

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: October 6, 2017
Subject: MSBA Fiscal Year 2018 Year-to-Date Update

The following is a summary of the Massachusetts School Building Authority's ("MSBA's") preliminary expenditures for Fiscal Year 2018 spending for the first quarter.

Spending on Salaries & Benefits at 18.4% reflects the annualizing of hires made thus far in Fiscal Year 2018, departures during the year, the phased hiring for positions in the Fiscal Year 2018 staffing assumption, including conversion of 2 consultant staff extensions in Capital Planning. During Fiscal Year 2018, the progress of onboarding new hires towards the established goal of 79 employees has been offset by staff turnover. As of October 6, 2017, we have 73 full time employees and one Co-op student.

General & Administrative Office Expenses at 18.9% for Fiscal Year 2018 include travel and professional development, training, leases for copiers and the postage machines, ongoing Trustee fees, and office equipment and furniture.

Occupancy & Utilities at 32.3% for Fiscal Year 2018 reflects the base rent and real estate taxes under the tenant agreement, parking, storage, insurance, and electricity for July through October.

Consulting & Professional Support Services at 21.3% for Fiscal Year 2018 reflects legal services, external auditors, IT consultants, arbitrage rebate, verification, and actuarial services.

Information Technology at 6.8% for Fiscal Year 2018 reflects web hosting, anti-virus, firewall, system maintenance, software, and hardware.

Although the MSBA's OPEB Trust was fully funded as of June 30, 2016, the MSBA transferred \$100 thousand to the OPEB Trust during Fiscal Year 2017 in order to mitigate the potential future budgetary impacts of updated actuarial valuations as part of the smoothing policy adopted by the OPEB Trust Committee. The MSBA now has several former employees or their beneficiaries that are eligible for these benefits, and one retiree receiving benefits. An actuarial analysis is being performed as of December 31, 2016 to update the valuation for the Fiscal Year 2017 financial statements, and is expected to reflect a small Unfunded Actuarial Accrued Liability. We expect to transfer another \$500 thousand to the OPEB Trust during Fiscal Year 2018 as described in the OPEB Committee's smoothing policy, which was adopted in April 2017.

Project Related Professional Support Services at 12.3% for Fiscal Year 2018 reflects the categories provided in the discussion of Attachment B below.

Cost of Issuance at 17.3% for Fiscal Year 2018 reflects the expenditures for the commercial paper programs.

An Arbitrage Rebate yield reduction payment of approximately \$365 thousand is projected for the 2012 Series B. This calculation will be done in November. Additionally, the rebate consultant provides reporting on each outstanding issue annually. Based on these reports, we plan to transfer approximately \$979 thousand to the rebate account at MMDT for rebate payments projected for future fiscal years.

Prior Grants at 23.5% for Fiscal Year 2018 reflects first quarter payments which were paid to the districts on 9/20/17. There is \$40 million in capacity available for lump sum payments to districts that request a present value payment to reduce the amount of refunding bonds they need to issue.

Waiting List at 58.1% for Fiscal Year 2018 reflects annual payments paid to the districts on 9/20/17. Payments of approximately \$4 million may also be made in Fiscal Year 2018 for a hold back and a Waiting List conversion project. There is \$10 million in capacity available for lump sum payments to districts that request a present value payment to reduce the amount of refunding bonds they need to issue.

Capital Pipeline Program Grants at 20.3% for Fiscal Year 2018 reflects monthly requests from districts and final payments for audits approved at the June and August board meetings.

The Department of Elementary and Secondary Education is working with Districts that applied for Digital Connections Partnership Schools grants, and staff is expecting to see loan applications from those Districts during Fiscal Year 2018.

Attachment B provides additional detail regarding the Capital Pipeline Professional Support Services. Commissioning at 15.2% for Fiscal Year 2018 reflects spending on active projects in the pipeline.

Project Management Services at 30.6% for Fiscal Year 2018 reflects consultant staff extensions for project management services and OPM services Essex North Shore Agricultural and Technical School project. Fiscal Year 2018 spending to date is slightly above the straight-line benchmark due to the expectation that the majority of the services would be paid at the beginning of the fiscal year.

