

MEMORANDUM

TO: Board of Directors, Massachusetts School Building Authority
FROM: James A. MacDonald, First Deputy Treasurer, Interim Chief Executive Officer
John K. McCarthy, Executive Director, Deputy Chief Executive Officer
DATE: June 21, 2017
RE: MSBA Construction Cost Policy Update

In accordance with established practices, staff has completed its annual review of construction cost data. The comparison of MSBA funded school construction cost to common economic indicators was presented at the Facilities Assessment Subcommittee (“FAS”) meeting on April 12, 2017. The information and the recommendation below were presented at the Facilities Assessment Subcommittee meeting on June 7, 2017.

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%;
- 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;
- July 2016: Adjusted the policy to fund up to \$312/sf plus eligible demolition and abatement, based on the statutory limit of 4.5%; and,

- May 2017: Staff presented a recommendation to calculate the annual program funding cap based on SMART fund growth for the prior fiscal year to allow staff greater certainty in recommending authorizations up to the actual funding cap each year.

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 three 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;
- Five of the 15 projects were outside of one standard deviation;
- New building costs plus eligible site costs are projected to reach \$365/sf on December, 31, 2017, the midpoint of the upcoming fiscal year (based on the 10 projects within one standard deviation), refer to the attached Chart 2; and,
- Dedicated sales tax revenue for Fiscal Year 2016 exceeded 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 \$312/sf plus eligible demolition and abatement, to \$326/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, 2017.

