

## 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:** October 18, 2023  
**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 Limits Policy regarding eligible construction costs are recommended as outlined in this memorandum, effective on or after October 1, 2023. 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 meeting on September 6, 2023.

### 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 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%. 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.

To meet the needs of districts most effectively across the Commonwealth, while ensuring a sustainable program with 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 revenue and increased the MSBA reimbursable construction limit six times, through June 23, 2021, resulting in a reimbursable construction limit of \$360/sf plus eligible demolition and abatement. The increases in the MSBA reimbursable construction limit aligned with increases to the Annual Cap. The increase in June of 2021 included the introduction of three new upper limits regarding Owner's Project Management services, Designer services, and Owner's Contingency.

Based on the initial review of construction costs in the fall of 2022, staff recommended, and the Board of Directors approved on October 26, 2022, a temporary pause in the Accelerated Repair Program ("ARP") and a decision to not accept ARP Statements of Interest ("SOI") in 2023. The recommendation was made to help offset unanticipated construction cost escalation while

minimizing the reduction in invitations to the MSBA's Core Program. On December 21, 2022, the Board approved the MSBA's current construction cost funding level of up to \$432/sf (\$393/sf for building costs plus \$39/sf for otherwise eligible sitework costs) plus eligible demolition and abatement, which applies to projects approved for Project Scope and Budget by the Board on or after October 1, 2022.

On August 9, 2023, the Governor signed a \$55.9 billion-dollar budget that increases the MSBA's Annual Cap to \$1.2 billion for FY23, removes grant amounts related to the Accelerated Repair Program from the MSBA's Annual Cap beginning in FY23, and increases the allowable rate of growth in the Annual Cap from up to 4.5% to up to 6.5% (or the actual rate of growth in the dedicated sales tax revenue, whichever is lower). These changes provide additional resources and flexibility and will allow the MSBA to implement a one-time higher than anticipated increase to project funding limits while restoring the level of invitations into the Core Grant Program to levels seen in previous years. For additional information refer to the Legislative Update August 2023 Board Memorandum.

## **Discussion**

This year's review is similar in its approach to the analysis performed for the two prior project funding level reviews in that it compares estimated grant values for projects currently in the grant program to the estimated value of MSBA's Annual Cap over time to forecast available grant cap space that could be applied to future project invitations. This approach required staff to:

- Estimate the value of grants for projects in the grant program by applying MSBA current and projected funding policies, average project costs, and district schedules;
- Estimate potential future project invitations by reviewing existing project data over the last three fiscal years to determine the averages of enrollment, eligible building area and reimbursement rate. This review yielded the following averages:
  - Enrollment ranged from 305 to 1,670 students with an average of 757 students;
  - Eligible building area ranged from 59,025 to 418,070 gross square feet with an average of 154,004 gross square feet;
  - Reimbursement rates before the application of incentive points ranged from 31.00% to 80.00% and averaged 58.18%. To account for potential incentive points associated with MSBA's Green Schools Program Incentives and Maintenance Incentive points, 5.00% was added to the average reimbursement rate, up to a maximum of 80.00%; and
- Assume an Annual Cap of \$1.2 billion for FY23, a projected, continuous dedicated sales tax growth rate of 6.5%, and funding for the MSBA's Accelerated Repair Program outside the Annual Cap.

### Evaluating Potential Funding Levels and Potential Future Project Invitations

Currently MSBA funds up to \$393/sf for eligible building costs plus \$39/sf for otherwise eligible sitework costs, totaling \$432/sf plus eligible demolition and abatement. Staff considered three potential adjustments to construction funding levels to assess the impact on the number of

potential invitations that could be supported with the increase to the Annual Cap resulting from the Commonwealth’s FY24 Budget:

- Building Cost Funding Limit of \$419/sf (plus 10% for site work) plus eligible demolition and abatement – This option follows precedent of increased funding limits that align with the statutory limit of 6.5%;
- Building Cost Funding Limit of \$525 (plus 10% for site work) plus eligible demolition and abatement – This option increases funding levels that align with the increased value of the FY23 Annual Cap included in the Commonwealth’s FY24 Budget; and
- Building Cost Funding Limit of \$550/sf (plus 10% for site work) plus eligible demolition and abatement – This option was conducted to assess the impact of going beyond the increase in the Annual Cap for FY23 included in the Commonwealth’s FY24 Budget.

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

Table 1 – Cost Review Assumptions

<b>Factor</b>	<b>Projects Currently in the Grant Program</b>	<b>Potential Future Project Invitations</b>
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	154,004 gross square feet
Total Reimbursement Rate	Statutory Reimbursement Rate + 5% for incentives	63.18% (58.18% + 5% for incentives)
Building Cost Funding Limit	Assumed to increase 6.5% annually	
Grant Cap Space	Assumed to increase 6.5% annually	
Future Annual SOI Invitation	Not applicable	Start term increase then stabilize

As discussed during last year’s funding review and during the Facilities Assessment Subcommittee meeting held on September 6, 2023, the number of projects the MSBA invites into the Core Program is not just informed by the Annual Cap estimated to be available between three and four years into the future. The number of invitations depends on the anticipated enrollment for the SOIs filed that year and found to be most urgent and needy, which informs the building size, as well as the reimbursement rate for each district.

Table 2 summarizes historic SOI invitations over the last five years. The number of invitations has varied between 10 and 17, with a lower number in 2022 due to an invitation for a much larger than typical project and a higher than typical increase to the construction project funding

limit. The average estimated grant at invitation for each SOI year has typically been between \$48.3 and \$53.6 million, with a much higher average grant in 2022 due to the invitation for the much larger than typical project as noted above. As the grant program is based on statutory priorities that seek to invite the most urgent and needy, variation in the estimated grant for each potential project as shown in column 4 will continue year to year.

