

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: February 04, 2020
Subject: Fiscal Year 2020 Budget Expenditures-to-Date and Preliminary Projection of Expenditures through Fiscal Year End

The following is a summary of the Massachusetts School Building Authority's ("MSBA's") expenditures for FY 2020 through January 24, 2020 and a preliminary projection of expenditures through Fiscal Year End.

FY 2020 spending on Salaries & Benefits to date is \$4,309,454 or 53.4% of the budgeted amount for the year. Spending is projected to be \$7.5 million or approximately 93.4% of the total budgeted amount.

General & Administrative Office Expenses, reflecting travel and professional development, training, tuition reimbursement, leases for copiers and the postage machines, ongoing Trustee fees, and office equipment and furniture is \$195,841 to date or 57.5% of the budgeted amount. We expect to spend \$302K by the end of the year; representing approximately 89% of the budgeted amount.

Occupancy & Utilities reflects the base rent and real estate taxes under the tenant agreement, parking, storage, insurance, and electricity. Expenditures to date are \$631,014 or 51.6% of the budgeted amount. We anticipate spending at year end to be approximately \$1.2 million and slightly over budget due to unexpected increases in the cost of electricity.

Consulting & Professional Support Services reflects legal services, external auditors, IT consultants and arbitrage rebate, verification, and actuarial services. To date in FY 2020, \$155,358 or 81.13% of the FY 2020 budgeted amount has been spent on these services. Approximately \$197K is anticipated to be spent by the end of the year.

Information Technology reflects web hosting, anti-virus, firewall, system maintenance, software, and hardware. Additionally, the FY 2020 budget includes funding for cloud migration, the MSBA's website, new financial software, phone and internet services, software licenses for Tableau and Munex, anti-virus firewall, website hosting and Lynda.com. Expenditures to date are \$52,061 or 13.4% of the amount budgeted. However, the Authority anticipates spending approximately \$275.8K by the end of the fiscal year. A number of planned projects are underway and related expenditures are not yet reflected.

The OPEB Trust Committee adopted a smoothing policy in April 2017. The OPEB Trust Committee regularly reviews 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.

The amount recommended and budgeted for FY 2020 (typically transferred on November 1) was \$200,000; \$100,000 per the smoothing policy and an additional \$100,000 to provide a cushion for market volatility that may impact the calculation of the MSBA's annual OPEB valuation, which is completed in December and rolled forward as of June 30, 2019. On the basis of a \$500,000 contribution in FY 2018, the Trust was calculated to be overfunded by (\$226,000) at June 30, 2019. In consideration of market volatility this year, the OPEB Trust Committee voted at its most recent meeting for the transfer of \$200,000 on November 1, 2019 to the Trust.

Expenditures for Project Related Professional Support Services (reflected in the categories provided in the discussion of Attachment B below) to date are \$3,206,677 or 60% of the total amount budgeted. Spending is anticipated to be \$5.1 million or 93% of the total budgeted by the end of the year.

The MSBA issued its 2019 Series A Bonds in July 2019 and taxable advance refunding bonds (2019 Series B) in November 2019. Total expended to date for costs of issuance is approximately \$740,000 or 62% of the total budgeted amount of \$1.2 million. The Authority anticipates issuing new money bonds in mid-late FY 2020; and is also considering refunding opportunities as well as a cash defeasance of outstanding bonds.

The FY 2020 budget includes \$1,300,000 for a rebate payment for the 2015D bonds that was estimated by the MSBA's rebate consultant as of June 30, 2018. The rebate consultant's report as of June 30, 2019 estimates this payment at approximately \$1.7 million. The rebate payment for these bonds is required to be calculated as of January 31, 2020 (and must include all interest earnings through that date.) The Authority is then required to make any rebate payment owed to the IRS within 60 days of January 31, 2020. The Authority's Rebate Consultant, AMTEC, is currently in the process of calculating the amount of the required payment due on the 2015D bonds.

Prior Grants reflects all scheduled quarterly payments which were paid to Districts through the end of each fiscal year. The amount budgeted for FY 2020 was originally \$106,722,962, including \$15 million in capacity for Districts that issue current refundings in FY 2020. To date, \$40,396,393 in payments have been made on Prior Grants. Additionally, the amount of \$15 million was moved from Prior Grants to Waiting List Grants as two Districts with Waiting List projects have issued or will issue a current refunding of the debt they have outstanding for those projects. Approximately \$5-6 million is anticipated to be paid in total out of the \$15 million budgeted for such purpose.

Waiting List projects are paid once annually in September. The total budgeted amount for FY 2020 was originally \$15,298,965 million, and \$15,220,435 was paid in September 2019. However, as mentioned above, \$15 million of lump sum funding was moved from the Prior

Grants line item to the Waiting List line item to account for the two projects for which a current refunding has or will be made. It is possible the Authority may receive additional requests for lump sum payments by the end of the fiscal year. The annual payment schedule for Waiting List projects ends in FY 2024.

Capital Pipeline Program Grants at reflects monthly requests from districts and final payments for audits approved at board meetings throughout the fiscal year. The total amount budgeted for Capital Pipeline Program Grants for FY 2020 is \$550,000,000, of which to date \$363,890,414 or 66.2% has been expended. Based on an estimate of \$15 million in spending per week until the fiscal year end, the Authority would anticipate spending approximately \$694 million which would be 126% of the total budgeted amount. Staff is monitoring spending closely, while average spending has been up significantly, it is anticipated that it may level off as has been the trend in past years. However, should spending continue to trend higher, staff will apprise the Board of any changes to the original budget that may be required. Additionally, the pace of spending will impact the timing of Authority's borrowing plans for new money as well.

Attachment B provides additional detail regarding the Capital Pipeline Professional Support Services. Overall, to date a total of \$2,090,035 or 60.1% of the amount budgeted for Capital Pipeline Professional Support Services has thus far been expended. By the end of the fiscal year, the Authority anticipates spending a total of \$3,459,500 or 98.8% of the total amount budgeted.

In FY 2020 a total of \$1,893,646 or 59.2% of the budgeted amount of \$3,200,000 for Commissioning services has been expended. Approximately \$3.1 million or 98.8% of the amount budgeted for the fiscal year is anticipated to be spent by the end of the year.

Funding was provided for Capital Program Information Systems in FY 2019, however no expenditures were made against this line item through June 30, 2019. No funding was budgeted for in FY 2020.

Post-Occupancy Survey budgeted amount for FY 2020 is \$257,000; of that amount \$188,246 or 73.2% has been expended to date. Approximately \$288K is anticipated to be spent by the end of the year.

A chart comparing the FY 2020 year-end spending with a straight-line benchmark for Salaries and Benefits, Total Administrative Expenses, Project Related Professional Support Services, and Capital Pipeline Grant payments is reflected in Attachment C.

Expenditures to date in FY 2020 reflect nearly 7 months of spending by the Authority. During this period 62.3% of the annual budget has been expended, which is above the Authority's FY 2020 budget benchmark of 57.7%, primarily due to a greater than anticipated trend in spending for Capital Pipeline Program Grants. As discussed above, the Authority is monitoring this spending closely.