

## MEMORANDUM

TO: Board of Directors  
FROM: Maureen G. Valente, Chief Executive Officer  
John K. McCarthy, Executive Director, Deputy Chief Executive Officer  
SUBJECT: MSBA Construction Cost Policy Update  
DATE: May 18, 2016

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In accordance with established practices, staff has completed its annual review of construction cost data. The information and the recommendation below were presented at the Facilities Assessment Subcommittee meeting on April 20, 2016.

### **Background**

The MSBA statute places a limit upon the estimated amount of grants that can be approved by the MSBA during a fiscal year. That limit is tied to the rate of growth, by percentage, of dedicated sales tax revenues. A limit of \$500,000,000 was set in 2008 and, for each fiscal year thereafter, that limit has been revised by an amount that is proportional to the actual rate of growth in the dedicated sales tax up to a maximum increase of 4.5 per cent. Concomitantly, the MSBA set a reimbursable limit of \$275 per square foot (“/sf”) for eligible construction costs early in 2009 and that limit has been reviewed annually and revised periodically to address price fluctuations in the marketplace. Subject to the statutory limitation, each year the reimbursable limit is compared to the projected average price per square foot that is available in the marketplace and periodic revisions are recommended, when appropriate.

Key milestones in the MSBA’s funding policy for eligible construction costs include:

- August 2012: Posted a Request for Services, evaluated responses, and selected Rider Levett Bucknall (“RLB”) to assist with review of construction cost data and assess if the \$275/sf continued to be an appropriate level of reimbursement for building and eligible site costs;
- June 2013: Presented findings of the RLB Report to the Board of Directors and recommended that the policy of reimbursing up to \$275/sf plus eligible demolition and abatement continue;
- June 2014: Adjusted the policy to fund up to \$287/sf plus eligible demolition and abatement based on the statutory limit of 4.5%; and
- June 2015: Adjusted the policy to fund up to \$299/sf plus eligible demolition and abatement based on the forecast FY16 dedicated sales tax revenue growth of 4.1%. The Board concurred with the recommended Policy change to be effective as of July 1, 2015, and approved the recommendation at the subsequent Board Meeting on August 6, 2015.

## **Updated Annual Review**

Staff has completed its updated annual review and finds the following:

