

MEMORANDUM

TO: Administration, Operations, and Finance Subcommittee
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

RE: Guidelines for Use of Unrestricted Funds

Attached please find the revised draft Guidelines for Use of Unrestricted Funds, which were presented at the May 12, 2017 Board meeting. A 'Track Changes' version of the Guidelines is also included in your package. MSBA staff prepared these Guidelines to provide a framework for the scope of and priorities for current expenditures and potential new initiatives.

These Guidelines informed the recommendations for the FY 17 and FY 18 financing plans and budget recommendations. The Guidelines will also be a resource for FY 19 and beyond.

We have populated the key factors and statistics with current information, and will periodically update it in order to make decisions and provide recommendations about budget line items, Pay-go, etc. For example, SMART funds estimates are generally available after the Consensus Revenue presentation in December of each year, and DOR may provide updated SMART fund projections at various points during the fiscal year. Additionally, there can be significant variances in the rolling three months of grant spending. Specifically, the fourth quarter Prior Grant payments are higher than the other quarters, and ProPay requests can fluctuate depending on submission patterns, scope exclusions, new invitations, etc.

These guidelines were used in the development of our recommendation that \$50 million be authorized in FY 17 and FY 18 to fund lump sum payments to Districts that are planning a refunding of projects that are receiving Prior Grant or Annual Waiting List payments.

We look forward to your feedback on the guidelines.

Massachusetts School Building Authority

Guidelines for Use of Unrestricted Funds

The purpose of these guidelines is to provide a framework for the use of the Operating Fund of the Massachusetts School Building Authority (MSBA or Authority) in support of its mission to make timely payments. The primary mission of the MSBA is to provide grants to public K-12 school districts for school construction and renovation projects in order to partner with Massachusetts communities to support the design and construction of educationally-appropriate, flexible, sustainable, and cost-effective public school facilities.

In order to maintain the efficient operations of the Authority, the MSBA has the goal of maintaining approximately 10% of annual expenditures in unrestricted amounts kept in the Operating Fund, or an estimated three months of grant payments. Depending upon the amount of borrowed proceeds available, unrestricted funds may be necessary to cover near term grant payments. Unrestricted fund balances vary through the year due to the payment of large disbursements, such as Quarterly Prior Grant payments. If balances dip below guidelines, staff will propose a plan to the Chief Executive Officer and Executive Director.

Some key factors and statistics are:

- 10% of annual operating expenditures, including grants and loan disbursements, is approximately \$73 million.
- SMART funds are now projected at \$841 million for FY 18. Those funds go directly to the Trustee for monthly set-asides projected to total approximately \$411 million in FY 18, and the balance is wired to the MSBA monthly as unrestricted funds. 10% of annual SMART funds would be approximately \$84 million. The MSBA needs to be ready to supply unrestricted funds for debt service monthly set-asides at the Trustee, if the Commonwealth is unable to transfer money to the Trustee by the last business day of the month.
- Liquidity for payment of ProPay requests until the MSBA can access the market to raise new money proceeds. The Declaration of Official Intent voted on at the May 25, 2016 board meeting allows us to reimburse the unrestricted funds expended within the prior 18 months. Unexpected near term requests, such as those related to an Emergency Statement of Interest, could result in the need for such liquidity. Three months of ProPay payments is currently approximately \$100 million to \$125 million. Year to date in FY 18, the largest ProPay payment was more than \$6.7 million, and the smallest was \$3,337.
- Upcoming Quarterly Prior Grant and Annual Waiting List payments are projected to be \$21.6 million in December 2017, \$23.3 million in March 2018, and \$46.1 million in June 2018, and \$34.2 million and \$15.2 million in September 2018. In prior years, Districts have occasionally requested accelerated payment to assist with their cash flows.
- Approximately, \$14.4 million will be transferred on June 30, 2018 to fund the Qualified School Construction Bonds sinking funds requirement.
- \$1 million has been set-aside for future rebate payments, and another \$1 million is expected to be added to the account by June 30, 2018.
- MSBA has made a commitment to make timely payments for ProPay requests and final audit payments.
- The MSBA paid out \$31.4 million in lump sum payments in FY 17, and has received inquiries regarding potential lump sum payments of approximately \$24 million. The timing of future payments is dependent on district approvals and market conditions.

