

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: November 22, 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 thru November 17, 2017.

Spending on Salaries & Benefits at 32.3% 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 November 22, 2017, we have 74 full time employees and one Co-op student.

General & Administrative Office Expenses at 39.1% 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 40.4% for Fiscal Year 2018 reflects the base rent and real estate taxes under the tenant agreement, parking, storage, insurance, and electricity for July through November.

Consulting & Professional Support Services at 33.1% for Fiscal Year 2018 reflects legal services, external auditors, IT consultants, arbitrage rebate, verification, and actuarial services.

Information Technology at 10.3% 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 was performed as of December 31, 2016 to update the valuation for the Fiscal Year 2017 financial statements, and reflects a small Unfunded Actuarial Accrued Liability of a few hundred thousand dollars. We transferred \$500 thousand to the OPEB Trust on November 1, 2017 to comply with the OPEB Committee's smoothing policy, which was adopted in April 2017.

Project Related Professional Support Services at 24.8% for Fiscal Year 2018 reflects the categories provided in the discussion of Attachment B below.

Cost of Issuance at 24.5% 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. The calculations are underway, and the payment is expected to be made in December. 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 to be made in 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 \$575 thousand have already been made and additional 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 34.6% for Fiscal Year 2018 reflects monthly requests from districts and final payments for audits approved at the June, August and October board meetings.

The Department of Elementary and Secondary Education is working with Districts that applied for Digital Connections Partnership Schools grants, and funds have been set aside at MMDT for any loan applications from those Districts during Fiscal Year 2018.

Attachment B provides additional detail regarding the Capital Pipeline Professional Support Services. Commissioning at 29.5% 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 19.4% 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 November 17, 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.