

MEMORANDUM

TO: Board of Directors, Massachusetts School Building Authority
FROM: James A. MacDonald, First Deputy Treasurer, and Chief Executive Officer
John K. McCarthy, Executive Director and Deputy Chief Executive Officer
DATE: December 14, 2022
RE: Recommendation to Revise MSBA Project Funding Limits Policy

In accordance with past practices staff have completed an updated review of proposed project cost, grant data, and the MSBA's annual program funding cap. Revisions to the MSBA Funding Policy regarding eligible construction costs are recommended as outlined in this memorandum, effective for proposed projects that have not received Project Scope and Budget approval as of October 1, 2022. Upon approval by the Board of Directors of this recommendation, staff further recommend that the Board of Directors approve the implementation of these changes for the districts presented at today's Board meeting for Project Scope and Budget approval. The information and the recommendation below were presented and discussed at the Facilities Assessment Subcommittee meetings on November 9, 2022 and November 22, 2022.

Background

The MSBA's enabling statute places a limit upon the estimated amount of grants, the annual program funding 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 is 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. For fiscal year 2020, the Student Opportunity Act increased the limit on the estimated amount of grants approved by the MSBA to \$800 million, resulting in an increase of approximately \$175 million in the statutory limit for fiscal year 2020.

To meet the needs of multiple districts most effectively across the Commonwealth, ensure a sustainable program, and in consideration of 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. 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. Since 2009, staff have reviewed construction costs and the growth in the dedicated sales tax and increased the MSBA reimbursable construction limit six times, resulting in the current reimbursable construction limit of \$360/sf plus eligible demolition and abatement, which became effective on June 1, 2021. Increases to the construction funding limits, such as the reimbursable construction cost per sf, assist districts in our pipeline. However, any funding limit increases, like these, that parallel the increase to the Annual Cap, offset the potential to increase the number of invitations to the grant program.

During fiscal year 2021, staff reviewed construction cost budgets established at the conclusion of Schematic Design, bid construction costs, costs incurred by districts as evidenced in final audits, performance of the dedicated sales tax revenues during the health crisis, and the impact of the

increased annual program funding cap as allowed by the Student Opportunity Act. Staff used this information to evaluate and review potential adjustments that could further maximize the amount of funding that can be awarded and distributed to districts in the grant program, while maintaining a similar level of capacity to invite districts into the grant program each year. Staff reviewed four of the MSBA's funding policies: 1) Consultant Services for Owner's Project Management ("OPM") and Designer, 2) Owner's Contingency, 3) Demolition and Abatement, and 4) Construction cost funding limit. Based on that review, staff recommended, and the Board of Directors approved, the implementation of three new upper limits regarding OPM services, Designer services, and Owner's Contingency along with an increase to MSBA's construction cost funding limit from \$333/sf to \$360/sf plus eligible demolition and abatement, effective June 1, 2021.

Based on the initial review of construction costs, described below, staff recommended, and the Board of Directors approved, on October 26, 2022, a pause to the Accelerated Repair Program ("ARP") and a decision to not accept ARP Statements of Interest in 2023, in order to provide additional space in the available annual program funding cap for Core Program projects for fiscal year 2025 to offset a portion of a larger increase in funding limits while minimizing a reduction in invitations to the MSBA's grant program.