The priorities for the expenditure of unrestricted funds are as follows:

- Debt service payments or monthly set-asides not covered by restricted funds held at the Trustee
- Rebate payments to the U.S. Treasury
- Operations of the MSBA
- Annual Waiting List and Quarterly Prior Grant Payments
- Pay-go of 20% to 30% of Capital Pipeline program grants to support at least 2x senior coverage
- Defeasance of outstanding non-callable bonds to support at least 2x senior coverage
- Loan disbursements
- Lump sum payments for Annual Waiting List and Prior Grant projects

Massachusetts School Building Authority Guidelines for Use of Unrestricted Funds

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In order to maintain the efficient operations of the Authority, the MSBA has the goal of maintaining approximately 10% of annual expenditures in unrestricted amounts kept in the Operating Fund, or an estimated three months of grant payments. Depending upon the amount of borrowed proceeds available, unrestricted funds may be necessary to cover near term grant payments. Unrestricted fund balances vary through the year due to the payment of large disbursements, such as Quarterly Prior Grant payments. If balances dip below guidelines, staff will propose a plan to the Chief Executive Officer and Executive Director.

Some key factors and statistics are:

- 10% of annual operating expenditures, including grants and loan disbursements, is approximately ~~\$83-73~~ million.
- SMART funds are now projected at ~~\$841+3.2~~ million for FY ~~187~~. Those funds go directly to the Trustee for monthly set-asides projected to total approximately ~~\$411+7~~ million in FY ~~187~~, and the balance is wired to the MSBA monthly as unrestricted funds. 10% of annual SMART funds would ~~also~~ be approximately ~~\$841~~ million. The MSBA needs to be ready to supply unrestricted funds for debt service monthly set-asides at the Trustee, if the Commonwealth is unable to transfer money to the Trustee by the last business day of the month.
- Liquidity for payment of ProPay requests until the MSBA can access the market to raise new money proceeds. The Declaration of Official Intent voted on at the May 25, 2016 board meeting allows us to reimburse the unrestricted funds expended within the prior 18 months. Unexpected near term requests, such as those related to an Emergency Statement of Interest, could result in the need for such liquidity. Three months of ProPay payments is currently approximately \$100 million to \$125 million. Year to date in FY ~~187~~, the largest ProPay payment was more than ~~\$6.75.8~~ million, and the smallest was ~~\$3,337,679~~.
- Upcoming Quarterly Prior Grant and Annual Waiting List payments are projected to be ~~\$21.665.5~~ million in ~~December June~~ 2017, ~~\$23.355.4~~ million in ~~March September~~ 201~~87~~, and ~~\$46.1 21.6~~ million in ~~June December~~ 201~~78~~, and ~~\$34,223.3 million and \$15.2 million in MarchSeptember~~ 2018. In prior years, Districts have occasionally requested accelerated payment to assist with their cash flows.
- Approximately, \$14.4 million will be transferred on June 30, 201~~87~~ to fund the Qualified School Construction Bonds sinking funds requirement.
- ~~\$939,937 in rebate was paid in September 2016 and \$10,285 was paid in December 2016 from funds set aside in previous years.~~ \$1 million has been set-aside for future rebate payments, and another \$1 million is expected to be added to the account by June 30, 2018.
- MSBA has made a commitment to make timely payments for ProPay requests and final audit payments.
- The MSBA ~~has~~ paid out \$31.4 million in lump sum payments in FY 17, and ~~has~~ve received inquiries regarding potential lump sum payments of approximately \$24 million. The timing of future payments is dependent on district approvals and market conditions.

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