Architectural services at 2.4% for Fiscal Year 2018 reflect support services for schematic design, construction document and architectural reviews, and senior studies related to the review process for the Statement of Interest (SOI) submittals. The majority of the expenditures are expected in the final three quarters of the fiscal year.

Capital Program Information Systems at 0.0% for Fiscal Year 2018 reflects consultant support for the School Survey and MSBA systems. Payments for IT consultant support of the School Survey may be shown instead in the School Survey line item.

School Survey at 40.4% for Fiscal Year 2018 reflects the balance of the expenditures to finalize the Survey, and as mentioned above, funds related to consultant support for MSBA systems as well.

Post Occupancy Survey at 0.0% for Fiscal Year 2018 reflects that planning by MSBA staff has begun, but the consultant expenditures will occur later in FY 18.

Charts comparing the FY 18 year-to-date spending with a straight-line benchmark for Salaries and Benefits, Total Administrative Expenses, Project Related Professional Support Services, and Capital Pipeline Grant payments are reflected in Attachment C.

The table on Attachment D reflects the existing debt service schedules for outstanding bonds and the estimated Commercial Paper interest for Fiscal Year 2018 as well as debt service payments made by the Trustee and Issuing and Paying Agent through September 30, 2017. As the financing plan is implemented, we will provide updates to the actual debt service amounts as impacted by any defeasance, the takeout of the Commercial Paper, issuance of new money or refundings. The SMART Funds are delivered directly to the Trustee, and 1/12th of any principal payment to be made in the next 12 months as well as 1/6th of the next semi-annual interest are set-aside before any remaining amount is released to the MSBA to support operations and Pay-go grant payments. When looked at on a fiscal year basis, the monthly set-asides are not the same as the debt service payments made to bond holders by the Trustee. MSBA must track both sets of cash flow items.

Attachment E reflects the draft Fiscal Year 2017 and projected Fiscal Year 2018 Sources and Uses. Beginning and ending balances are broken into 4 restricted categories and unrestricted funds. The next section reflects the cash basis calculation of the SMART Fund as well as other sources of funds. The Operating Expenses are drawn from Attachment A, and updated as additional information becomes available. Debt service payments to bond holders and set-asides at the Trustee are taken from the existing schedules. The Sources and Uses projection provides details about how the Financing Plan will impact the restricted and unrestricted balances to ensure adequate cash flow for grant payments and operations.