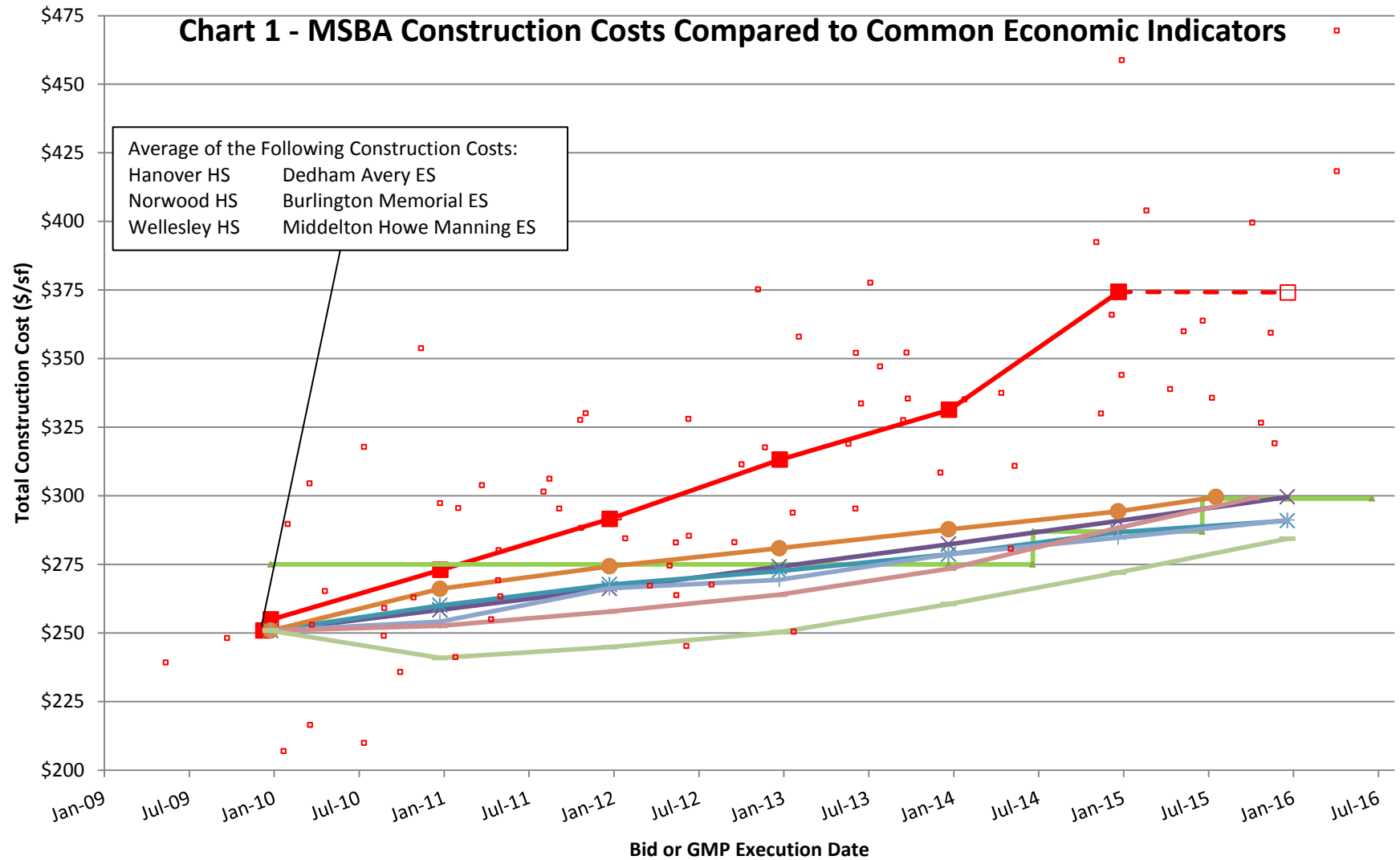
- Total construction costs for MSBA funded projects continue to exceed what is indicated from six common economic indicators, refer to the attached Chart 1;
- New building plus eligible site costs for 18 MSBA funded projects that bid between July 1, 2013 and June 30, 2015 ranged in cost from \$258/sf to \$391/sf with an overall average of \$311.80/sf;
- Four of the 18 projects were outside of one standard deviation;
- New building costs plus eligible site costs are projected to reach \$319/sf on December, 31, 2016, the midpoint of the upcoming fiscal year (based on the 14 projects within one standard deviation), refer to the attached Chart 2; and
- Dedicated sales tax revenue is anticipated to exceed the statutory limit of 4.5%.

## **Recommendation**

Based on the review and findings described above staff recommends the following:

