

MEMORANDUM

TO: Board of Directors, Massachusetts School Building Authority
FROM: James A. MacDonald, First Deputy Treasurer, Interim Chief Executive Officer
John K. McCarthy, Executive Director, Deputy Chief Executive Officer
DATE: May 2, 2017
RE: Policy Recommendations for Administering Estimated Grants

This memorandum presents two policy recommendations regarding: 1) the timing of the calculation of the annual cap based on the SMART fund; and 2) the administrative procedures that allow for reconciliation of the approved estimated grants and the annual cap. These recommendations increase the certainty in which the annual cap is calculated and maximize funds available to support the estimated grants of district proposed and Board of Directors' ("Board") approved projects.

Discussion

MSBA funding for school projects is governed by Chapter 70B, section 7 which states:

There shall be a limit on the estimated amount of grants approved by the Authority during a fiscal year. For fiscal year 2008, the limit shall be \$500,000,000. For each fiscal year thereafter, the limit shall be the limit for the previous fiscal year plus the lower of the rate of growth in the dedicated sales tax revenue amount, as defined in subsection (a) of section 35BB of chapter 10, or 4.5 percent. [Amended by Ch. 139 of the Acts of 2006, §47]

Historically, staff have monitored the grants approved by the Board each fiscal year and set the construction cost funding limit based upon an estimated growth forecast for that same fiscal year. Using this approach, the annual cap has been estimated since the final sales tax amount is not received until after the fiscal year closes. To increase the certainty of the annual cap calculation and maximize funds available to support the estimated grants of district proposed and Board approved projects, staff propose to calculate the annual program funding cap based upon SMART fund growth for the prior fiscal year and to use that calculation to reconcile the grants approved by the Board and set the construction cost funding limit.

In addition, district schedules vary from project to project with each district responsible to work with its community to complete the steps needed to sufficiently define the scope of the proposed project that defines the basis of the MSBA grant, address any local challenges, and obtain local approvals. This process and the project approval, including the authorization of an estimated grant, can take from 24 to 36 months after the original invitation to participate in the MSBA's Grant Program. In addition to the low predictability of which fiscal year the district will be ready for project approval, the scope of work can vary during these early stages as the MSBA works with the district to agree upon enrollment, grade configuration, the educational plan and the amount of square footage needed to meet that educational plan. Changing district schedules, variations in proposed project scope and the timing of local approvals contribute to the challenge

of predicting in which fiscal year the district will be ready for MSBA Board authorization. Staff are proposing administrative procedures that would allow the MSBA to maximize the number of projects that can be approved in a given year while remaining within the annual cap for the fiscal year and allow for a Board approved reconciliation process between two fiscal years in the event that the number of grants either exceeds the annual cap or is less than the annual cap. These administrative procedures would provide staff with the tools needed to maximize the amount of funding that is provided to school districts participating in the MSBA's grant program.

Recommendation:

MSBA staff recommends that the Board authorize the Executive Director to implement policies that:

1. Calculate the annual program funding cap based upon SMART fund growth for the prior fiscal year to allow staff greater certainty in recommending authorizations up to the actual funding cap each year.
2. Reconcile Board approved projects to the annual program funding cap during the final Board of Directors meeting of each fiscal year.
 - a. If the maximum grant value of all projects previously approved or then ready for Board approval **exceeds** the annual cap, the Board would vote to approve project(s) with either no funding or partial funding at the final Board meeting of the fiscal year, with the funds to be authorized in the next fiscal year;
 - b. If the maximum grant value of all projects previously approved or then ready for Board approval **is less than** the annual cap, the Board would pre-approve an amount that could be applied to either one or more project(s) that have been approved for Preferred Schematic or to Accelerated Repair Projects ("ARP") that have been invited into the ARP program, which ARP invitations typically occur during the final Board meetings of the fiscal year;
 - c. Provide a reconciled amount based upon the annual cap and Board votes from prior meetings that fiscal year, including failed local votes or other projects removed from the Capital Pipeline, for the last Board meeting of the fiscal year and recommend that the Board approve funds to be set aside for active projects in the grant program that would be obligated in the next fiscal year;
 - d. Define the parameters of how the funds would be moved and how they would be accounted for, how much could be transferred from year to year, and the maximum number of years over which the transfer could occur.
3. Make the policies effective for the MSBA Board of Directors meeting scheduled for June 28, 2017.