MSBA Administrative Operations and Grant Programs Budget - Attachment A

| Expense Category | FY16 Expenditures 7/1-6/30 | FY 17 | | | | FY 18 | | | |
|--|----------------------------------|------------------------|----------------------------------|--------------------------------------|-------------------------------|--------------------|--------------------------------------|----------------------------|------------------|
| | | Revised FY17 Budget | FY17 Expenditures 7/1-6/30 | Variance (FY17 Revised Budget) | % (FY17 Revised Budget) | FY 18 Budget* | FY18 YTD Expenditures 7/1-9/30 | Variance to FY18 Budget | % FY18 Budget |
| Administrative Expense Budget | | | | | | | | | |
| Salaries & Benefits ^[1] | 6,099,410 | 7,442,813 | 5,937,029 | (1,505,784) | 79.8% | 7,426,770 | 1,436,653 | (5,990,117) | 19.3% |
| General & Administrative Office Expenses ^[2] | 323,363 | 378,629 | 317,332 | (61,297) | 83.8% | 383,001 | 72,328 | (310,673) | 18.9% |
| Occupancy & Utilities ^[3] | 1,115,237 | 1,122,821 | 1,117,289 | (5,532) | 99.5% | 1,160,707 | 374,941 | (785,766) | 32.3% |
| Consulting & Professional Support Services ^[4] | 117,335 | 203,905 | 181,293 | (22,612) | 88.9% | 227,500 | 48,512 | (178,988) | 21.3% |
| Information Technology ^[5] | 111,183 | 205,399 | 203,235 | (2,165) | 98.9% | 267,480 | 18,224 | (249,256) | 6.8% |
| Total Administrative Expense Budget^[6] | 7,766,529 | 9,353,567 | 7,756,178 | (1,597,389) | 82.9% | 9,465,458 | 1,950,659 | (7,514,799) | 20.6% |
| Other Post Employment Benefits (OPEB)^[7] | 100,000 | 100,000 | 100,000 | 0 | 100.0% | 500,000 | 0 | (500,000) | 0.0% |
| Capital Pipeline Professional Support Services & Issuance Related Costs | | | | | | | | | |
| Project Related Professional Support Services ^[8] | 4,691,645 | 6,038,000 | 5,401,285 | (636,715) | 89.5% | 5,020,000 | 617,300 | (4,402,700) | 12.3% |
| Cost of Issuance ^[9] | 3,398,969 | 3,250,000 | 2,589,507 | (660,493) | 79.7% | 3,250,000 | 561,326 | (2,688,674) | 17.3% |
| Total Capital Pipeline Program Professional Support Services | 8,090,614 | 9,288,000 | 7,990,792 | (1,297,208) | 86.0% | 8,270,000 | 1,178,627 | (7,091,373) | 14.3% |
| Arbitrage Rebate^[10] | 11,842,422 | 2,000,000 | 950,122 | (1,049,878) | 47.5% | 250,000 | 0 | (250,000) | 0.0% |
| Grant Program | | | | | | | | | |
| Prior Grants ^[11] | 184,937,437 | 210,850,561 | 202,188,971 | (8,661,590) | 95.9% | 171,154,798 | 40,186,395 | (130,968,403) | 23.5% |
| Waiting List ^[12] | 25,740,346 | 34,403,354 | 21,435,992 | (12,967,362) | 62.3% | 26,185,431 | 15,220,435 | (10,964,996) | 58.1% |
| Capital Pipeline Program Grants ^[13] | 411,764,406 | 550,000,000 | 388,740,197 | (161,259,803) | 70.7% | 506,126,869 | 102,799,959 | (403,326,910) | 20.3% |
| Total Grant Program | 622,442,189 | 795,253,915 | 612,365,160 | (182,888,755) | 77.0% | 703,467,098 | 158,206,789 | (545,260,309) | 22.5% |
| Loan Program Disbursements^[14] | | 10,000,000 | 0 | (10,000,000) | 0.0% | 10,000,000 | 0 | (10,000,000) | 0.0% |
| Grand Total - Operating Budget | 650,241,754 | 825,995,482 | 629,162,252 | (196,833,230) | 76.2% | 731,952,556 | 161,336,075 | (570,616,481) | 22.0% |

*\$400,000 has been reallocated from the Salary & Benefits line item to the OPEB Trust Line item. MSBA plans to deposit \$500,000 to the OPEB Trust on November 1st to maintain fully funded status. \$16,000 will be withdrawn on the same date to reimburse the MSBA for actual premiums paid for retiree benefits during FY 17.