Table 2 – Historic Invitations into Eligibility Period

<b>SOI Year</b>	<b>Number of Invitations</b>	<b>Average Grant per Project Estimated at Base Matrix<sup>1</sup></b>	<b>Range of Grants at Base Matrix<sup>1</sup></b>
2018	12	\$49.2 M	\$20.6 M - \$145.4 M
2019	11	\$53.6 M	\$17.4 M - \$107.1 M
2020	15	\$53.6 M	\$16.7 M - \$104.9 M
2021	17	\$48.3 M	\$12.4 M - \$94.1 M
2022	10	\$98.7 M <sup>2</sup>	\$34.7 M - \$396.3 M <sup>2</sup>

1. Base Matrix refers to the estimated budget established at the time of Invitations into Eligibility Period.
2. This Base Matrix Budget includes the full value of the 2022 SOI invitations exclusive of the application of MSBA’s Administrative Procedures.

For each potential construction funding level included in this analysis, staff estimated the maximum total facilities grants for current projects in the pipeline and a range of future project invitations to compare the total estimated grants each year to the estimated annual grant cap space. This process was repeated in an iterative manner to assess the maximum number of future project invitations that could be supported within the growth of the estimated annual cap space.

The results of these efforts are presented graphically in the three charts in Attachment A – Impact of Increased Funding Levels and are summarized in Table 3 below.

Table 3 – Building Cost Funding Limit Summary

<b>Building Cost Funding Limit after 10/1/23 (\$/sf)</b>	<b>Estimated Core Program Grants for FY24 (Billions \$)</b>	<b>Estimated Number of Initial Invitations (5 years) based on the typical project described above</b>	<b>Sustainable Level of Invitations based on the typical project described above</b>
\$419	\$1.33	26	22-23
\$525	\$1.59	21	18-19
\$550	\$1.65	20	17-18

To understand how these potential funding levels relate to recently approved projects, staff reviewed estimated building costs for projects receiving Project Scope and Budget approval by the Board of Directors over the last year as well as for those anticipating approval by the Board in the coming year. Table 4 summarizes this information below.

Table 4 – District Estimated Building Costs

<b>Project Scope &amp; Budget Approval</b>	<b>Minimum Estimated Building Cost (\$/sf)</b>	<b>Average Estimated Building Cost (\$/sf)</b>	<b>Maximum Estimated Building Cost (\$/sf)</b>	<b>Number of Projects</b>
Recent Approvals (10/1/22-10/1/23)	\$558/sf	\$626/sf	\$775/sf	9
Future Approvals (10/1/23-10/1/24)	\$626/sf	\$670/sf	\$713/sf	8

**Recommendations**

Based on this review, the findings described above, and discussions during the Facilities Assessment Subcommittee meeting on September 6, 2023, staff recommend the following changes to the MSBA’s project funding limits policy:

- Adjust the current policy of funding from up to \$393/sf for building costs plus eligible demolition and abatement (exclusive of eligible sitework costs) to \$550/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 \$55/sf in addition to the proposed building costs increase of \$550/sf for a total construction cost funding limit of \$605/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 October 1, 2023.

Implementation of these recommendations will provide additional financial support for districts seeking MSBA approval of their proposed Project Scope and Budget and will maximize the construction project funding limit while restoring the number of invitations seen in the past. A construction project funding limit increase of this magnitude is a one-time adjustment that assumes continued growth of the Annual Cap at the statutory limit of 6.5%. Staff would continue to monitor sales tax revenue, reviewing funding levels annually, and note the level of construction costs. Should staff see a reduction in sales tax revenue, funding levels could be held constant, the number of SOI invitations reduced, or both, and MSBA’s administrative procedures could be implemented as done in the past to bridge the gap, should it be necessary.

Applying the recommended revisions to the three Project Scope and Budget Recommendations being forwarded for consideration later in the agenda at this Board meeting increases the Estimated Maximum Total Facilities Grants and Maximum Total Facilities Grants for these three projects as shown below in Table 5 – Project Scope and Recommendation Revisions. If the Board approves the staff recommendations as presented above, the three staff recommendations for Invitation to Project Scope and Budget and each associated vote later in the agenda will be for the Revised Maximum Total Facilities Grants shown below.

**Table 5 – Project Scope and Recommendation Revisions**

<b>District</b>	<b>School</b>	<b>Scope</b>	<b>Total Project Budget</b>	<b>Estimated Maximum Total Facilities Grant</b>	<b>Revised Estimated Maximum Total Facilities Grant</b>	<b>Maximum Total Facilities Grant</b>	<b>Revised Maximum Total Facilities Grant</b>
East Longmeadow	East Longmeadow High School	New	\$177,460,652	\$61,826,434	\$80,967,085	\$63,197,430	\$82,338,081
Hopkinton	Elmwood Elementary School	New	\$158,422,394	\$45,865,093	\$60,607,875	\$46,784,822	\$61,527,604
Whitman Hanson Regional School District	Whitman Middle School	New	\$135,289,672	\$44,490,112	\$58,146,727	\$45,503,102	\$59,159,717
<b>Totals:</b>			<b>\$471,172,718</b>	<b>\$152,181,639</b>	<b>\$199,721,687</b>	<b>\$155,485,354</b>	<b>\$203,025,402</b>