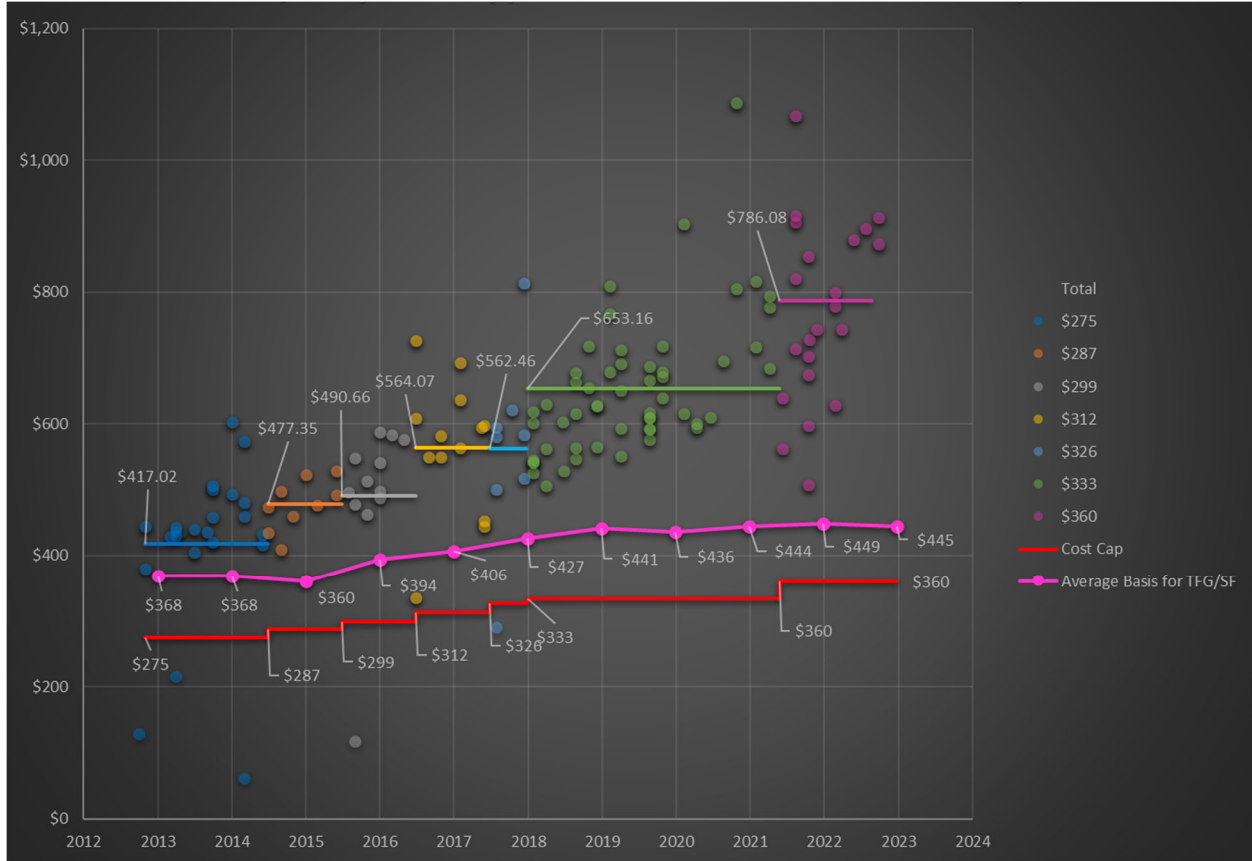
Discussion

This year's review, described below, focused on historic project costs and MSBA funding levels, and potential impact that funding adjustments could have on the number of districts the MSBA could invite into the grant program in future years.

Historic Project Costs and MSBA Funding Levels

Staff reviewed total project costs (all costs including construction cost, consultant fees, miscellaneous construction costs, fixtures, furniture and equipment, and contingencies) for Core Program projects that sought MSBA's project scope and budget Board of Directors approval in fiscal year 2012 or after and whose estimated construction start date is January 2014 or later. During this period MSBA raised its construction funding limit six times to the current construction funding limit of \$360/sf plus eligible demolition and abatement (exclusive of eligible soft costs, furniture, fixtures and equipment, and contingencies). Figure 1 – Historic Project Costs and MSBA Funding Levels includes 143 projects that are grouped and color-coded based on the MSBA's construction cost funding limit in effect at the time of the Board meeting.

Figure 1 – Historic Project Costs and MSBA Funding Levels



The horizontal axis is the fiscal year when the district’s proposed project scope and budget was approved by the Board of Directors, the vertical axis is the cost in dollars per square foot. The red line starting at \$275/sf on the left, commonly referred to as the cost cap, is the MSBA’s construction cost funding limit exclusive of eligible demolition and abatement.