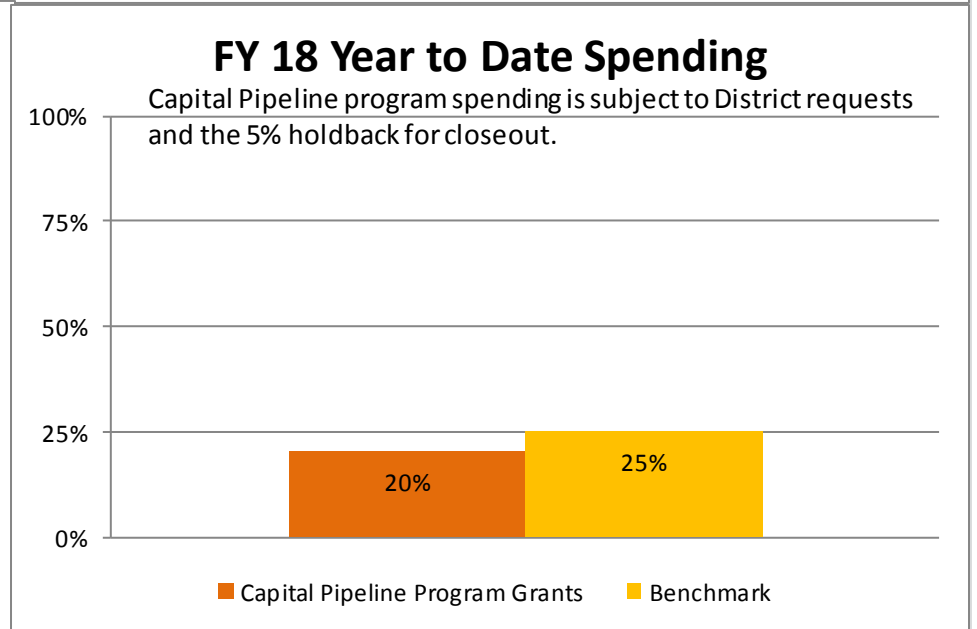
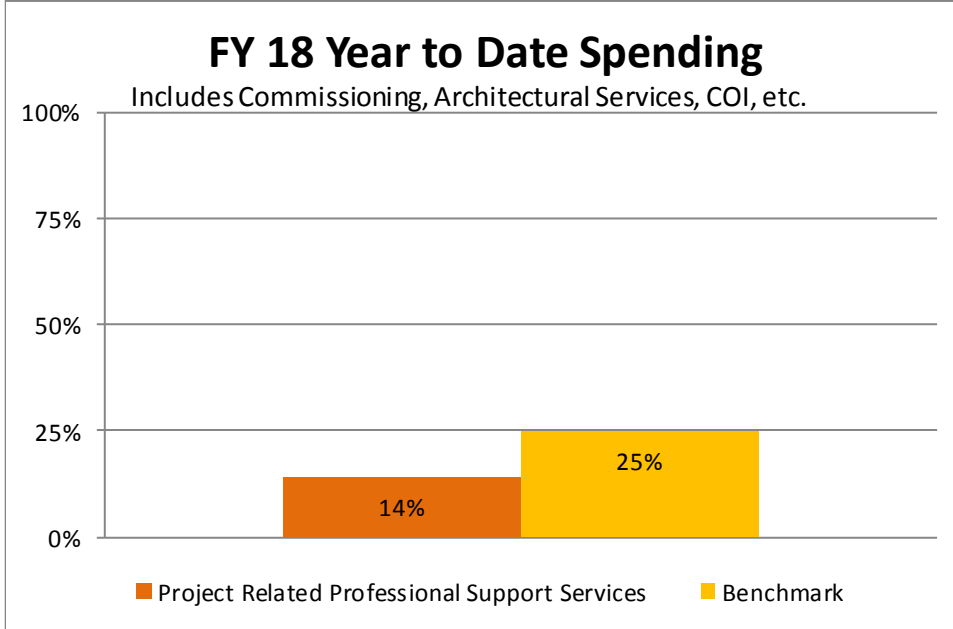
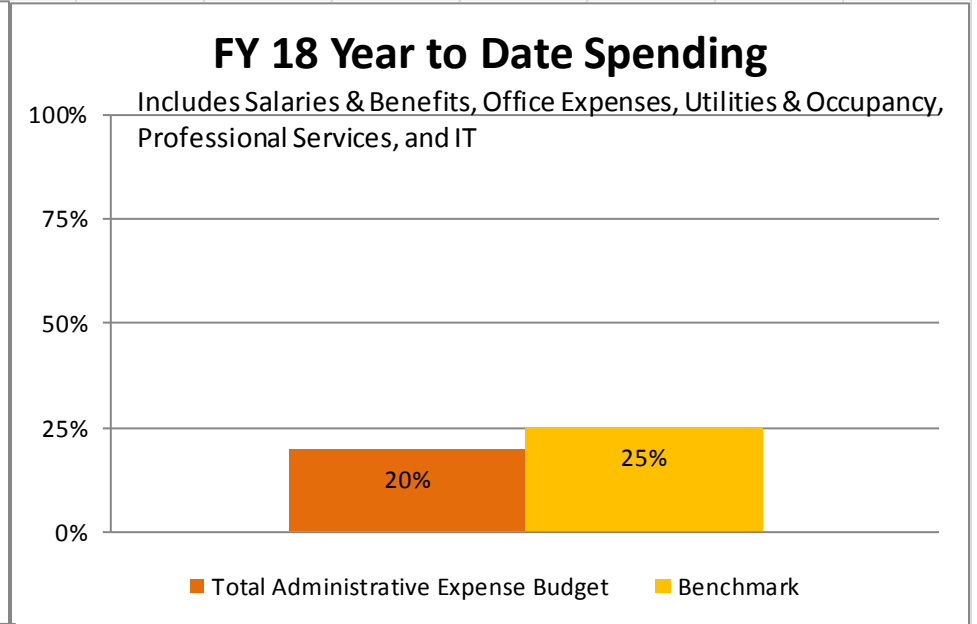
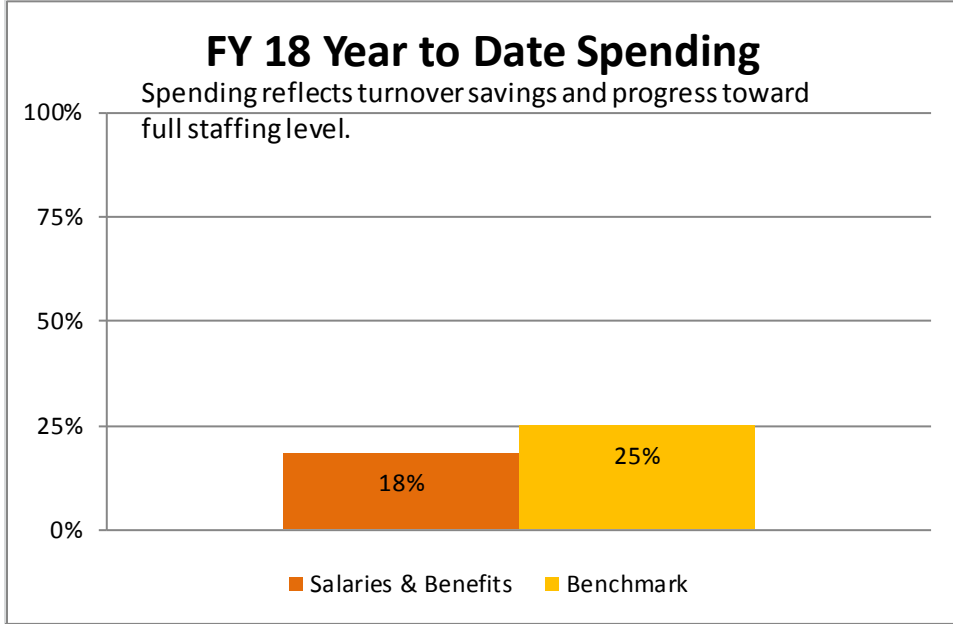
- [1] FY 18 budget assumed 77 FTEs by 7/1/2017, and conversion of two staff extensions in July 2017 for a total of 79 employees. As of October 6, 2017, there are 73 full time employees and one Co-op. Expenditures for benefits include health insurance, dental, vision, unemployment, workers comp, etc.
- [2] FY18 budget includes approximately \$65K for professional development, \$20K for training, \$20K for tuition reimbursement, and travel associated with site visits for project administration and the Post-occupancy Survey.
- [3] FY18 budget reflects lease payments, projected electricity costs, and comprehensive insurance.
- [4] FY18 budget continues funding for annual audited financial statements, arbitrage rebate analysis, and \$25K for consultants to support IT department projects.
- [5] FY 18 budget includes the cost of new hardware assets such as desktops for employees and server/networking equipment, phone & internet, QuickBooks, Office 365 licenses, Tableau, Munex, anti-virus/firewall, website hosting, Lynda.com, and HR software.
- [6] The Total Administrative Expense Budget reflects staffing and office expenses related to MSBA's operations.
- [7] The FY18 budget includes a transfer of \$100K to the MSBA's OPEB Trust in order to mitigate the potential budgetary impacts of future actuarial valuations.
- [8] FY18 budget includes 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 completion of the analysis associated with the MSBA's School Survey, and a post-occupancy survey.
