

## 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: June 13, 2017  
Subject: MSBA Fiscal Year 2017 Budget Update and Year End Projections

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The following is a summary of the Massachusetts School Building Authority's ("MSBA's") expenditures year to date and the anticipated expenditures for the full Fiscal Year 2017.

Within the Administrative Expense Budget category in Attachment A, the variance in the Fiscal Year 2017 projected expenditures at 85.1% as compared to the Fiscal Year 2017 revised budget includes approximately \$1.3 million in the Salaries & Benefits category. Projected spending on Salaries & Benefits at 81.8% reflects the annualizing of hires made throughout Fiscal Year 2017, departures during the year, the phased hiring for positions in the Fiscal Year 2017 staffing assumption, including conversion of consultant staff extensions in IT and Capital Planning. During Fiscal Year 2017, the progress of onboarding new hires towards the established goal of 77 employees was offset by staff turnover and retirement throughout the fiscal year. As of June 13, 2017, we have 71 full time employees and one Co-op student. The final two Capital Planning consultant staff extension positions are expected to be converted to full time MSBA positions and posted at the beginning of FY 18.

General & Administrative Office Expenses at 92.3% includes travel and professional development, training, leases for copiers and the postage machines, ongoing Trustee fees, and office equipment and furniture.

Occupancy & Utilities at 99.5% reflects the base rent and real estate taxes under the tenant agreement, parking, storage, insurance, and electricity.

Consulting & Professional Support Services at 97.0% reflects legal services, external auditors, IT consultants, arbitrage rebate, verification, and actuarial services.

Information Technology at 99.8% reflects web hosting, anti-virus, firewall, system maintenance, upgrade to Microsoft 365, software, and hardware.

While the MSBA's OPEB Trust is presently fully funded, the MSBA transferred \$100 thousand to the OPEB Trust 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 will be performed as of December 31, 2016 to update the valuation for the Fiscal Year 2017 financial statements.

Capital Pipeline Professional Support Services & Issuance Related Costs at 94.1% reflects the categories provided in the discussion of Attachment B below.

Arbitrage Rebate at 47.5% reflects the rebate payment made on the 2007 Series A Bonds and the yield reduction payment for the 2012 Series A bonds. The rebate consultant provides reporting on each outstanding issue annually.

Prior Grants at 95.9% reflects the adjusted annual payments and \$31,414,440 million for lump sum payments.

Waiting List at 66.6% reflects the adjusted schedules for the remaining projects with annual payments, and \$5,143,835 for conversion projects.

Capital Pipeline Program Grants at 72.3% reflects \$10 million a week for the final three weeks of the fiscal year, and requests may come in at lower amounts.

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 FY 17 loan applications from those Districts over the next couple of months.

Attachment B provides additional detail regarding the Capital Pipeline Professional Support Services. Commissioning is projected 108.7%, and is currently the only subcategory that is trending over budget.

Project Management Services at 84.6% reflects consultant staff extensions for project management services and OPM services Essex North Shore Agricultural and Technical School project.

Architectural services at 100.0% 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.

Capital Program Information Systems at 100.0% reflects consultant support for the School Survey and associated MSBA systems.

Cost of Issuance at 90.5% reflects the expenditures for the commercial paper programs, the 2016 Series B new money, and the 2016 Series C refunding bonds.

School Survey at 93% reflects the bulk of the expenditures for the 2016 school survey. The balance of the expenditures are expected in FY 18, and as mentioned above, funds related to consultant support for MSBA systems.

Post Occupancy Survey at 0.0% reflects that planning by MSBA staff has begun, but the consultant expenditures are likely to occur in FY 18.

Charts comparing the FY 17 year-to-date spending with a straight-line benchmark for Salaries and Benefits, Total Administrative Expenses, Project Related Legal, Audit & Professional Support Services, and Capital Pipeline Grant payments are reflected in Attachment C.