The pink line starting at \$368/sf on the left for fiscal year 2013 increasing to \$449/sf in fiscal year 2022, represents the average Basis for Total Facilities Grant per square foot for projects approved each fiscal year. The Basis for Total Facilities Grant represents all proposed costs determined to be eligible for reimbursement by the MSBA, which when multiplied by the district’s statutory reimbursement rate determines the grant. The Basis for Total Facilities Grant is approximately 30% above the MSBA’s construction cost funding limit on average and also includes eligible costs associated with demolition and abatement, Owner’s Project Manager fees, Designer Fees, miscellaneous construction costs such as utility company fees and testing services, fixtures, furniture and equipment, and a portion of construction and owner’s contingencies¹.

¹ MSBA Regulations 2:07: Cost Standards The Authority shall not reimburse an Eligible Applicant for eligible soft cost components that exceed, in the aggregate, 20% of total construction costs, as determined by the Authority. Said limit may be exceeded with the prior written approval of the Authority.

The individual data points represent total project costs per square foot and are grouped by color based on the MSBA construction cost funding limit in effect when the proposed project scope and budget was approved by the Board of Directors. The horizontal line associated with each group of color-coded data points is the average total project budget per square foot (five repair/limited renovation projects are included in Figure 1 – Historic Project Costs and MSBA Funding Levels; however, they are excluded from the average calculations as outliers: Chicopee Academy, Greater Lowell Technical High School, Georgetown Middle-High School, Provincetown Schools, and Blue Hills Regional Technical High School).

As increases in construction costs continue to outpace the statutory growth in the MSBA’s annual program funding cap, the gap between the Basis for Total Facilities Grant (pink line) and the average total project budget is expanding. Based on the data set, the Total Project Budget per Square Foot is projected to increase 6.2% annually, which exceeds the 4.5% upper limit on the MSBA’s annual program funding cap, indicating a continued widening of the gap between the Basis for Total Facilities Grant and a district’s cost should current market trends continue.

The widening gap is also shown in Table 1 – Basis for Total Facilities Grant as a Percentage of Average Total Project Budget by Fiscal Year. The MSBA’s Basis of Total Facilities Grant represents a smaller percentage of the district’s Total Project Budget over time as Total Project Budgets have increased at a faster rate than the increase in the MSBA’s construction cost funding limit. In 2013 on average 87% of the district’s estimated project costs at the conclusion of Schematic Design were eligible for reimbursement. Four years later, 72% of the district’s eligible estimated

Table 1 – Basis for Total Facilities Grant as a Percentage of Average Total Project Budget by Fiscal Year

2013	87%
2014	78%
2015	75%
2016	75%
2017	72%
2018	74%
2019	68%
2020	68%
2021	59%
2022	60%

project costs were reimbursable on average, and last year 60% eligible estimated project costs were reimbursable. A shift in MSBA’s approach to allow for districts to include more spaces that are beyond the MSBA guidelines such as community spaces, larger gyms, auditoriums, parking garages, etc. which are deemed ineligible for reimbursement, has also contributed to the growing gap between averages in total project cost and MSBA’s Basis of Total Facilities Grant.

Current Projects in the Grant Program

Following the October 26, 2022 Board of Directors meeting, a total of 310 projects that have received invitations from the Board of Directors to collaborate with the MSBA are currently in the MSBA’s Eligibility Period and Capital Pipeline. The 310 projects include 171 Accelerated Repair projects and 139 Core Program projects. This review is limited to the 43 Core Program projects that have not yet received project scope and budget approval from the Board of Directors.