- [9] FY18 budget reflects commercial paper programs established during FY15 Q3, and assumes the execution of a bond issue during the fiscal year, and a takeout of the 2015 commercial paper programs. CP COI is paid with unrestricted funds. A portion of new money and refunding bonds are paid with proceeds, and the balance is paid with unrestricted funds.
- [10] Reflects actual arbitrage rebate payment made in FY 16 for the 2005 Series A bonds, a rebate payment for the 2007 Series A bonds, and a yield reduction payment associated with the 2012 Series A in FY 17. There will be a yield reduction payment for the 2012 Series B as well as a rebate payment for the 2007 Series A bonds after the call date in FY 18.
- [11] Adjustments are made if districts refund their bonds for savings. FY 18 budget reflects an additional \$40 million in capacity available for lump sum payments for Districts issuing current refundings.
- [12] FY18 budget includes funding for the annual payments. All original Waiting List projects have been audited. Two conversion projects and annual payments will continue to impact this line in FY 18. The annual payment schedule ends in FY 24, and may be adjusted if districts refund their bonds for savings. Reflects an additional \$10 million in capacity available for lump sum payments for Districts issuing current refundings in FY 18.
- [13] FY18 Budget reflects grant payments based on cash flows for individual projects.
- [14] Reflects amount available for disbursements to Districts under the collaboration with DESE and MassIT.