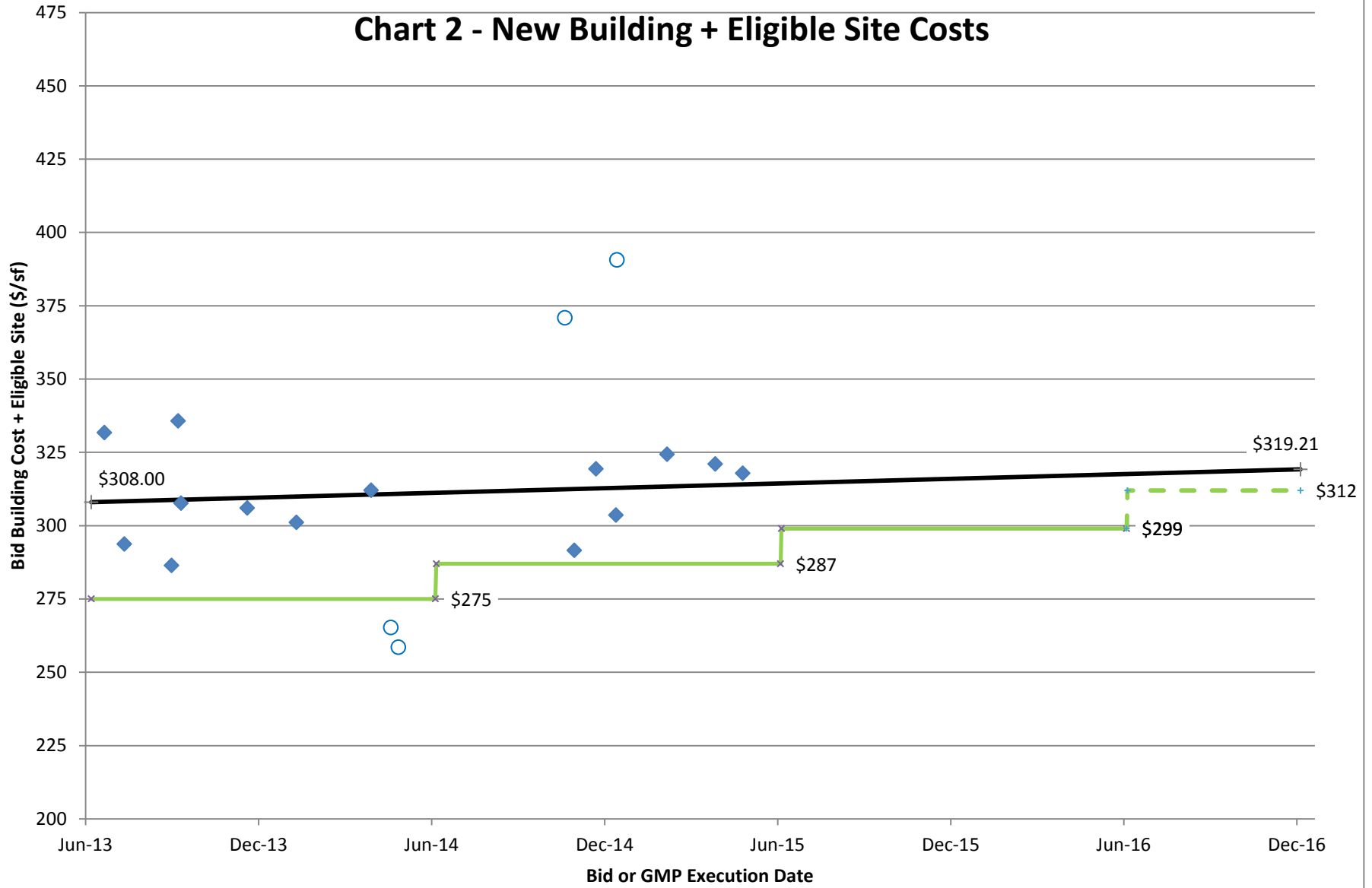
- Adjust the current policy of funding up to \$299/sf plus eligible demolition and abatement, to \$312/sf plus eligible demolition and abatement, based on the statutory limit of 4.5%; and
- Make the policy effective for districts receiving an approval of a proposed project on or after July 1, 2016.

# Chart 1 - MSBA Construction Costs Compared to Common Economic Indicators



- Ave. Total Construction Cost
- Prel. Ave. Total Construction Cost
- MSBA Construction Funding
- ✕ 3% Escalation
- ✕ ENR National
- ENR BCI
- + BLS PPI Schools
- RLB National CCI
- Turner Building Cost Index
- Total Construction Cost

### Chart 2 - New Building + Eligible Site Costs



- ◆ Within 1 Standard Deviation
- Outside 1 Standard Deviation
- +— Building + Eligible Site Costs Trend Line
- +— MSBA Construction Funding
- - -+ - Proposed MSBA Construction Funding