## MSBA Administrative Operations and Grant Programs Budget - Attachment A

Expense Category	FY16 Expenditures 7/1-6/30	FY 17							FY 18 Budget
		Revised FY17 Budget	FY17 YTD Expenditures 7/1-6/9	Variance (FY17 Revised Budget)	% (FY17 Revised Budget)	Projected FY17 Expenditures	Variance to FY17 Revised Budget	% FY17 Revised Budget	
<b>Administrative Expense Budget</b>									
Salaries & Benefits <sup>[1]</sup>	6,099,410	7,442,813	5,484,476	(1,958,337)	73.7%	6,086,149	(1,356,664)	81.8%	7,826,770
General & Administrative Office Expenses <sup>[2]</sup>	323,363	378,629	288,188	(90,442)	76.1%	349,395	(29,234)	92.3%	383,001
Occupancy & Utilities <sup>[3]</sup>	1,115,237	1,122,821	1,117,289	(5,532)	99.5%	1,117,289	(5,532)	99.5%	1,160,707
Consulting & Professional Support Services <sup>[4]</sup>	117,335	203,905	172,722	(31,183)	84.7%	197,722	(6,183)	97.0%	227,500
Information Technology <sup>[5]</sup>	111,183	205,399	141,369	(64,031)	68.8%	205,000	(399)	99.8%	267,480
<b>Total Administrative Expense Budget<sup>[6]</sup></b>	<b>7,766,529</b>	<b>9,353,567</b>	<b>7,204,043</b>	<b>(2,149,524)</b>	<b>77.0%</b>	<b>7,955,554</b>	<b>(1,398,013)</b>	<b>85.1%</b>	<b>9,865,458</b>
<b>Other Post Employment Benefits (OPEB)<sup>[7]</sup></b>	<b>100,000</b>	<b>100,000</b>	<b>100,000</b>	<b>0</b>	<b>100.0%</b>	<b>100,000</b>	<b>0</b>	<b>100.0%</b>	<b>100,000</b>
<b>Capital Pipeline Professional Support Services &amp; Issuance Related Costs</b>									
Project Related Legal, Audit & Professional Support Services <sup>[8]</sup>	4,691,645	6,038,000	4,889,961	(1,148,039)	81.0%	5,798,000	(240,000)	96.0%	5,020,000
Cost of Issuance <sup>[9]</sup>	3,398,969	3,250,000	2,442,102	(807,898)	75.1%	2,942,102	(307,898)	90.5%	3,250,000
<b>Total Capital Pipeline Program Professional Support Services</b>	<b>8,090,614</b>	<b>9,288,000</b>	<b>7,332,062</b>	<b>(1,955,938)</b>	<b>78.9%</b>	<b>8,740,102</b>	<b>(547,898)</b>	<b>94.1%</b>	<b>8,270,000</b>
<b>Arbitrage Rebate<sup>[10]</sup></b>	<b>11,842,422</b>	<b>2,000,000</b>	<b>950,122</b>	<b>(1,049,878)</b>	<b>47.5%</b>	<b>950,122</b>	<b>(1,049,878)</b>	<b>47.5%</b>	<b>250,000</b>
<b>Grant Program</b>									
Prior Grants <sup>[11]</sup>	184,937,437	210,850,561	202,188,971	(8,661,590)	95.9%	202,188,971	(8,661,590)	95.9%	171,154,798
Waiting List <sup>[12]</sup>	25,740,346	34,403,354	21,435,992	(12,967,362)	62.3%	22,925,360	(11,477,994)	66.6%	26,185,431
Capital Pipeline Program Grants <sup>[13]</sup>	411,764,406	550,000,000	367,838,327	(182,161,673)	66.9%	397,838,327	(152,161,673)	72.3%	506,126,869
<b>Total Grant Program</b>	<b>622,442,189</b>	<b>795,253,915</b>	<b>591,463,290</b>	<b>(203,790,625)</b>	<b>74.4%</b>	<b>622,952,658</b>	<b>(172,301,257)</b>	<b>78.3%</b>	<b>703,467,098</b>
<b>Loan Program Disbursements<sup>[14]</sup></b>		<b>10,000,000</b>	<b>0</b>	<b>(10,000,000)</b>	<b>0.0%</b>	<b>0</b>	<b>(10,000,000)</b>	<b>0.0%</b>	<b>10,000,000</b>
<b>Grand Total - Operating Budget</b>	<b>650,241,754</b>	<b>825,995,482</b>	<b>607,049,517</b>	<b>(208,945,964)</b>	<b>73.5%</b>	<b>640,698,436</b>	<b>(185,297,046)</b>	<b>77.6%</b>	<b>731,952,556</b>

