

MEMORANDUM

TO: Board of Directors, Massachusetts School Building Authority
FROM: James A. MacDonald, First Deputy Treasurer, Chief Executive Officer
Mary L. Pichetti, Executive Director, Deputy Chief Executive Officer
DATE: August 21, 2024
RE: Recommendation to Revise MSBA Project Funding Limits Policy

In accordance with past practices, staff have completed an updated review of proposed project costs, grant data, and the MSBA's annual program funding cap. Revisions to the MSBA Funding Limits Policy regarding eligible construction costs are recommended, as outlined in this memorandum, to be effective on or after January 1, 2025. Information regarding staff's considerations was presented and discussed at the Facilities Assessment Subcommittee meeting on July 31, 2024.

Background

The MSBA's enabling statute places a limit upon the estimated amount of grants, the annual program funding cap ("Annual Cap"), 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 million was set in 2008 and, for each fiscal year thereafter, that limit was revised by an amount that was proportional to the actual rate of growth in the dedicated sales tax up to a maximum increase of 4.5%.

For fiscal year 2020 ("FY20"), the Student Opportunity Act increased the limit on the amount of grants approved by the MSBA to \$800 million, resulting in an increase of approximately \$175 million in the statutory limit for FY20. For FY23, the legislature, in the Commonwealth's FY24 Budget, increased the annual cap to \$1.2 billion and removed grants related to the Accelerated Repair Program from the accounting of the Annual Cap retroactive to FY23, adding approximately \$364 million combined to the MSBA's Annual Cap. Further, this legislative action also increased the allowable annual growth rate in the Annual Cap from a maximum increase of 4.5% to a maximum increase of 6.5%.

To most effectively meet the needs of districts across the Commonwealth, while ensuring a sustainable program within the Annual Cap, the MSBA has, throughout the course of its grant program, set a limit on the reimbursable construction cost per square foot for projects in the MSBA's capital pipeline. For Core Program projects, the MSBA first set a reimbursable limit of \$275 per square foot ("/sf") for eligible construction costs early in 2009, which remained in effect until June 30, 2014. Between 2009 and 2021, staff reviewed construction costs and the growth in the dedicated sales tax revenue and increased the MSBA reimbursable construction limit six times. On June 23, 2021, the increase resulted in a reimbursable construction limit of \$360/sf, plus eligible demolition and abatement, and introduced three new upper limits regarding Owner's Project Management services, Designer services, and Owner's Contingency.

Since June 2021, the MSBA has increased construction cost funding levels twice based on a review of anticipated grant obligations and the Annual Cap. Due to a temporary pause in the Accelerated Repair Program in 2022, the MSBA was able to increase the construction cost funding level by 20% on December 21, 2022, up to \$432/sf (\$393/sf for building costs, plus \$39/sf for otherwise eligible sitework costs). Following the legislation authorized in the Commonwealth's FY24 Budget, the MSBA increased the construction cost funding level on October 25, 2023, by approximately 40% to its current construction cost funding level of up to \$605/sf (\$550/sf for building costs, plus \$55/sf for otherwise eligible sitework costs). With both recommendations, staff noted that construction cost funding limit increases of this magnitude were one-time adjustments resulting from the factors described.

Discussion

This year's review, described below, includes an evaluation of construction cost funding levels and the impact on potential project invitations, as well as a review of site costs. The evaluation of funding levels is similar in its approach to the analysis performed last year in that it compares estimated grant values for projects currently in the grant program to the estimated value of the MSBA's Annual Cap over time to project available grant cap space that could be applied to future SOI invitations.

Site Cost Review

Staff reviewed how site costs have changed over time to further understand the MSBA's current construction cost funding policy. The review considered five years of estimated site costs as established at the conclusion of schematic design (when the project is approved by the MSBA Board of Directors) and site costs included in the schedule of values received with General Contractor Bids or Guaranteed Maximum Price Contracts.

While a significant change in sitework costs per building square foot over the last five years is noted, when the sitework costs for the same projects are viewed as a percentage of building costs, no significant change in sitework costs as a proportion of building costs over time is observed. These observations imply that changes in sitework costs are more likely the result of increasing construction costs rather than a separate trend specific to sitework costs. Additionally, a review of projects that included geothermal wells as part of the proposed project scope at schematic design did not yield any discernable trends.

Therefore, no adjustment to the MSBA's current policy of funding otherwise eligible site costs based on 10% of the Building Cost Funding Limit is recommended at this time. For additional information regarding this analysis, refer to Attachment A – Site Cost Review.

