ 2,300,000	\$ (1,500,000)
Project Management Services ^[2]	\$ 1,519,176	\$ 1,250,000	\$ 644,680	51.6%	\$ 1,057,811	\$ 550,000	\$ (700,000)
Architectural Services ^[3]	\$ 371,594	\$ 680,000	\$ 275,209	40.5%	\$ 633,000	\$ 720,000	\$ 40,000
Cost Estimating Services ^[4]	\$ 1,384	\$ 100,000	\$ -	0.0%	\$ -	\$ 100,000	\$ -
Audit & Other Compliance ^[5]	\$ -	\$ -	\$ -	n/a	\$ -	\$ -	\$ -
Capital Program Information Systems ^[6]	\$ 176,504	\$ 43,184	\$ 3,388	7.8%	\$ 5,034	\$ 50,000	\$ 6,816
Cost of Issuance ^[7]	\$ 932,954	\$ 2,650,500	\$ 2,616,383	98.7%	\$ 3,416,383	\$ 3,250,000	\$ 599,500
School Survey ^[8]	\$ -	\$ 2,000,000	\$ -	0.0%	\$ -	\$ 2,000,000	\$ -
Other ^[9]	\$ 344	\$ 176,000	\$ -	0.0%	\$ -	\$ 200,000	\$ 24,000
Legal ^[10]	\$ -	\$ -	\$ -	n/a	\$ -	\$ -	\$ -
Capital Program Support Services	\$ 7,152,778	\$ 10,699,684	\$ 5,513,372	51.5%	\$ 8,044,599	\$ 9,170,000	\$ (1,529,684)

- [1] Reflects anticipated costs associated with active projects and additional commissioning contracts anticipated to be executed prior to June 30, 2016.
- [2] Project Management Services are estimated based on anticipated schedules of active projects in the Capital Pipeline. FY15 and FY 16 expenditures reflect staff extension services supporting the MSBA's oversight of the Capital Pipeline, and funding for OPM services for the Essex North Shore Agricultural and Technical School project. These services are anticipated to decline during FY16 and FY 17.
- [3] Architectural Services are allocated on a project specific basis as necessary for projects progressing through the Capital Pipeline. FY16 Budget reflects anticipated support services for schematic design, construction document and architectural reviews, and also includes anticipated expenditures for senior studies related to the review process for the 2015 Statement of Interest (SOI) submittals.
- [4] This category provides funds for any project specific cost estimates which may be necessary during the fiscal year, or for additional review of data related to the Capital Pipeline.
- [5] This category provides funding which may be allocated on a project specific basis to external audit firms, or temporary auditors, to assist on project audits conducted under current MSBA audit policy.
- [6] This category includes expenditures for development of Capital Pipeline support applications, including MSBA's Progress Payment System, Project Management application, and OPM Report system. FY15 Budget anticipated conversion of consultant staff extensions to permanent positions during Q3, however, that transition has been re-scheduled. FY16 Budget reduction reflects the reallocation of these resources to permanent staff following Q1. One position has transitioned, and one is open.
- [7] FY16 Budget includes funding for annualization of commercial paper program, and new money and refunding transactions to support the Capital Pipeline. 2 refunding transactions and a defeasance were executed in Q2. 16A new money issued in Q3.
- [8] Reflects anticipated costs associated with the procurement for the MSBA's next School Survey assessment of public school facilities across the Commonwealth. Expenditure for consultants expected to take place in FY 17.
- [9] For Capital Pipeline professional support services which may not be specifically allocated through other cost categories.
- [10] This expenditure category includes funding for the costs, if any, that the MSBA may incur associated with litigation regarding projects in the Capital Pipeline. There is no litigation currently pending against the Authority.