Capital Pipeline Professional Support Services - Attachment B

| | FY16 Expenditures | Revised FY17 Budget | FY17 Expenditures 7/1-6/30 | Variance (FY17 Revised Budget) | %(FY17 Revised Budget) | FY 18 Budget | FY18 YTD Expenditures 7/1-9/30 | Variance to FY18 Budget | % FY18 Budget |
|--|----------------------|------------------------|----------------------------------|---|------------------------------|------------------|--------------------------------------|-------------------------------|------------------|
| Commissioning Consultants ^[1] | 3,071,291 | 2,300,000 | 2,614,790 | 314,790 | 113.7% | 3,400,000 | 516,991 | (2,883,009) | 15.2% |
| Project Management Services ^[2] | 1,028,765 | 650,000 | 492,938 | (157,062) | 75.8% | 130,000 | 39,815 | (90,185) | 30.6% |
| Architectural Services ^[3] | 460,201 | 813,000 | 483,525 | (329,475) | 59.5% | 840,000 | 20,060 | (819,940) | 2.4% |
| Capital Program Information Systems ^[4] | 3,388 | 75,000 | 0 | (75,000) | 0.0% | 200,000 | 0 | (200,000) | 0.0% |
| School Survey ^[5] | 128,000 | 2,000,000 | 1,810,032 | (189,968) | 90.5% | 100,000 | 40,435 | (59,565) | 40.4% |
| Post Occupancy Survey ^[6] | 0 | 200,000 | 0 | (200,000) | 0.0% | 350,000 | 0 | (350,000) | 0.0% |
| Legal ^[7] | 0 | 0 | 0 | 0 | n/a | 0 | 0 | 0 | n/a |
| Capital Program Support Services | 4,691,645 | 6,038,000 | 5,401,285 | (636,715) | 89.5% | 5,020,000 | 617,300 | (4,402,700) | 12.3% |

- [1] Reflects anticipated costs for active projects and additional commissioning contracts anticipated to be executed in FY 18.
- [2] Project Management Services are estimated based on anticipated schedules of active projects in the Capital Pipeline. 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.
- [3] Architectural Services are allocated on a project specific basis as necessary for projects progressing through the Capital Pipeline. FY18 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 Statement of Interest (SOI) submittals.
- [4] This category includes expenditures for development of Capital Pipeline support applications, including MSBA's Progress Payment System, Project Management application, OPM Report system, and the School Survey. \$75,000 was included in the FY 17 budget to support the School Survey. FY 18 budget reflects \$200,000 to support the Capital Program Information Systems (e.g., Progress Payment, Project Management, etc.).
- [5] Reflects anticipated costs associated with the procurement for the MSBA's next School Survey assessment of public school facilities across the Commonwealth. The majority of the expenditure for consultants took place in FY 17.
- [6] For Capital Pipeline professional support services which may not be specifically allocated through other cost categories (e.g., Post-occupancy Survey and construction cost data analysis).
- [7] 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.