Staff regularly monitor and update the estimated value of grants for Core Project projects in the early phases of the grant program. The MSBA engages early with districts as part of the SOI Due Diligence process for potential Core Program projects to understand district goals for its proposed project to determine a Base Matrix Budget Estimate for a potential grant. This initial estimate informs the process to assess the number of SOI schools that can be recommended for invitation into Eligibility Period from those that are deemed most urgent and needy during the Due Diligence process. The MSBA updates the Base Matrix Budget Estimate for each project twice prior to establishing the Maximum Total Facilities Grant as part of the MSBA approved project scope and budget.

Based on current funding policies, the 43 Core Program projects included in this evaluation account for about \$3 billion of the potentially \$3.9 billion estimated to be available in the annual program funding cap through fiscal year 2026 assuming the growth rate in the dedicated sales tax continues to equal or exceed 4.5%. Fiscal year 2026 assumes a four-year duration between invitation to Eligibility Period and project scope and budget approval for 2022 Core Program SOIs.

Current Funding Policies

In addition to the MSBA’s construction cost funding limit, MSBA reimburses districts for other eligible costs associated with demolition and abatement, consultant fees, fixtures, furniture and equipment, and miscellaneous construction costs. An overview of current funding policies is described in Table 2 – Current Funding Policies and Practices.

Table 2 – Current Funding Policies and Practices

Funding Item	Policy and Practice
Construction Cost Funding Limit	Up to \$360/sf based on eligible building area Established at \$275/sf in 2009, increased 6 times based on the growth rate of the dedicated sales tax up to the statutory limit of 4.5%.
Site Cost Allowance	Up to 8% of building cost is reimbursable within the construction cost funding limit. Established in 2009 to support parity in the distribution of grant dollars across projects. Sitework has been evaluated within the maximum funding limit established for construction costs.
Demolition and Abatement	No limit, otherwise eligible costs are reimbursable
Miscellaneous Construction Costs	No limit, otherwise eligible costs are reimbursable Utility Fees and Testing Services during Construction
Fixtures, Furniture & Equipment	Up to \$1,200 per student
Technology	Up to \$1,200 per student
Owner’s Project Manager Fees	Basic Services - Up to 3.5% of an upper limit of \$500/sf or construction budget, whichever is less, for otherwise eligible services plus reimbursables and cost estimates Upper limit of \$500/sf implemented June 2021.
Designer Fees	Basic Services - Up to 10% of an upper limit of \$500/sf or construction budget, whichever is less, for otherwise eligible services plus reimbursables Upper limit of \$500/sf implemented June 2021.

In addition to the specific funding policies that contribute to the Basis of Total Facilities Grant, the MSBA's grant program includes six categories of incentive points. Two of the categories of incentive points, those related to major reconstruction or Renovation/Reuse and sustainable design, relate directly to construction costs.

Alternatives Review

Staff initially evaluated eight alternatives, which were discussed with the Facilities Assessment Subcommittee ("FAS") on November 9, 2022. Based on those conversations and additional analysis, for the FAS Meeting on November 22, 2022, staff eliminated two alternatives from further consideration, revised two alternatives, and added three new alternatives resulting in a total of 13 alternative approaches to increasing funding limits with impacts to the annual program funding cap ranging from no additional grant impact up to a reduction of \$332 million. The alternatives presented to the FAS on November 22, 2022 are summarized in Table 3 – Summary of Funding Limit Alternatives below. Refer to the Attachment A – Funding Limit Alternatives for additional information.

Using project information available through the updated grant estimates as described above, for each of the 43 Core Program projects included in this review staff multiplied the proposed construction cost funding limits by building area and 1.3 (historically the Basis for Total Facilities Grant divided by the construction cost funding limit averages 1.3, or approximately 30%) to estimate the Basis for Total Facilities Grant. Each estimated Basis for Total Facilities Grant was then multiplied by the district's reimbursement rate to estimate the associated grant.

