

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: April 07, 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 March 27, 2020 and a preliminary projection of expenditures through Fiscal Year End.

FY 2020 spending on Salaries & Benefits to date is \$5,114,572 or 64.1% of the budgeted amount for the year. Spending is projected to be \$7.2 million or approximately 91% of the total budgeted amount. \$100K for the pay equity study was budgeted in the base payroll line item, but expenses were applied to the Consulting & Professional Support Services line item (see below for additional detail).

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 \$261,926 to date or 77% of the budgeted amount. We expect to spend \$317K by the end of the year; representing approximately 92.9% 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 \$939,595 or 77% 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, \$157,158 or 53.9% of the FY 2020 budgeted amount has been spent on these services. Approximately \$208K is anticipated to be spent by the end of the year. An additional \$100K was moved from Salaries & Benefits to account for the expenses related to the pay equity study that was applied to this line item.

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 \$70,655 or 18.1% of the amount budgeted. However, the Authority anticipates spending approximately \$349K by the end of the fiscal year; representing approximately 90% of the budgeted amount. 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 to date are \$3,590,398 or 66.1% of the total amount budgeted. Spending is anticipated to be \$5,347,720 or 98.4% of the total budgeted by the end of the fiscal 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. A vote authorizing interim and/or short-term borrowing is requested to provide the MSBA with the ability to raise funds during this current period of market volatility.

An arbitrage rebate payment on the 2015D Bonds of \$1.9 million was due in February 2020. Originally \$1.3 million was budgeted in FY 2020 to cover this anticipated payment (based on the estimate provided by the rebate analysis available at the time the FY 2020 budget was approved). However, under IRS regulations the MSBA was allowed to change the date of this payment to December 2020, which it did. In addition, in conjunction with the MSBA's planned defeasance, \$50 million of the 2015D Bonds were defeased. The net effect of this was to reduce the payment due in December 2020 by approximately \$300,000 and to eliminate the \$3 million rebate payment (estimated) that would otherwise have been due in 2025.

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, \$53,585,032 in payments have been made on Prior Grants. Two million was moved to Waiting List Projects to account for an approximately \$2 million payment for a current refunding of a Waiting List project by a District. Additionally, the amount of \$13 million was moved from Prior Grants to Capital Pipeline Program Grants.

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, \$2 million of lump sum funding was moved from the Prior Grants line item to the Waiting List line item to account for a current refunding to the Town of Falmouth in the amount of \$1.3 million. The annual payment schedule for Waiting List projects ends in FY 2024.

Capital Pipeline Program Grants reflect 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 and an additional \$13 million was transferred from the Prior Grants Line item. To date, \$476,875,851 or 84.7% has been expended. Based on estimated spending per week until the fiscal year end, the Authority anticipates spending approximately \$595 million which would be slightly over the total budgeted amount. Staff is monitoring spending closely, while average spending has been up significantly, it is anticipated that it may level off towards the end of the fiscal year.

Attachment B provides additional detail regarding the Capital Pipeline Professional Support Services. Overall, to date a total of \$2,850,662 or 67.4% 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 \$4,207,984 or 99.4% of the total amount budgeted.

In FY 2020 a total of \$2,205,905 or 69% of the budgeted amount of \$3,200,000 for Commissioning services has been expended. Approximately \$3.2 million or 99.5% 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 \$202K or 78.5% has been expended to date. Approximately \$402K 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 9 months of spending by the Authority. During this period 80.9% of the annual budget has been expended, which is above the Authority's FY 2020 budget benchmark of 73%, primarily due to a greater than anticipated trend in spending for Capital Pipeline Program Grants. The Authority is monitoring this spending closely, but anticipates it to level off by the end of the fiscal year.