Attachment C



Debt Service Paid by Trustee or Issuing and Paying Agent and Sinking Fund Deposits - Attachment D

| | FY 18 Initial Projected Payments | Impact of Defeasance | Impact of Refunding | Impact of New Money | Revised FY 18 Projected Payments | FY18 YTD Expenditures 7/1-9/30 |
|------------------------------------|--|-------------------------|------------------------|------------------------|--|--------------------------------------|
| Principal and Interest on Bonds[1] | 405,955,767 | | | | | 159,652,325 |
| Sinking Fund Deposits[2] | 14,359,832 | | | | | 0 |
| Interest on Commercial Paper[3] | 4,500,000 | | | | | 852,500 |
| Total | 424,815,598 | | | | | 160,504,824 |

- [1] Reflects annual principal and semi-annual interest on bonds outstanding. YTD represents payments made by the Trustee or Issuing and Paying Agent to bondholders and commercial paper holders. Each month the MSBA sets-aside 1/12th of the upcoming principal payment and 1/6th of the upcoming interest payment for bonds outstanding in a restricted debt service fund, which the Trustee uses to make the payments to bond holders.
- [2] Each June 30th the MSBA transfers sinking fund payments on the 10A and 11A QSCBs, which will be used to pay the principal at final maturity.
- [3] Periodically (usually each month), the MSBA instructs the Trustee to send funds to the Commercial Paper Issuing and Paying Agent to pay upcoming interest.