Chart 1 - MSBA Construction Costs Compared to Common Economic Indicators

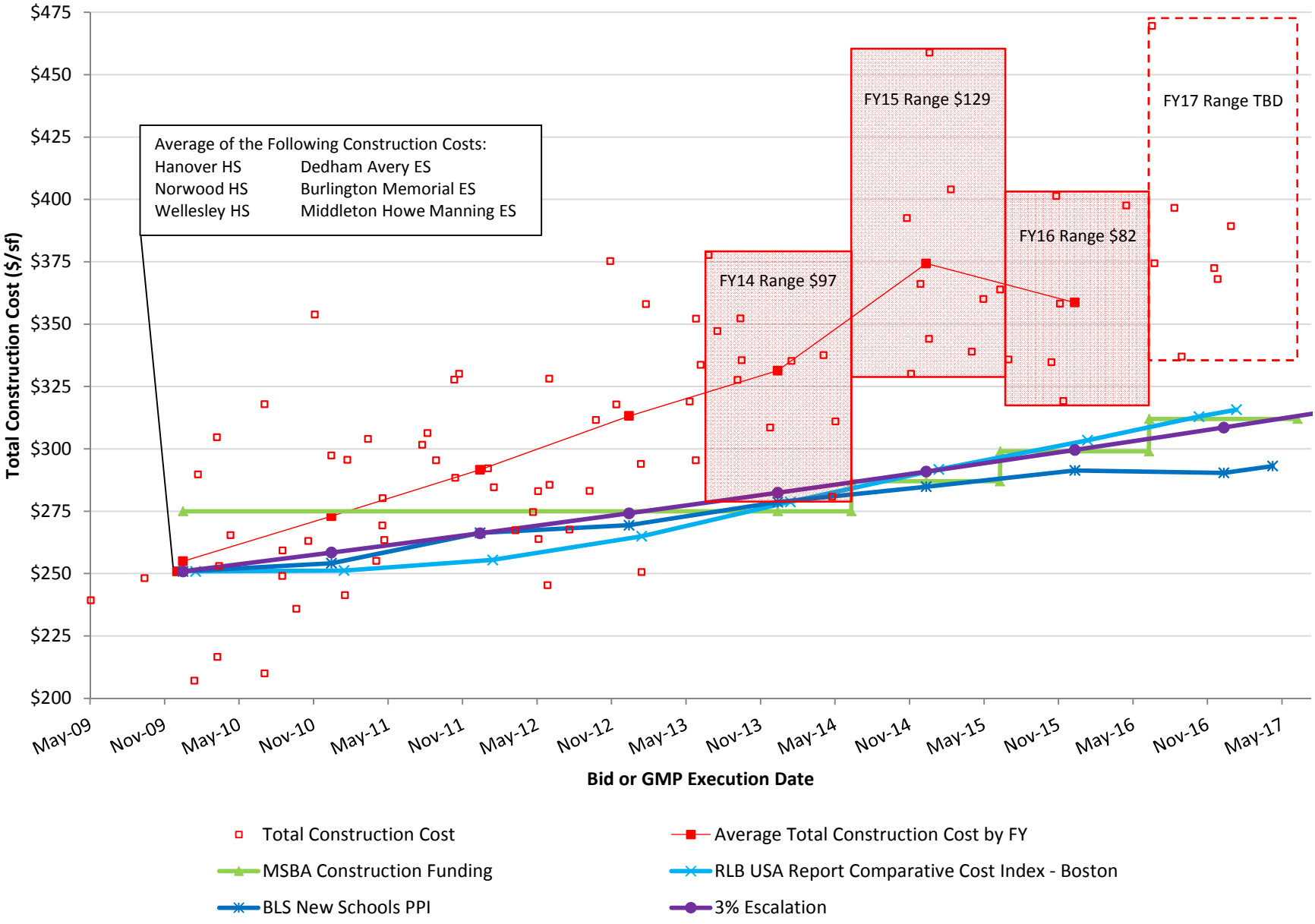
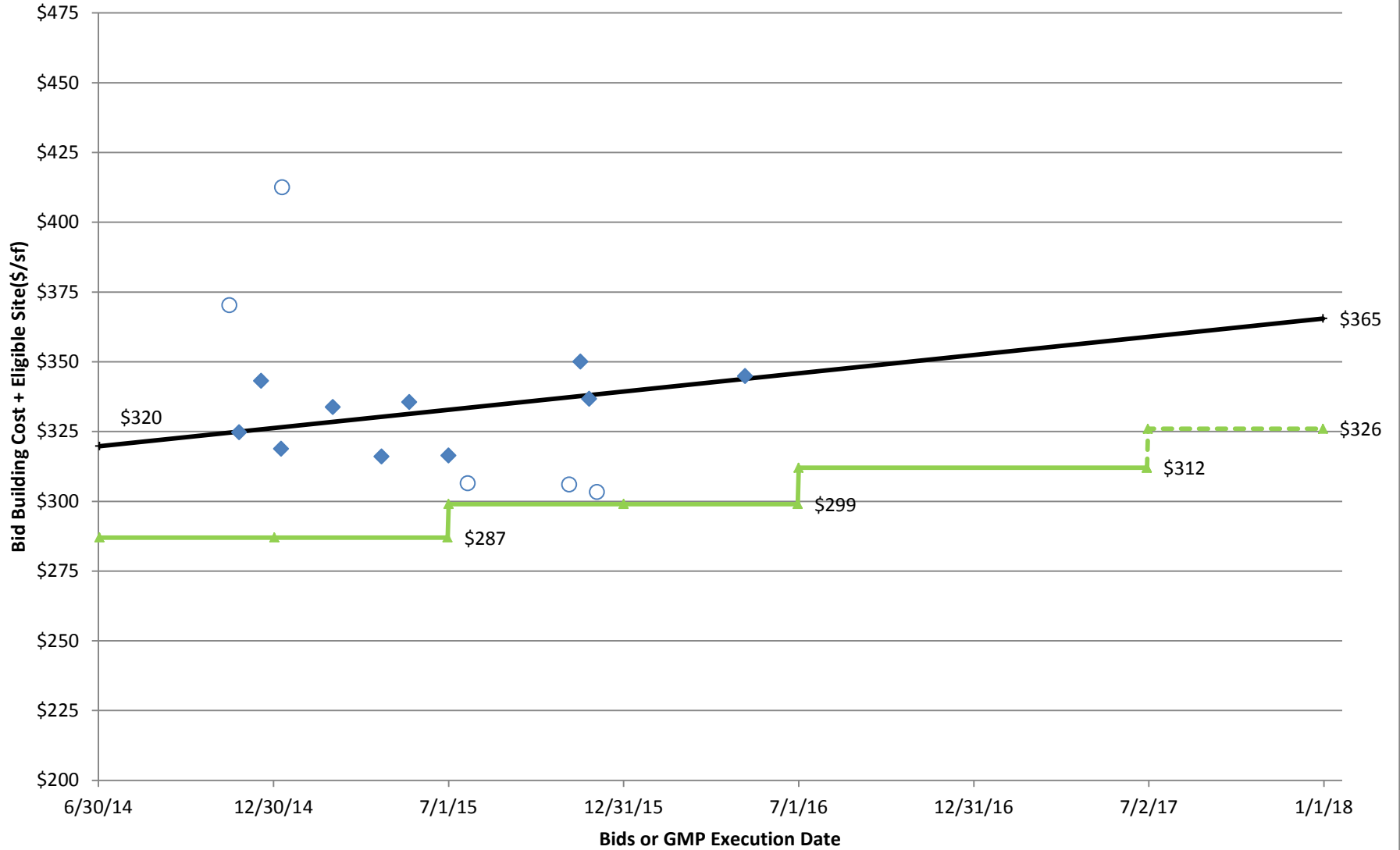


Chart 2 - New Building Plus Eligible Site Costs



◆ Within 1 Standard Deviation

○ Outside 1 Standard Deviation

— Building + Eligible Site Costs Trend Line

—▲ MSBA Construction Funding

- -▲ Proposed MSBA Construction Funding