Evaluating Potential Funding Levels and Potential Future Project Invitations

Currently the MSBA funds up to \$550/sf for eligible building costs plus \$55/sf for otherwise eligible sitework costs, totaling \$605/sf plus eligible demolition and abatement. Staff considered three potential alternatives to construction funding levels to assess the impact of the negative

growth rate in the dedicated sales tax revenue from FY24 and the number of potential SOI invitations that could be supported:

- Building Cost Funding Limit of \$550/sf (plus 10% or \$55/sf for eligible site work) plus eligible demolition and abatement – This no-change option evaluated the outcome of maintaining the MSBA’s current Building Cost Funding Limit;
- Building Cost Funding Limit of \$569/sf (plus 10% or \$57/sf for eligible site work) plus eligible demolition and abatement – This option evaluated the impact of increasing the Building Cost Funding Limit by approximately 3.5% over the current funding policy; and
- Building Cost Funding Limit of \$586/sf (plus 10% or \$59/sf for eligible site work) plus eligible demolition and abatement – This option evaluated the impact of increasing the Building Cost Funding Limit by approximately 6.5% over the current funding policy.

The analysis includes projects currently in the grant program and potential future SOI invitations based on a typical project reflecting the average enrollment, eligible building size, and reimbursement rate as described below. MSBA staff applied its funding policies and project averages to estimate a maximum total facility grant for each potential project for each funding alternative evaluated. MSBA assumed the following in its analysis as shown in Table 1:

Table 1 – Cost Review Assumptions

Factor	Projects Currently in the Grant Program	Potential Future Project Invitations
Feasibility Study Agreement Grant	Project specific Maximum Total Facilities Grant and fiscal year in which the project is invited to conduct a feasibility study	\$600,000 obligated two fiscal years after the future SOI is assumed to be submitted to the MSBA
Enrollment	Latest projected enrollment	757 students
Eligible Building Area	Latest project estimate	160,000 gross square feet
Total Reimbursement Rate	Statutory Reimbursement Rate + 5% for incentives (up to statutory maximum of 80%)	63.18% (58.18% + 5% for incentives)
Building Cost Funding Limit	Assumed to increase 6.5% annually	
Annual Cap Growth	-1.00% for FY25 Assumed to increase 6.5% annually thereafter	

For each potential construction funding level in this analysis, staff estimated the maximum total facilities grants for current projects in the pipeline, as well as a range of future SOI invitations. These estimates were used to compare the total projected grants each year against the estimated Annual Cap. Staff forecasted that grants associated with the 2024 SOI invitations would be approved by the Board of Directors in FY28, and applied this approach to each annual invitation of projects in the analysis model. This process was repeated iteratively to assess the maximum number of future SOI invitations that could be supported within the estimated Annual Cap. The results of these efforts are summarized in Table 2 below.

Table 2 – Building Cost Funding Limit Summary

Building Cost Funding Limit after January 1, 2025 (\$/sf)	Estimated Number of 2024 Invitations based on the typical project described above	Sustainable Level of Invitations based on the typical project described above
\$550 (no change)	18	17
\$569 (3.5%)	16-17	16-17
\$586 (6.5%)	16	16

Recommendations

Based on this review, the findings described above, and discussions during the Facilities Assessment Subcommittee meeting on July 31, 2024, staff recommend the following changes to the MSBA’s project funding limits policy:

- Adjust the current policy of funding from \$550/sf for building costs, plus eligible demolition and abatement (exclusive of eligible sitework costs), to \$586/sf for building costs, plus eligible demolition and abatement (exclusive of eligible sitework costs);
- Apply MSBA’s sitework cost allowance guidelines to include up to \$59/sf in addition to the proposed building cost increase of \$586/sf, for a total construction cost funding limit of \$645/sf, plus eligible demolition and abatement; and
- Make the policy effective for districts receiving Board approval of a Project Scope and Budget on or after January 1, 2025.

Implementation of these recommendations will provide additional financial support for districts seeking MSBA approval of their proposed Project Scope and Budget. Additionally, based on the recent legislation, this will maximize the construction project funding limit while having a limited effect on the number of invitations. Annually, staff will continue to monitor the growth rate in the dedicated sales tax, review funding levels, and note the level of construction costs of projects in the grant program. Should staff see a continued reduction in sales tax revenue, funding levels could be held constant, the number of SOI invitations reduced, or both. The MSBA’s administrative procedures may also be implemented, as done in the past, to bridge the gap in those years when approved Core Program Project Grants exceed the Annual Cap.

Attachment A - Site Cost Review

Staff reviewed how site costs have changed over time to further understand the MSBA’s current construction cost funding policy. Charts 1 and 2 display the site costs per building square foot as estimated at schematic design and upon receipt of general contractor bids or when the Guaranteed Maximum Price (“GMP”) is established, respectively. The red nodes indicate projects that include geothermal wells in the proposed project.

