

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 20, 2018
Subject: MSBA Fiscal Year 2018 expenditures Update and Fiscal Year 2019 Budget expenditures to date

The following is a summary of the Massachusetts School Building Authority's ("MSBA's") expenditures for Fiscal Year 2018 spending thru June 30, 2018 and Fiscal Year 2019 spending thru August 20, 2018.

FY 18 spending on Salaries & Benefits at 88.4% reflects hires made during Fiscal Year 2018 in accordance with the staffing plan and reflects turnover within the year. 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 August 20, 2018, we have 72 employees and one Co-op. There are positions currently posted, and we hope to fill additional positions by the end of Fiscal Year 2019.

General & Administrative Office Expenses at 98.9% reflects travel and professional development, training, leases for copiers and the postage machines, ongoing Trustee fees, and office equipment and furniture.

Occupancy & Utilities at 97.7% reflects the base rent and real estate taxes under the tenant agreement, parking, storage, insurance, and electricity for FY2018.

Consulting & Professional Support Services at 60.3% reflects legal services, external auditors, IT consultants, arbitrage rebate, verification, and actuarial services.

Information Technology at 49.5% reflects web hosting, anti-virus, firewall, system maintenance, software, and hardware.

The MSBA now has several former employees or their beneficiaries that are eligible for Other Post Employment Benefits, and two retirees receiving benefits. An actuarial analysis is being performed as of December 31, 2017 to update the valuation for the Fiscal Year 2018 financial statements. The calculation prepared for the 2017 financial statements reflected a small Unfunded Actuarial Accrued Liability of a few hundred thousand dollars, so an additional \$400 thousand was reallocated from the Salaries & Benefits line item to the OPEB line item for the FY 18 budget. The FY2018 final expenditures reflect the transfer of \$500,000 to the OPEB Trust on November 1, 2017 to comply with the OPEB Trust Committee's smoothing policy, which was adopted in April 2017.

Per the policy, we anticipate a transfer of \$100,000 to the OPEB Trust in Fiscal Year 2019 unless the actuarial valuation identifies an underfunded amount.

Project Related Professional Support Services at 61.7% reflects the categories provided in the discussion of Attachment B below.

Cost of Issuance at 70.7% reflects the expenditures for the commercial paper programs and a portion of the expenditures related to the 2018 Series A Bonds.

An Arbitrage Rebate yield reduction payment of approximately \$365 thousand was projected for the 2012 Series B in Fiscal Year 2018, but the calculations performed by the rebate consultant indicated no liability for this calculation period.

Prior Grants at 76.6% reflects all scheduled quarterly payments which were paid to the districts through June 30, 2018. There was \$40 million in capacity available for lump sum payments to districts that requested a present value payment to reduce the amount of refunding bonds they needed to issue in Fiscal Year 2018. The difference between final expenditures and budget in this category reflects fewer Districts seeking lump sum payments than anticipated during the FY2018 budget process.

Waiting List at 65.4% reflects annual payments paid to the districts on 9/20/17. There was \$10 million in capacity available for lump sum payments to districts that requested a present value payment to reduce the amount of refunding bonds they needed to issue in Fiscal Year 2018. The difference between final expenditures and budget in this category reflects fewer Districts seeking lump sum payments, and fewer reimbursement requests than anticipated during the FY2018 budget process.

Capital Pipeline Program Grants at 80.8% reflects monthly requests from districts and final payments for audits approved at the FY2018 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 2019.

Attachment B provides additional detail regarding the Capital Pipeline Professional Support Services. Commissioning at 77.4% reflects spending on active projects in the pipeline.

Project Management Services at 30.6% reflects consultant staff extensions for project management services and OPM services Essex North Shore Agricultural and Technical School project based on monthly invoice submissions.

Architectural services at 40.7% 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 difference between final expenditures and budget in this category reflects less utilization of these outside resources than anticipated during the FY2018 budget process.

Funding was provided for Capital Program Information Systems, however payments for these IT consultant support services were specific to the 2016 School Survey which were reflected on the School Survey line item.

School Survey at 85.7% reflects of the expenditures to finalize the 2016 School Survey.

Post Occupancy Survey at 0.0% reflects the assumption that expense would have been realized during FY2018, however planning by MSBA staff has begun and the consultant expenditures are expected to occur in FY 19.

Charts comparing the FY 19 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.

Expenditures to date in FY2019 reflect only 7 weeks of spending by the Authority, during this period 9% of the annual budget has been expended as compared to the 13% year to date benchmark. The two categories that are trending ahead of the benchmark are the result of expenditures that are heavily weighted for Q1; these include funds for the independent auditor reviewing the Authority's annual financial statements which are anticipated to be fully expended by the end of Q2, and Cost of Issuance associated with the issuance of 2018 Series B bonds sold during Q1.