

## 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 22, 2018  
**RE:** Implementation of MSBA Policy for Administering Estimated Grants

---

This Memorandum updates the Board of Directors (“Board”) regarding the Massachusetts School Building Authority’s (“MSBA”) implementation of Grant Cap management procedures that were discussed by the Board at the Administration, Operations, and Finance Subcommittee Meeting on March 29, 2017 and at the Board of Director Meetings on May 12, 2017, June 28, 2017, December 6, 2017, April 10, 2018 and June 27, 2018. With these procedures, the MSBA now captures and reallocates existing unused Grant Cap Space and can structure the allocation and future use of Grant Cap space to maximize the amount of funding that can be awarded and distributed by the MSBA to interested School Districts within Grant Cap limitations.

The procedures were first outlined in the May 2, 2017 Memorandum to the Board entitled Policy Recommendations for Administering Estimated Grants (“Policy”); a copy of the Memorandum is included as “Attachment 1”. Using that Policy and the various subsequent Board Votes through which the procedures of the Policy have been implemented, Grant Cap Space is now reconciled and recalculated on a rolling basis; adjusted to reflect the final audited value of each Total Facilities Grant and the estimated value of any Grant that is withdrawn because the related project is removed from the capital pipeline.

Staff requests that the Board officially approve the Policy, which will provide the MSBA with a consolidated record of these procedures used to date. The Policy further directed the MSBA to continue to evaluate and define procedures through which the MSBA can maximize the amount of funding that can be awarded and distributed within Grant Cap limitations. With that goal in mind, staff are recommending that, commencing in Fiscal Year 2019, Grant Cap space will be managed and allocated in coordination with shifting district project schedules and percentages applied to reflect the distribution of Grant funds. Staff requests that the Board officially approve the refined Policy as stated below:

- 1) At the final Board Meeting of each Fiscal Year, the MSBA will compare the total value of all estimated Grants that are scheduled to be approved in that Fiscal Year against the total amount of available Grant Cap Space:
  - a. If the total estimated Grant Value of proposed projects is **lower** than available Grant Cap space, the excess Grant Cap space will be pre-approved for the funding of future projects.
  - b. If the total estimate Grant Value of proposed projects is **higher** available

Grant Cap space, the excess estimated Grant Value will be allocated to available Grant Cap space in future Fiscal Years.

- 2) Upon the approval by the Board of a Final Audit, all Unused Grant Funding Cap Space will be identified and reallocated by the MSBA to support the funding of any current or future Approved project.
- 3) Upon approval by the Board of the Removal of a Project from the MSBA Capital Pipeline, all Unused Grant Funding Cap Space will be identified and reallocated by the MSBA to support the funding of any current or future Approved Projects. The amount identified with the Removal of a Project will be estimated and final reallocation will occur with the approval of a final audit.
- 4) Grant Cap space will be managed and allocated in coordination with shifting district project schedules and percentages applied to reflect the distribution of Grant funds. The Executive Director will monitor and approve the allocation and reallocation of Grant Cap Space, as needed, to maximize the amount of funding that can be awarded and distributed to interested School Districts within the MSBA's Grant Cap limitations.<sup>1</sup>

---

<sup>1</sup> The MSBA will allocate existing and future available Grant Cap Space, as needed, to optimize funding within Grant Cap limitations due to shifting district project schedules

## 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:** 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.