The following was assumed as the estimated basis for the construction cost funding alternatives that were reviewed to make this recommendation:

- Construction cost funding limit increase would be effective for projects receiving Project Scope & Budget Board approval after December 1, 2022*, and that an increase of this magnitude is a one-time adjustment. (**Please note that the recommendation set forth in this memo applies to districts receiving Board approval of a Project Scope and Budget on or after October 1, 2022.*)
- Sales tax growth will continue to equal or exceed 4.5% allowing for a 4.5% increase to the annual program funding cap in the next 3 fiscal years;
- Future funding limit increases of 4.5% annually; and
- SOI submittal period for Accelerated Repair Program resumes in January 2024 and continues in subsequent years with an assumed budget of \$75 million annually.

The estimated grants for the 43 projects were totaled to estimate the impact to the annual program funding cap for each alternative, see third column in Table 3 below. The estimated invitations, fourth column in Table 3, represent the potential number of project invitations that can be supported by the remaining available annual program funding cap for each construction cost funding limit alternative based on historic averages.

Table 3 – Summary of Funding Limit Alternatives

Alternative	Funding Limit (\$/sf)	Estimated Impact to Annual Cap (\$millions)	Estimated Invitations (based on averages ¹)
Standard Increase to Construction Cost Funding Limit based on 1 year at 4.5% (4.5%)	\$376	\$0	12
Standard Increase to Construction Cost Funding Limit based on 1.5 years at 4.5% (6.75%)	\$384	\$49m	11
Standard Increase to Construction Cost Funding Limit based on 2 years at 4.5% (9%) ²	\$392	\$97m	11
Increase 2.75% plus 8% sitework allowance applied outside of Construction Cost Funding Limit ²	\$399	\$140m	10
Standard 4.5% Increase plus 8% sitework allowance applied outside of Construction Cost Funding Limit ²	\$406	\$181m	10
Increase 1.5 years at 4.5% (6.75%) plus 8% sitework allowance applied outside of Construction Cost Funding Limit	\$415	\$233m	9
Increase 1.5 years at 4.5% (6.75%) plus 10% sitework allowance applied outside of Construction Cost Funding Limit	\$423	\$279m	8
Increase 1.5 years at 4.5% (6.75%) plus 8% sitework applied outside of Construction Cost Funding Limit plus reallocation of Sustainable Design Incentive Points to \$10/sf ³	\$425	\$233m	9
Increase 1.5 years at 4.5% (6.75%) plus 10% sitework applied outside of Construction Cost Funding Limit plus reallocation of Sustainable Design Incentive Points to \$10/sf ³	\$433	\$279m	8
Increase to Construction Cost Funding Limit based on 2 years at 4.5% (9%) plus 8% sitework allowance applied outside of Construction Cost Funding Limit ⁴	\$424	\$285m	8
Increase to Construction Cost Funding Limit based on 2 years at 4.5% (9%) plus 10% sitework allowance applied outside of Construction Cost Funding Limit ⁴	\$432	\$332m	8

1 – Estimated number of invitations is based on average building areas and district reimbursement rates and does not reflect submitted 2022 Statements of Interest.

2 – Added to the initial review of alternatives following discussion with the Facilities Assessment Subcommittee on November 9, 2022.

3 – Removed from consideration after the November 9, 2022 Facilities Assessment Subcommittee Meeting as further review is warranted regarding potential impact from code changes scheduled to become effective on January 1, 2023.

4 – Result of revision following November 9, 2022 Facilities Assessment Subcommittee Meeting as further review is warranted regarding potential impact from code changes scheduled to become effective on January 1, 2023.

Potential Impact to 2022 SOI Invitations

The number of projects that can be invited into Eligibility Period varies each year based on the estimated value of projects currently in the early phases of the grant program, the estimated value of the annual program funding cap in future fiscal years, and the collective impact of a few factors specific to each SOI for those found most urgent and needy in any given year. These variables, as shown in Table 4 – Invitations to Eligibility Period 2018 through 2021 challenge the ability to predict the actual number of invitations that the MSBA is able to invite annually.

