

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: June 16, 2020
Subject: MSBA Fiscal Year 2020 Year-to-Date Budget Update and Fiscal Year 2021 Budget Recommendations

The following is a summary of the Massachusetts School Building Authority's ("MSBA's") preliminary expenditures for Fiscal Year 2020 spending through June 12, 2020 and recommendations for the Fiscal Year 2021 budget.

Spending on Salaries and Benefits at 88.1% year to date reflects the annualizing of hires made in Fiscal Year 2020, departures during the year, and phased hiring for positions in the Fiscal Year 2020 staffing assumption. As of June 12, 2020, we had 69 employees and three Co-op's. The Fiscal Year 2021 budget recommended Salaries line item of \$7,615,159 reflects the full annual salary for existing employees, assumes 7 new employees for the entire Fiscal Year and 3 new employees for half of the Fiscal Year, an additional 4.7 positions funded for the Post-Occupancy Evaluation program, an estimate for Co-ops and Fellows, \$100,000 for COLA, an estimated amount of \$100,000 for merit increases and \$50,000 for phase II of pay equity adjustments corresponding to the Pay Equity/Compensation Survey study conducted Fiscal Year 2020. Benefits are calculated at 11% of salaries; the budget recommendation for Fiscal Year 2021 is \$837,667. Benefits include costs for GIC health insurance, Delta Dental, ER Medicare and Davis Vision, as well as costs related to the new PFMLA benefits implemented in Fiscal Year 2020.

General & Administrative Office Expenses at 94.2% year to date for Fiscal Year 2020 include travel and professional development, training, leases for copiers and the postage machines, ongoing Trustee fees, and office equipment and furniture. The Fiscal Year 2021 budget recommendation of \$381,874 provides additional capacity for training a larger number of staff, travel to site for ongoing projects and the Post Occupancy Survey and increases in subscriptions, such as Bloomberg.

Occupancy & Utilities at 102.1% year to date for Fiscal Year 2020 reflects the base rent and real estate taxes under the tenant agreement, parking, storage, insurance, and electricity for July through May. The Fiscal Year 2021 budget recommendation of \$1,275,000 reflects monthly payments under the lease and a small amount to cover increases in electricity and real estate taxes.

Consulting & Professional Support Services at 75.8% year to date for Fiscal Year 2020 reflects funding for MSBA's external auditors, arbitrage rebate analysis and OPEB valuation. The Fiscal Year 2021 budget recommendation of \$296,500 provides funding for the MSBA's annual audited financial statements, arbitrage rebate analysis and legal services not specifically related to a bond issue.

Information Technology at 38.2% year to date for Fiscal Year 2020 reflects expenditures related to web-hosting, anti-virus, firewall protection, system maintenance, software, and hardware. The Fiscal Year 2021 budget recommendation of \$990,080 includes an additional \$600,000 for first year implementation of new financial software, costs related to the cloud, website development, phone, internet, and other licenses and software programs.

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.

Per the MSBA's current smoothing policy, the recommendation is to transfer \$100,000 to the OPEB Trust in Fiscal Year 2021, however, an additional \$100,000 is included to provide a cushion for market volatility that may impact the calculation of the MSBA's annual OPEB valuation, which is completed in December.

Project Related Professional Support Services at 75.6% year to date for Fiscal Year 2020 reflects the categories provided in the discussion of Attachment B below.

Cost of Issuance at 62.6% year to date for Fiscal Year 2020 reflects expenditures associated with the 2019 Series A and B Bonds and a portion related to the MSBA's new money issuance in July 2020. The Fiscal Year 2021 budget recommendation of \$1,000,000 reflects an estimate of expenditures related to two bond issues in Fiscal Year 2021.

The budgeted amount for Fiscal Year 2020 reflects an estimated rebate payment of approximately \$1.3 million associated with the 2015 Series D Bonds based on the rebate report dated June 30, 2018. The rebate report dated June 30, 2019 estimated the rebate payment on these bonds to be approximately \$2 million. In March 2020, The Authority executed a defeasance, including bonds from the 2015 Series D Bonds and was able to postpone the rebate payment owed until December 2020 and reduce the estimated amount due by \$300K. The defeasance of these bonds also eliminated an estimated \$3 million rebate payment that would have been due in 2025. The Fiscal Year 2021 budget recommendation reflects an estimated rebate payment of approximately \$1.7 million associated with the 2015 Series D Bonds in December 2020.

Prior Grants at 58.4% for Fiscal Year 2020 reflects payments made to districts in the first three quarters of the fiscal year. The Fiscal Year 2021 budget recommendation of \$51,283,428 reflects the existing schedule of annual prior grants payments.

Waiting List at 95.7% for Fiscal Year 2020 reflects annual payments paid to districts in the first quarter of the fiscal year. The Fiscal Year 2021 budget recommendation of \$29,535,071 reflects the existing schedule of annual payments, as well as the capacity to fund \$15 million in lump sum payments.

Capital Pipeline Program Grants at 101.4% year to date for Fiscal Year 2020 reflects monthly requests from districts and final payments for audits approved at the June, August, October, December, February, and April board meetings. The Fiscal Year 2021 budget recommendation of \$740,000,000 is based on cash flows submitted which show an increase in demand for reimbursement requests from Districts that have projects that are currently in Design Development and Construction Phase as well as funding for Accelerated Repair Program projects.

Attachment B provides additional detail regarding the Capital Pipeline Professional Support Services. Commissioning at 76.8% year to date for Fiscal Year 2020 reflects spending on active projects in the

pipeline. The Fiscal Year 2021 recommendation of \$3,000,000 reflects estimates for existing projects and newly invited projects.

Architectural Services at 66.1% year to date for Fiscal Year 2020 budget included anticipated support services for schematic design, construction document and architectural reviews, and also includes anticipated expenditures for senior studies related to the review process for the Statement of Interest (SOI) submittals. The Fiscal Year 2021 budget recommendation of \$736,000 includes costs associated with Senior Study, Technical Services and Post Occupancy Evaluation program.

School Survey at 40.7% year to date for Fiscal Year 2020 budget included the final costs associated with the 2016 needs survey. The MSBA is in the beginning planning phases for the next survey, which is not expected to be completed until Fiscal Year 2022 or later.

Post Occupancy Survey at 78.5% for Fiscal Year 2020 reflects Capital Pipeline professional support services which may not be specifically allocated through other cost categories (e.g., Post-Occupancy Survey and construction cost data analysis). The Fiscal Year 2021 budget recommendation of \$350,000 includes funding for Post Occupancy, Technical Services, Support Services and/or COVID-19 analysis.

Charts comparing the Fiscal Year 2020 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.