[1] FY17 Budget assumed headcount of 77 by the end of December. Two capital planning staff extensions are reflected in the Project Related Legal, Audit & Professional Support Services<sup>[8]</sup> line item for FY 17. As of June 9, 2017, there are 71 full time employees and one Co-op. FY 18 budget reflect 77 by 6/30/2017, and conversion of two staff extensions in July 2017. Expenditures for benefits include health insurance, dental, vision, unemployment, workers comp, medicare, 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. We hope to fill the remaining IT staff extension position in FY 17, and those costs will now be reflected in the Salaries & Benefits<sup>[1]</sup> line.

[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] Reflects annual estimate of audited payments scheduled as of 6/9/17. Adjustments are made if districts refund their bonds for savings. FY 17 Revised Budget and FY 18 budget both reflect an additional \$40 million 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 available for lump sum payments for Districts issuing current refundings in both FY 17 and 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 & Issuance Related Costs - Attachment B

	FY16 Expenditures	Revised FY17 Budget	FY17 YTD Expenditures 7/1-6/9	Variance (FY17 Revised Budget)	% (FY17 Revised Budget)	Projected FY17 Expenditures	Variance to FY17 Revised Budget	% FY17 Revised Budget	FY 18 Budget
Commissioning Consultants <sup>[1]</sup>	3,071,291	2,300,000	2,189,969	(110,031)	95.2%	2,500,000	200,000	108.7%	3,400,000
Project Management Services <sup>[2]</sup>	1,028,765	650,000	431,435	(218,565)	66.4%	550,000	(100,000)	84.6%	130,000
Architectural Services <sup>[3]</sup>	460,201	813,000	483,525	(329,475)	59.5%	813,000	0	100.0%	840,000
Cost Estimating Services <sup>[4]</sup>	0	0	0	0	n/a	0	0	n/a	0
Audit & Other Compliance <sup>[5]</sup>	0	0	0	0	n/a	0	0	n/a	0
Capital Program Information Systems <sup>[6]</sup>	3,388	75,000	0	(75,000)	0.0%	75,000	0	100.0%	200,000
Cost of Issuance <sup>[7]</sup>	3,398,969	3,250,000	2,442,102	(807,898)	75.1%	2,942,102	(307,898)	90.5%	3,250,000
School Survey <sup>[8]</sup>	128,000	2,000,000	1,785,032	(214,968)	89.3%	1,860,000	(140,000)	93.0%	100,000
Post Occupancy Survey <sup>[9]</sup>	0	200,000	0	(200,000)	0.0%	0	(200,000)	0.0%	350,000
Legal <sup>[10]</sup>	0	0	0	0	n/a	0	0	n/a	0
<b>Capital Program Support Services</b>	<b>8,090,614</b>	<b>9,288,000</b>	<b>7,332,062</b>	<b>(1,955,938)</b>	<b>78.9%</b>	<b>8,740,102</b>	<b>(547,898)</b>	<b>94.1%</b>	<b>8,270,000</b>

- [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. FY 17 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 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 MSBA audit policy.
- [6] 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.).
- [7] FY18 budget includes funding for commercial paper programs, takeout of the 2015 commercial paper programs, and new money to support the Capital Pipeline.
- [8] 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 expected to take place in FY 17.
- [9] 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).
- [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.

# Attachment C