Table 4 – Invitations to Eligibility Period 2018 through 2021

SOI Year	Number of Invitations	Base Matrix¹ Budget (\$ millions)	Total Estimated Building Area (sf)	Average Area per School (sf)	Average Reimbursement Rate
2018	12	\$592	1,817,417	151,451	58.94%
2019	11	\$595	1,913,856	173,987	53.34%
2020 ²	15	\$810	2,166,518	144,435	58.42%
2021	17	\$820	2,450,145	144,126	50.04%

1 – Base Matrix refers to estimated budget established at the time of Invitation into Eligibility Period

2 – 2020 Student Opportunity Act increased the Annual Cap to \$800 million

The number of potential 2022 SOI invitations will be less than last year because of larger schools and higher district reimbursement rates on average for those schools found to be the most urgent and needy during this year’s due diligence review. Additionally, one of the SOIs under consideration is the equivalent of four other SOI schools because of its size and the district’s reimbursement rate. To mitigate the impact of this potential project on the possible number of invitations this year, staff is recommending that the Executive Director apply the approved administrative procedures to this SOI to allow the total value of square footage and associated grant to be spread across several future years. The result of using these procedures along with an increase to the funding limit is a potential reduction of two to three invites for the next three calendar years of invitations. The total decrease in invitations for calendar years 2022, 2023, 2024 and 2025 would range from approximately 8 to 11 invitations.

The funding limit alternatives below were further considered and evaluated based on the 2022 SOIs under review for potential invitation into Eligibility Period. Alternatives in Table 5 – Funding Limit Alternatives for Further Review were also presented to the Facilities Assessment Subcommittee on November 22, 2022. The Project Cost Funding Limit, third column in Table 5, is the result of the 1.3 factor described above applied to the Funding Limit. The Percent Increase to Funding Limit, fourth column in Table 5, is the percentage increase of the Funding Limit compared to the current construction cost funding limit of \$360/sf.

Table 5 – Funding Limit Alternatives for Further Review

Alternative	Funding Limit (\$/sf)	Project Cost Funding Limit (\$/sf)	Percent Increase to Funding Limit (%)	Estimated Impact to Annual Cap (\$millions)	2022 SOI Invitations
Standard Increase to Construction Cost Funding Limit based on 1 year at 4.5% (4.5%)	\$376	\$489	4.5%	\$0	12 ¹
Increase 2.75% plus 8% sitework allowance applied outside of Construction Cost Funding Limit	\$400	\$520	11.1%	\$140m	10 ¹
Increase 1.5 years at 4.5% (6.75%) plus 10% sitework allowance applied outside of Construction Cost Funding Limit	\$423	\$550	17.4%	\$279m	9 ¹
Increase to Construction Cost Funding Limit based on 2 years at 4.5% (9%) plus 10% sitework allowance applied outside of Construction Cost Funding Limit	\$432	\$562	20.0%	\$332m	10 ²

1 – Irrespective of a funding limit increase, this requires application of administrative procedures and results in a future decrease in available annual funding cap space with the potential reduction of 1 to 2 invitations for SOIs submitted in calendar years 2023, 2024 and 2025. The funding limit increase to just over 11% is absorbed by limiting invitations to 10. The funding limit increase to just over 17% is absorbed by limiting invitations to 9.

2 - Irrespective of a funding limit increase, this requires application of administrative procedures and results in a future decrease in available annual program funding cap with the potential reduction of 1 to 2 invitations for SOIs submitted in calendar years 2023, 2024 and 2025. Furthermore, the same administrative procedures are required to increase the funding limit to 20% and results in an additional future decrease in available annual program funding cap with a potential reduction of 1 invitation in calendar years 2023, 2024, and 2025. The total decrease in invitations for calendar years 2022, 2023, 2024 and 2025 would range from approximately 8 to 11 invitations depending on SOI specific conditions.