Chart 1: Site Costs per Building Square Foot as Estimated at Schematic Design

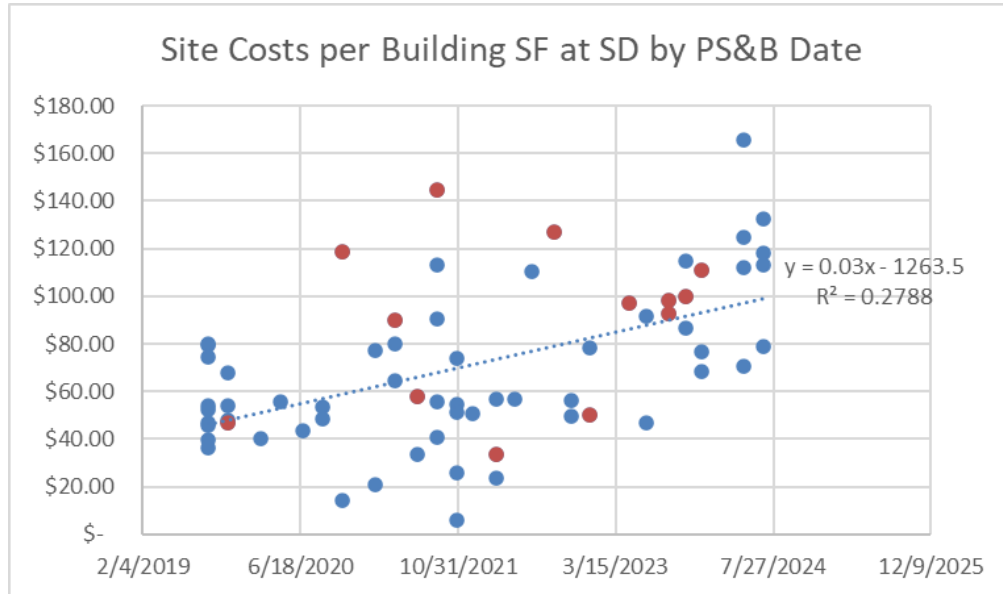
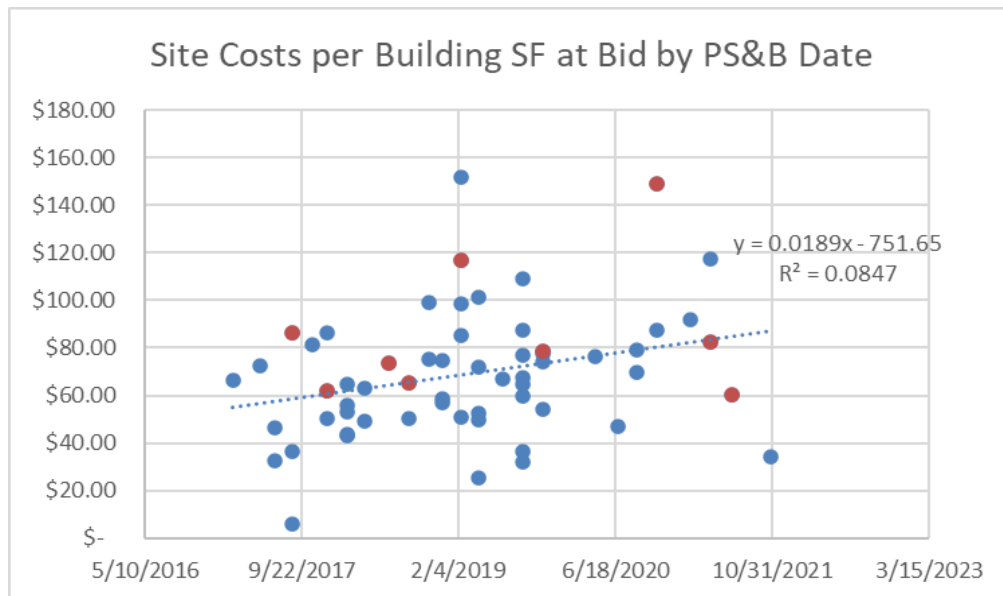


Chart 2: Site Costs per Building Square Foot in the GC Bid / GMP



Charts 3 and 4 display the site costs as a percentage of building costs as estimated at schematic design and upon receipt of general contractor bids or when the GMP is established, respectively. The red nodes indicate projects that include geothermal wells in the proposed project.

