

## 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: January 31, 2018  
Subject: MSBA Fiscal Year 2018 Year-to-Date Budget Update and Initial Fiscal Year 2019 Budget Recommendation

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The following is a summary of the Massachusetts School Building Authority's ("MSBA's") preliminary expenditures for Fiscal Year 2018 spending thru January 26, 2018.

Spending on Salaries & Benefits at 42.4% 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 January 31, 2018, we have 73 employees.

General & Administrative Office Expenses at 59.4% 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 56.7% for Fiscal Year 2018 reflects the base rent and real estate taxes under the tenant agreement, parking, storage, insurance, and electricity for July through January.

Consulting & Professional Support Services at 48.8% for Fiscal Year 2018 reflects legal services, external auditors, IT consultants, arbitrage rebate, verification, and actuarial services.

Information Technology at 17.7% 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 Trust Committee's smoothing policy, which was adopted in April 2017. The OPEB Trust Committee will continue to review the effectiveness of the smoothing policy. Here is the language of the current policy:

To maintain fully funded status, the MSBA will request a budget of \$100,000 unrestricted funds be deposited to the OPEB Trust. Deposits are invested at the beginning of the month, so

transfers should be scheduled for the 1st. If a future actuarial report indicates there is an unfunded portion, the MSBA may request a budget allocation annually between \$100,000 to \$500,000 until fully funded status is reached again. MSBA will be reimbursed annually for actual premiums rather than estimated premiums.

Project Related Professional Support Services at 34.1% for Fiscal Year 2018 reflects the categories provided in the discussion of Attachment B below.

Cost of Issuance at 39.7% for Fiscal Year 2018 reflects the expenditures for the commercial paper programs.

An Arbitrage Rebate yield reduction payment of approximately \$365 thousand was projected for the 2012 Series B, but the calculations performed by the rebate consultant indicate no liability for this calculation period. Additionally, the rebate consultant provides reporting on each outstanding issue annually. Based on these reports, we plan to transfer approximately \$611 thousand to the rebate account at MMDT for rebate payments projected to be made in future fiscal years.

Prior Grants at 36.1% for Fiscal Year 2018 reflects first quarter payments which were paid to the districts on 9/20/17 and second quarter payments made on 12/6/17. 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 64.3% for Fiscal Year 2018 reflects annual payments paid to the districts on 9/20/17. Payments of \$1.9 million have already been made and additional payments of approximately \$3 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 49.7% for Fiscal Year 2018 reflects monthly requests from districts and final payments for audits approved at the June, August, October, and December 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 41.7% 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.

Architectural services at 25.8% 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 two 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, including the 2018 Series A, 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 January 26, 2018. As the financing plan is implemented, we will provide updates to the actual debt service amounts as impacted by any defeasance or issuance of new money. The SMART Funds are delivered directly to the Trustee, and  $1/12^{\text{th}}$  of any principal payment to be made in the next 12 months as well as  $1/6^{\text{th}}$  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.