Recommendations

Based on the review and findings described above staff recommend the following changes to the MSBA’s funding policy:

- Adjust the current policy of funding from up to \$360/sf plus eligible demolition and abatement (including eligible sitework costs) to funding up to \$393/sf for building costs plus eligible demolition and abatement (exclusive of eligible sitework costs);
- Adjust the current sitework cost allowance guidelines of funding from up to 8% of building cost for otherwise eligible sitework costs (within the construction funding limit) to funding up to 10% of the MSBA’s building cost funding limit for otherwise eligible sitework costs (in addition to the MSBA’s building construction cost funding limit plus eligible demolition and abatement);

- Apply the proposed adjustment to MSBA’s sitework cost allowance guidelines to include up to \$39/sf in addition to the proposed increase to \$393/sf for a total construction cost funding limit of \$432/sf plus eligible demolition and abatement;
- Adjust the current policy of funding up to 3.5% of an upper limit of \$500/sf or construction budget, whichever is less, to funding up to 3.5% of an upper limit of \$550/sf or construction budget, whichever is less, for otherwise eligible Owner’s Project Management basic services;
- Adjust the current policy of funding up to 10% of an upper limit of \$500/sf or construction budget, whichever is less, to funding up to 10% of an upper limit of \$550/sf or construction budget, whichever is less, for otherwise eligible Designer basic services; and
- Make the policy effective for districts receiving Board approval of a Project Scope and Budget on or after October 1, 2022.

Implementation of these recommendations will provide additional financial support for districts seeking MSBA approval of their proposed project scope and budget and will reduce the MSBA’s capacity for Core Program Project invitations for as much as two to three invitations per year for calendar years 2022, 2023, 2024 and 2025. The total construction cost funding limit increase of this magnitude is a one-time adjustment.

The Estimated Maximum Total Facilities Grant and Maximum Total Facilities Grant for the two districts recommended for Project Scope and Budget approval at this Board meeting will be adjusted, as noted below and in accordance with the Project Scope and Budget recommendations for these projects, which shall be presented for consideration as separate stand-alone votes.

Applying the recommended revisions to the two Project Scope and Budget Recommendations from the October 26, 2022 Board meeting and the two Project Scope and Budget Recommendations being forwarded for consideration at this Board meeting, increases the Estimated Maximum Total Facilities Grants and Maximum Total Facilities Grants for these four projects as shown below in Table 6 – Project Scope and Recommendation Revisions. Staff recommendations presented below and in Attachment B to this memorandum assume that the Board of Directors votes to approve the increased Estimated Maximum Total Facilities Grant amounts and Maximum Total Facilities Grant amounts for the Dr. Albert B. Consentino Middle School in the City of Haverhill, the Lynch Elementary School in the Town of Winchester, John R. Pierce School in the Town of Brookline, and the Wakefield Memorial High School in the Town of Wakefield as set forth below.

Table 6 – Project Scope and Budget Recommendation Revisions

District	School	Scope	Total Project Budget	Estimated Maximum Total Facilities Grant	Revised Estimated Maximum Total Facilities Grant	Maximum Total Facilities Grant	Revised Maximum Total Facilities Grant
Haverhill	Dr. Albert B. Consentino Middle School	New	\$159,944,154	\$68,991,966	\$80,487,558	\$70,493,132	\$81,988,724
Winchester	Lynch Elementary School	New	\$94,525,933	\$17,059,552	\$19,941,157	\$17,427,128	\$20,308,733
Brookline*	John R. Pierce School	New	\$211,915,958	\$31,452,503	\$36,047,549	\$33,244,465	\$37,839,511
Wakefield*	Wakefield Memorial High School	New	\$275,250,903	\$54,374,748	\$63,227,174	\$56,132,030	\$64,984,456
Total			\$741,636,948	\$171,878,769	\$199,703,438	\$177,296,755	\$205,121,424

*See Attachment B for a Total Project Budget form for each project listed above, which reflects the recommended revisions summarized in Table 6 – Project Scope and Recommendation Revisions. Additionally, for Brookline and Wakefield, please see project scope and budget memorandums that reflect the recommended revisions summarized in Table 6 – Project Scope and Recommendation Revisions.