Chart 3: Percent Site by Building Cost as Estimated at Schematic Design

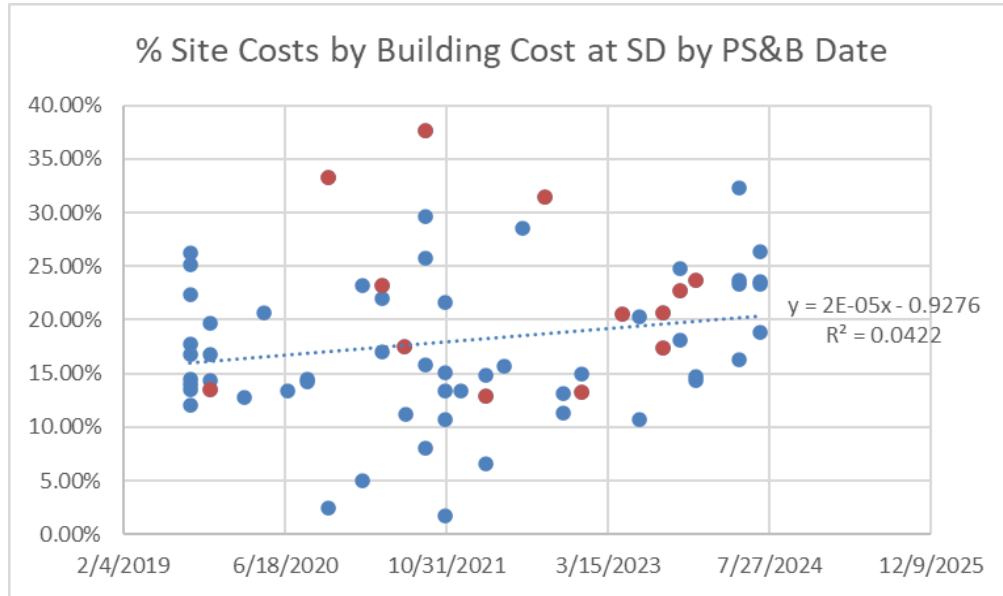
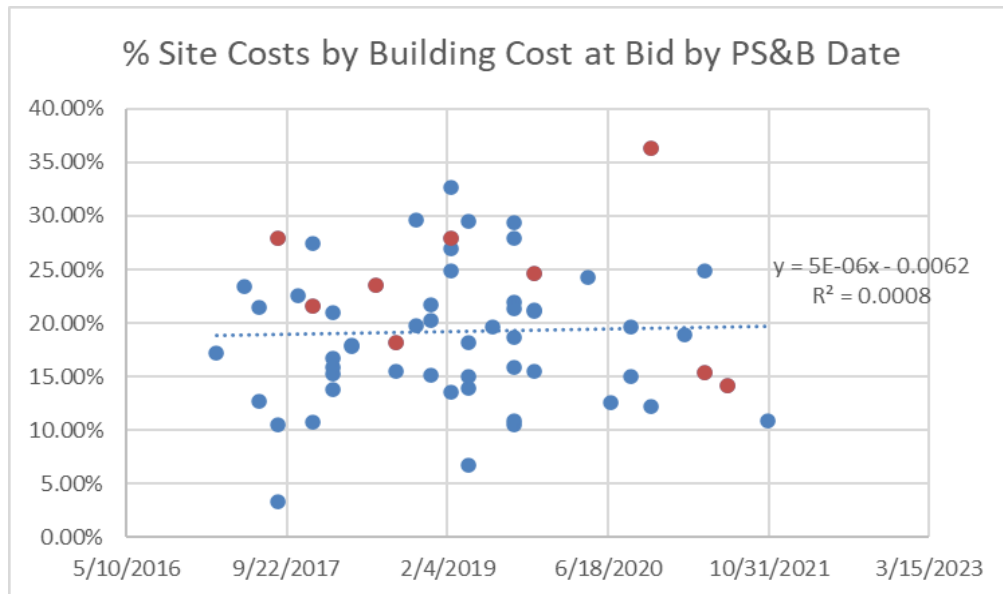


Chart 4: Percent Site by Building Cost in the GC Bid / GMP



While significant changes in sitework costs per building square foot over time are noted, when the same projects are viewed as a percentage of building costs, no significant change in sitework costs as a proportion of building costs over time is observed. These observations imply that

changes in site costs are more likely the result of increasing construction costs rather than a separate trend specific to site costs. Therefore, staff recommend that the MSBA continue its current policy of funding otherwise eligible site costs based on 10% of the MSBA's Building Cost Funding Limit at this time. A review of projects that included geothermal wells did not yield any discernible trends that would warrant specific consideration for changes to the current funding policy beyond the recently increased incentive points associated with MSBA's Green School Program.