Projected Sources and Uses - Attachment E

| Beginning Fund Balance [1] | FY16 | Draft FY17 | Draft FY18 Est. | |
|---|----------------------|----------------------|----------------------|--|
| Restricted Debt Service Funds Beginning Balance[2] | 480,581,927 | 181,750,569 | 198,066,516 | [1] Beginning and Year End fund balances do not include Debt Service Reserve Funds (DSRF) held by the trustee. Presented on a cash basis. |
| Restricted Debt Proceeds Beginning Balance[3] | 38,198,727 | 200,747,740 | 364,723,191 | |
| Restricted Arbitrage Rebate Beginning Balance | 11,756,742 | 1,951,877 | 1,012,388 | [2] Reflects Debt Service Funds (DSF) held by the trustee for debt service payments to bondholders, and funds at the Issuing and Paying Agent for CP interest. |
| Restricted OPEB Trust Beginning Balance | 2,518,264 | 2,670,537 | 3,093,441 | |
| Unrestricted Beginning Fund Balance[4] | 42,836,073 | 180,006,134 | 236,147,444 | [3] Reflects remaining proceeds from \$135 million commercial paper proceeds at FY15 year-end. FY 17 includes 16A and 16B proceeds. |
| Total Beginning Fund Balance | 575,891,732 | 567,126,857 | 803,042,981 | [4] Reflects balances in non-trusted funds including funds at the Issuing and Paying Agent to pay CP interest. FY 16 reflects wire to offset double payment. |
| General Revenues/Financing Sources: | | | | |
| Dedicated Sales Tax[5] | 798,838,328 | 810,835,695 | 836,884,055 | [5] Reflects cash basis conversion of Consensus Revenue Estimate for FY 18. |
| Debt Issuance Proceeds[6] | 490,451,335 | 478,675,772 | 300,000,000 | |
| Interest Income[7] | 27,354,169 | 27,476,113 | 28,731,767 | [6] Reflects receipt of proceeds from new money issuance during the fiscal year. |
| Grant Income - Federal Subsidies[8] | 25,769,919 | 22,546,867 | 22,601,504 | |
| Loan Program[9] | 8,536,251 | 8,409,206 | 8,282,163 | [7] Includes estimated earnings on debt service reserve funds held by the Trustee as well as unrestricted funds. |
| Total Revenues/Financing Sources | 1,350,950,001 | 1,347,943,652 | 1,196,499,489 | [8] Reflects impact of sequestration on annual interest subsidies estimated to be received from the federal government. |
| Operating Expenses, Debt Service, Defeasance, and Set-Asides | | | | |
| Grant payments [10] | 622,442,189 | 612,365,160 | 703,467,098 | [9] Includes principal and interest received for executed loans, as well as one grant recapture payment. |
| Operations | 7,766,529 | 7,756,178 | 9,865,458 | |
| Capital Pipeline Support Services[11] | 8,090,614 | 7,990,792 | 8,270,000 | [10] Includes grant payments made from bond proceeds as well as unrestricted sales tax revenues. |
| Arbitrage Rebate[12] | 11,842,422 | 950,122 | 365,135 | |
| Loan Program[9] | - | - | 10,000,000 | [11] Reflects project related costs including costs of issuance for debt, a portion of which is expected to be paid with proceeds. |
| Other Post Employment Benefits Trust Deposits | 100,000 | 100,000 | 500,000 | |
| Total Operating Expenses | 650,241,754 | 629,162,252 | 732,467,690 | [12] Reflects arbitrage rebate payment made during FY 16 related to earnings on the 05A, and payment during FY 17 for the 07A and the 12A. |
| Debt service[13] | 701,564,711 | 401,098,340 | 410,455,767 | [13] Reflects gross debt service on outstanding bonds, BAN principal and interest, and actual/projected CP interest. |
| 10A and 11A QSCB Sinking Fund Deposits[14] | 14,746,010 | 14,392,731 | 14,359,832 | |
| Defeasance or Paydown of CP[15] | 38,298,210 | 67,351,930 | 78,205,000 | [14] Reflects required sinking fund deposits after calculating accreted value for existing STRIP investments. |
| Arbitrage Rebate Set-Aside[16] | 181,218 | - | 979,048 | |
| Set-asides at Trustee for Debt Service Funds[17] | 401,929,286 | 414,014,017 | 410,946,417 | [15] Defeasance escrows funded with a combination of DSF and unrestricted funds. Commerical Paper needs to be takenout, or paid down in March 2018. |
| Reimbursement for OPEB Premiums Paid | - | 22,641 | 16,083 | |
| Total Debt Service, Defeasance, and Set-Asides | 1,156,719,435 | 896,879,660 | 914,962,146 | [16] Set-asides decrease Unrestricted Fund Balance, and increase the Year End Restricted Arbitrage Rebate Balance. |
| Year End Fund Balance[1] | | | | [17] Debt Service Fund Set-asides are made with monthly SMART Fund transfers from the Commonwealth to the Trustee. Reflects Aug. 2016 defeasance. |
| Year End Restricted Debt Service Funds Balance[2] | 181,750,569 | 198,066,516 | 198,907,166 | |
| Year End Restricted Debt Proceeds Balance[18] | 200,747,740 | 364,723,191 | 317,331,403 | [18] Reflects the issuance of \$315 million in CP in Q1 of FY 16, and \$150 million of 16A new money in Q3. 16B new money issued in Oct. 2016. |
| Year End Restricted Arbitrage Rebate Balance | 1,951,877 | 1,012,388 | 1,638,801 | |
| Year End OPEB Trust Balance[19] | 2,670,537 | 3,093,441 | 3,577,358 | [19] FY 16 & 17 reflect market value of Other Post Employment Benefits Trust assets. FY 18 projections reflect deposits and reimbursements. |
| Year End Unrestricted Fund Balance[20] | 180,006,134 | 236,147,444 | 243,445,869 | |
| Total Year End Balance | 567,126,857 | 803,042,981 | 764,900,597 | [20] Reflects 23% Pay-Go in FY 16 and 20% Pay-Go in FY 17. Pay-Go for FY 18 may be less due to the spenddown of the 16B proceeds. |