

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: August 9, 2017
Subject: MSBA Preliminary Fiscal Year 2017 Year-End Budget Update and Fiscal Year 2018
Year-to-Date Update

The following is a summary of the Massachusetts School Building Authority's ("MSBA's") preliminary expenditures for the full Fiscal Year 2017 and Fiscal Year 2018 spending for the month of July.

Within the Administrative Expense Budget category in Attachment A, the variance in the Fiscal Year 2017 expenditures at 82.9% as compared to the Fiscal Year 2017 revised budget includes approximately \$1.5 million in the Salaries & Benefits category. Spending on Salaries & Benefits at 79.8% 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 August 9, 2017, we have 75 full time employees and one Co-op student, and spending at 5.8% is slightly below the straight-line benchmark of 7.7%. The final two Capital Planning consultant staff extension positions have been converted to full time MSBA positions and are expected to be posted during Fiscal Year 2018.

General & Administrative Office Expenses at 83.8% for Fiscal Year 2017 include travel and professional development, training, leases for copiers and the postage machines, ongoing Trustee fees, and office equipment and furniture. Fiscal Year 2018 spending to date at 6.5% is slightly below the straight-line benchmark.

Occupancy & Utilities at 99.5% for Fiscal Year 2017 reflects the base rent and real estate taxes under the tenant agreement, parking, storage, insurance, and electricity. Fiscal Year 2018 spending to date at 7.5% is in line with the straight-line benchmark.

Consulting & Professional Support Services at 88.9% for Fiscal Year 2017 reflects legal services, external auditors, IT consultants, arbitrage rebate, verification, and actuarial services. Fiscal Year 2018 spending to date at 0.1% is below the straight-line benchmark due to the timing of the services provided during the year.

Information Technology at 98.9% for Fiscal Year 2017 reflects web hosting, anti-virus, firewall, system maintenance, upgrade to Microsoft 365, software, and hardware. Fiscal Year 2018 spending to date at 1.9% is slightly below the straight-line benchmark due to the timing of the services provided and hardware to be purchased during the year.

While the MSBA's OPEB Trust is presently fully funded, 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. We expect to transfer another \$100 thousand during Fiscal Year 2018 as provided for in the budget.

Project Related Professional Support Services at 89.5% for Fiscal Year 2017 reflects the categories provided in the discussion of Attachment B below. Fiscal Year 2018 spending to date at 4.0% is slightly below the straight-line benchmark due to the timing of the services provided during the year.

Cost of Issuance at 79.7% for Fiscal Year 2017 reflects the expenditures for the commercial paper programs, the 2016 Series B new money, and the 2016 Series C refunding bonds. Fiscal Year 2018 spending to date at 12.7% is slightly above the straight-line benchmark due to the timing of quarterly payments to vendors.

Arbitrage Rebate at 47.5% for Fiscal Year 2017 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% for Fiscal Year 2017 reflects the adjusted annual payments and \$31,414,440 million for lump sum payments. The Fiscal Year 2018 first quarter payments are planned for the second week in September.

Waiting List at 62.3% for Fiscal Year 2017 reflects the adjusted schedules for the remaining projects with annual payments, and \$5,143,835 for projects processed through the Progress Payment System. The Fiscal Year 2018 annual payments are planned for the second week in September.

Capital Pipeline Program Grants at 70.7% for Fiscal Year 2017 reflects lower than expected reimbursement requests from the Districts. Fiscal Year 2018 spending to date at 6.3% is slightly below the straight-line benchmark.

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 113.7% for Fiscal Year 2017 reflects spending on active projects in the pipeline. Fiscal Year 2018 spending to date at 4.4% is slightly below the straight-line benchmark.

Project Management Services at 75.8% for Fiscal Year 2017 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 at 25.1% is 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 59.5% for Fiscal Year 2017 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. Fiscal Year 2018 spending to date at 2.4% is slightly below the straight-line benchmark due to the timing of the services needed during the fiscal year.

Capital Program Information Systems at 0.0% for Fiscal Year 2017 reflects consultant support for the School Survey and MSBA systems is expected to be expended in Fiscal Year 2018 or shown in the School Survey line item.

School Survey at 90.5% for Fiscal Year 2017 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 as well.

Post Occupancy Survey at 0.0% for Fiscal Year 2017 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.

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 7/1-7/31	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%	7,826,770	452,018	(7,374,752)	5.8%
General & Administrative Office Expenses ^[2]	323,363	378,629	317,332	(61,297)	83.8%	383,001	24,880	(358,121)	6.5%
Occupancy & Utilities ^[3]	1,115,237	1,122,821	1,117,289	(5,532)	99.5%	1,160,707	87,201	(1,073,506)	7.5%
Consulting & Professional Support Services ^[4]	117,335	203,905	181,293	(22,612)	88.9%	227,500	282	(227,218)	0.1%
Information Technology ^[5]	111,183	205,399	203,235	(2,165)	98.9%	267,480	5,046	(262,434)	1.9%
Total Administrative Expense Budget^[6]	7,766,529	9,353,567	7,756,178	(1,597,389)	82.9%	9,865,458	569,427	(9,296,032)	5.8%
Other Post Employment Benefits (OPEB)^[7]	100,000	100,000	100,000	0	100.0%	100,000	0	(100,000)	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	201,857	(4,818,143)	4.0%
Cost of Issuance ^[9]	3,398,969	3,250,000	2,589,507	(660,493)	79.7%	3,250,000	412,554	(2,837,446)	12.7%
Total Capital Pipeline Program Professional Support Services	8,090,614	9,288,000	7,990,792	(1,297,208)	86.0%	8,270,000	614,411	(7,655,589)	7.4%
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	0	(171,154,798)	0.0%
Waiting List ^[12]	25,740,346	34,403,354	21,435,992	(12,967,362)	62.3%	26,185,431	0	(26,185,431)	0.0%
Capital Pipeline Program Grants ^[13]	411,764,406	550,000,000	388,740,197	(161,259,803)	70.7%	506,126,869	31,885,620	(474,241,249)	6.3%
Total Grant Program	622,442,189	795,253,915	612,365,160	(182,888,755)	77.0%	703,467,098	31,885,620	(671,581,478)	4.5%
Loan Program Disbursements^[14]	10,000,000	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	33,069,458	(698,883,098)	4.5%

[1] FY 18 budget assumed 77 FTEs by 7/1/2017, and conversion of two staff extensions in July 2017. As of August 9, 2017, there are 75 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 7/1-7/31	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	149,193	(3,250,807)	4.4%
Project Management Services ^[2]	1,028,765	650,000	492,938	(157,062)	75.8%	130,000	32,605	(97,395)	25.1%
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	0	(100,000)	0.0%
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	201,857	(4,818,143)	83.1%

- [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 expected to take 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

