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: April 23, 2025
RE: Recommendation to Amend the Current Reimbursement Rate Policy

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Introduction

In September of 2024, a Reimbursement Rate Committee, ("the Committee"), consisting of MSBA staff from various departments, was established to review the current policy associated with applying reimbursement rates to district funding agreements based on annual "ability to pay" data, and to evaluate potential adjustments to the current policy, which was previously established in January of 2011. The Committee's recommendation is to amend the current reimbursement rate policy, as outlined in this memorandum, to be effective on or after June 1, 2025. Information regarding staff's considerations was presented and discussed at the March 26, 2025, Facilities Assessment Subcommittee meeting.

Background

M.G.L. c. 70B, §10 establishes the calculation of the reimbursement percentage to be used by the MSBA to reimburse school districts for spending on approved school building projects. The reimbursement percentage set forth in statute provides all communities with a base reimbursement percentage of 31 points. In addition to the base percentage points, the reimbursement formula includes the calculation of "ability to pay" percentage points, which determine if any additional reimbursement points over the base percentage will be added to the rate before any applicable incentive points are factored into the reimbursement percentage. The "ability to pay" factors set forth in statute are measures of income (per capita income), property wealth (equalized property valuation per capita), and low-income students (federal eligibility for free or reduced-price lunch) in a district, relative to the statewide average for each category. The "ability to pay" data is provided by the Department of Revenue (DOR) and the Department of Elementary and Secondary Education (DESE). The statute provides a specific schedule which allocates applicable reimbursement points for the "ability to pay" factors depending on the district's relation to the statewide average calculated for each category. While M.G.L. c. 70B, §10 does not mandate a specific process or timeframe to update reimbursement rates, the following provides details associated with the policy previously established by the MSBA.

Current Policy

In January of 2011, the MSBA adopted a policy for requesting updated "ability to pay" information from DOR and DESE and updating district reimbursement rates annually to reflect the most current economic data available. The complete memorandum dated January 12, 2011, outlining the current process, has been provided for reference as **'Attachment A'**.

Currently, the MSBA establishes a district's reimbursement rate at two key stages: Feasibility Study phase and Project Scope and Budget phase.

As a result of this annual data update, a district's rate established at Project Scope and Budget may increase, decrease, or remain unchanged compared to the rate that was originally established at Feasibility Study, due to changes in their "ability to pay" factors. The Committee evaluated data from SOI classes 2014 through 2021 and determined that districts have experienced increases between 0.42% and 9.92% and decreases between -0.63% and -4.25%. Districts are notified of their updated reimbursement rate before the MSBA Board of Directors' anticipated consideration for Project Scope and Budget approval, after which the rate is set for the remainder of the project.

An exception to this policy applies to projects in the MSBA's Accelerated Repair Program ("ARP"), where the reimbursement rate for an ARP project is set once, at the time of the Board of Directors' Project Scope and Budget approval, and remains unchanged for the entire project.

Impact of Current Policy

In the dataset used for this analysis, 112 Core Program projects were approved by the MSBA Board of Directors to advance from a Feasibility Study Agreement to a Project Scope and Budget Agreement/Project Funding Agreement. Of these, 18 projects (16%) experienced a decrease in their base reimbursement rate; 53 projects (47%) experienced no change in their base reimbursement rate; and 41 projects (37%) experienced an increase in their base reimbursement rate. *(See Table 1 for impact of current policy.)*

Table 1 – Impact of current policy

Impact between FSA and PSBA/PFA	Number of Projects	Percentage of Projects	Average Rate Change per Project	Average Dollar Impact per Project	Range of Adjustments from FSA to PSBA/PFA
Decrease	18	16%	-1.39%	-$1,404,641	-4.25% to -0.63%
No Change	53	47%	N/A	N/A	N/A
Increase	41	37%	1.87%	$1,357,793	0.42% to 9.92%

The figures above illustrate that while nearly half of the projects analyzed in this exercise experienced no change, 16% of the projects experienced a decrease. Although the MSBA communicates the reimbursement rate policy to a district during the Feasibility Study phase, districts have expressed that these decreases at the Project Scope and Budget Agreement/Project Funding Agreement phase are often unanticipated and negatively impact their budgeting and planning process. District feedback also noted challenges in communicating the changes in reimbursement to their community.

Conversely, 37% of the projects used in this exercise benefited from an increase in their rate, which highlights the variability, and potential for a positive impact, introduced by the current policy of updating the rate at Project Scope Budget Agreement based on the most recent economic data.

Discussion

The Committee was established to review the current policy, which requires updating a district's reimbursement rate at the Project Scope and Budget phase with the most recent "ability to pay" data available, and to evaluate potential adjustments to the current policy. Recognizing that districts experiencing a decrease in their reimbursement rate at Project Scope and Budget Agreement/Project Funding Agreement phase often face financial pressure due to a perceived reduction in anticipated state funding, the Committee agreed to analyze and evaluate several options that explored potential policy adjustments aimed at providing districts with greater predictability, as well as financial stability and planning, while ensuring continued compliance with M.G.L. c. 70B, §10.

<u>Options Analysis and Evaluation</u>

The Committee evaluated a total of nine (9) options outlined below. Refer to **'Attachment B'** for a summary of the analysis of possible changes related to each option.

1) Maintain Current Policy.
2) Eliminate Rate Decrease Adjustment.
3) Standard/Fixed Rate for FSA and Specific Rate Applied to PSBA/PFA.
3a) Standard/Fixed Rate for FSA; Closed out at Completion of FSA and New Rate Applied to PSBA/PFA.
4) Rate Decrease to a Floor/Limit.
5) One Rate Established for the Life of a Project.
6) Rate Based on a Six-year Look Back.
7) Fully Separate Process for FSA and PSBA/PFA.
8) Rounded-up Reimbursement Rate.

<u>Staff Recommendation and Summary of Options</u>

After careful consideration, the Committee recommends **'Option 2'** as the most appropriate adjustment to the current Reimbursement Rate Adjustment Policy. **'Option 2'** is expected to provide increased predictability and financial benefit to districts, while ensuring that no districts going forward would be subject to a decrease in their reimbursement rate as they progress from Feasibility Study Agreement to a Project Scope and Budget Agreement/Project Funding Agreement. Furthermore, the Committee believes that **'Option 2'** would be easier to communicate to districts and allow district leaders to more effectively communicate the message to residents. Refer to **'Attachment C'** for a comparison of the current policy and the proposed changes associated with **'Option 2'**.

Further, districts would continue to receive an initial reimbursement rate at the time of their FSA, not to exceed 80%. As a project progresses through the Schematic Design Phase and before seeking Project Scope and Budget approval, the reimbursement rate for that calendar year would be reviewed. If the "ability to pay" factors result in an increased rate, the higher rate would be applied, not to exceed 80%. If the "ability to pay" factors result in a decrease or no change, the MSBA would maintain the rate established in the Feasibility Study Agreement. Thus, this option ensures that a district's Project Scope and Budget Agreement/Project Funding Agreement reimbursement rate cannot be lower than the rate set in the Feasibility Study Agreement.

Table 2 below demonstrates how **'Option 2'** would have impacted Core Program projects from Statement of Interest classes 2014 through 2021 and indicates the potential impact **'Option 2'** may have on future Core Program projects.

Table 2 – Financial Impact of Option 2

SOI Year	Estimated Basis of Total Facilities Grant x Base PSBA/PFA RR	Grant Amount if No Rate Decrease Occurred	Number of Projects with Rate Decrease from FSA to PSBA/PFA	Average Increase in Grant per Project
2014	$1,126,960,518	$1,127,442,471	1	$481,953
2015	$853,584,735	$856,882,150	2	$1,648,708
2016	$698,143,221	$698,870,871	2	$363,825
2017	$727,032,278	$729,199,282	2	$1,083,502
2018	$600,604,131	$606,212,219	2	$2,804,044
2019	$614,294,136	$620,481,586	2	$3,093,725
2020	$639,135,434	$644,829,834	6	$949,067
2021	$162,895,159	$164,014,739	1	$1,119,580
				Avg: $1,404,641

Total Projects Impacted from 2014-2021: 18

Ratio of Projects Impacted in this dataset: 16%

Potential Future Impact to MSBA's Annual Grants for Core Program projects: $4,213,923

Assumptions: Should (16) projects be invited annually, in accordance with the MSBA's current funding limits policy, multiplied by 16% of projects historically impacted by a base rate decrease adjustments from FSA to PSBA/PFA, this results in (3) projects, rounded. Thus, (3) projects multiplied by the average increase in grant amount per project of $1,404,641, results in $4,213,923.

Note: Grant amounts were calculated based on each project's "Estimated Basis of Total Facilities Grant", which does not include contingencies, commissioning, or cost recovery.

Other Options Considered

'Option 1' maintains the status quo and would continue to remain in place if no changes are recommended. However, if no changes are implemented, it may be prudent to re-evaluate communications with districts to ensure a clear understanding that reimbursement rates assigned at Feasibility Study Agreement could change at the Project Scope and Budget Agreement/Project Funding Agreement phase.

'Options 3, 3a, and 7' all propose the use of two distinct reimbursement rates, likely requiring the establishment of additional audit and closeout procedures, which is anticipated to create a process that significantly varies from the MSBA's current process. These options may also conflict with existing MSBA regulations and would likely create increased workload for the MSBA Audit staff. While these options are not anticipated to affect the MSBA's annual budget for grants associated with Core Program projects, the aforementioned items were considered disadvantageous and were not preferred.

'Option 4' was assessed for financial impact; however, this option includes elements that could appear arbitrary and subject to dispute and was therefore not favored by the Committee.

'Option 5' would likely reduce the overall MSBA annual budget for grants associated with Core Program projects; however, this option does not address the Committee's goal, and establishing a singular reimbursement rate may not comply with existing MSBA regulations. Therefore, it was not favored by the Committee.

'Option 6' would likely have the most significant impact on the MSBA's annual budget for grants for Core Program projects and offer increased benefit to districts; however, the complexity associated with this option was considered to be disadvantageous and impractical, and it was therefore not favored by the Committee.

'Option 8' essentially maintains the current policy; however, the Committee determined that merely rounding up to the nearest whole number would not result in a significant benefit to districts and would not address the concerns of potential rate decreases. Thus, this option was not favored by the Committee.

The Committee's recommendation is to amend the current reimbursement rate policy, in accordance with **'Option 2'**, effective on or after June 1, 2025, to provide increased predictability and financial benefit to districts, while ensuring that no districts going forward would be subject to a decrease in their reimbursement rate as they progress from Feasibility Study Agreement to a Project Scope and Budget Agreement/Project Funding Agreement.

Attachments:

'Attachment A' – MSBA Reimbursement Rates – DOR and DESE Data Update memorandum, dated January 12, 2011 (represents MSBA's current reimbursement rate adjustment policy)

'Attachment B' – Options Analysis of Possible Changes to the Reimbursement Rate Policy for Core Program Projects

'Attachment C' – Comparison of Proposed Changes to the Reimbursement Rate Policy for Core Program Projects