

## MEMORANDUM

To: Board of Directors, Massachusetts School Building Authority  
From: Maureen G. Valente, Chief Executive Officer  
John K. McCarthy, Executive Director  
Date: July 30, 2015  
Subject: MSBA Construction Cost Policy Update

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On June 3, 2015 staff presented an update and recommendation to adjust the current policy regarding the funding of reimbursable eligible construction costs to the Massachusetts School Building Authority (the “MSBA”) Board of Directors (“Board”). The presentation included a brief history of the policy since its inception on June 5, 2013, the potential impact of the policy on the number of projects the MSBA could support, the updated new building plus eligible site costs trends, a review of applicable statutory language, a recommendation to adjust the policy of funding upward, a summary of previous costs, and a comparison of MSBA funded new construction projects to common economic indicators. Following the staff presentation, the Board expressed its concurrence with the recommended Policy Change to be effective as of July 1, 2015, and indicated its intention to ratify that concurrence at the next Board Meeting. This Memorandum informs the August 6, 2015 vote by the Board regarding the MSBA’s Construction Cost Policy.

### **Background**

The MSBA set a reimbursable limit of \$275 per square foot (“/sf”) for eligible construction costs early in 2009. During the summer of 2012, MSBA staff posted a Request for Services for assistance with review of construction cost data and to assess if the \$275/sft continued to be an appropriate level of reimbursement for building and eligible site costs. The MSBA engaged Rider Levett Bucknall to assist with this review. On June 5, 2013, staff presented these findings to the Board, recommending that the policy of reimbursing up to \$275/sf continue, and implemented the practice of updating the review of construction cost trends annually.

Staff updated its review of construction cost trends early in 2014, and found that construction cost trends were increasing and are projected to continue to increase. Chapter 70B, Section 7 includes a limit on the estimated amount of grants approved by the MSBA during a fiscal year, which shall be the limit for the previous fiscal year plus the lower of the rate of growth in the dedicated sales tax revenue amount, as defined in subsection (a) of section 35BB of Chapter 10, or 4.5 percent. [Amended by Ch. 139 of the Acts of 2006, §47]. Because the projected increase in construction cost trends exceeded the statutory limit, staff recommended adjusting the policy of funding up to \$287/sf (a 4.5% increase), plus eligible demolition and abatement in its presentation to the Board on June 4, 2014.

Maureen G. Valente  
John K. McCarthy  
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### **Recommendation from the June 3, 2015 Board Presentation**

Staff presented its update to the Construction Cost Policy on June 3, 2015 as outlined on the attached slides from the June Board Meeting PowerPoint. The Board voted to accept staff's recommendation as follows:

- Adjust the current policy of funding up to \$287/sf plus eligible demolition and abatement, to \$299/sf plus eligible demolition and abatement, based on the projected FY16 dedicated sales tax revenue growth estimate of 4.1%.
- Make the policy effective for districts receiving an approval of a proposed project on or after July 1, 2015.



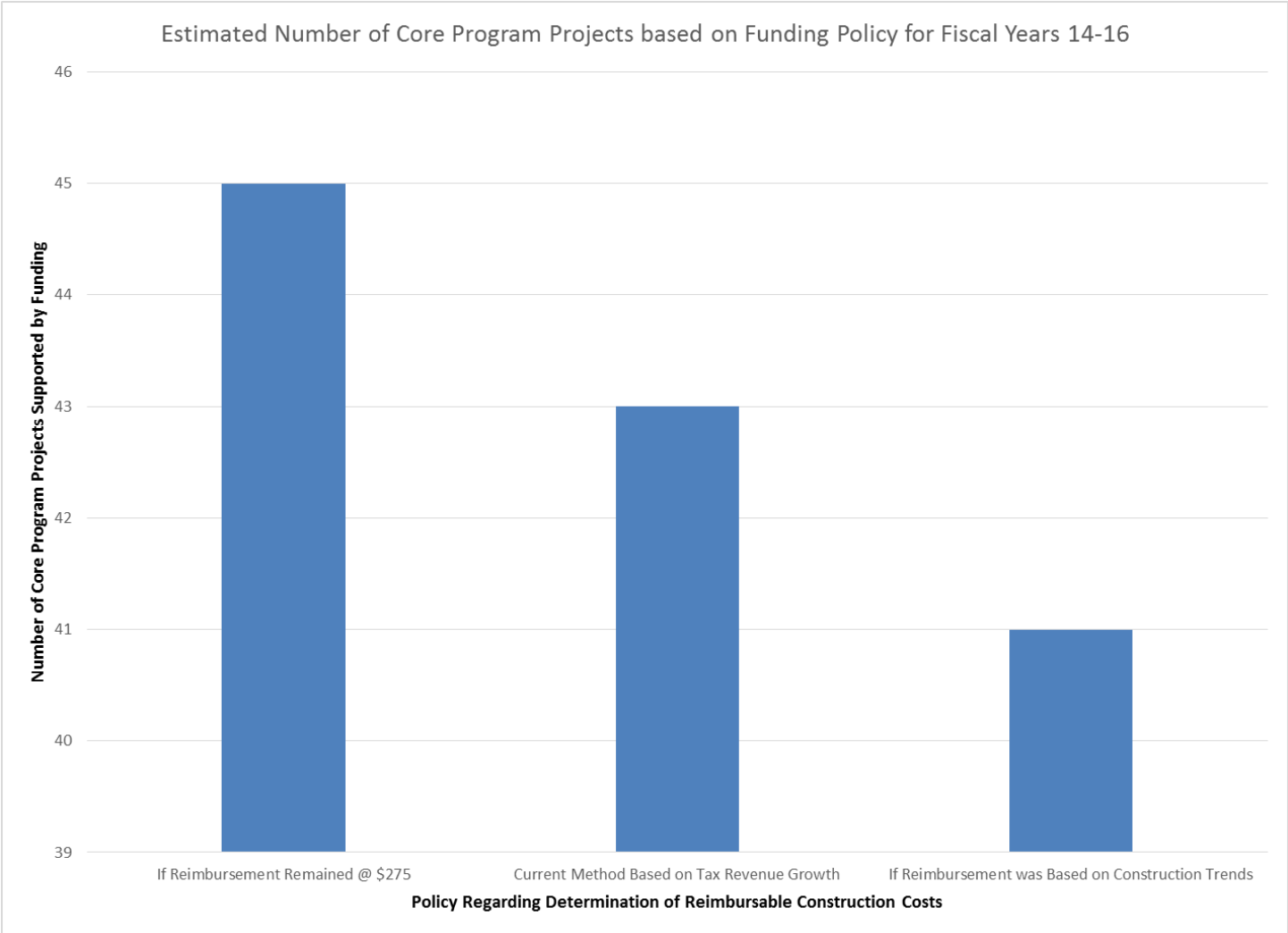
# History of Construction Costs Policy

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- 2009 MSBA set reimbursable limit of eligible construction costs to \$275/sf plus eligible demolition and abatement
- June 2013 MSBA established policy of reviewing construction costs annually.
- June 2014 MSBA established policy of basing adjustments to reimbursable limit of eligible construction costs to growth in the dedicated sales tax revenue

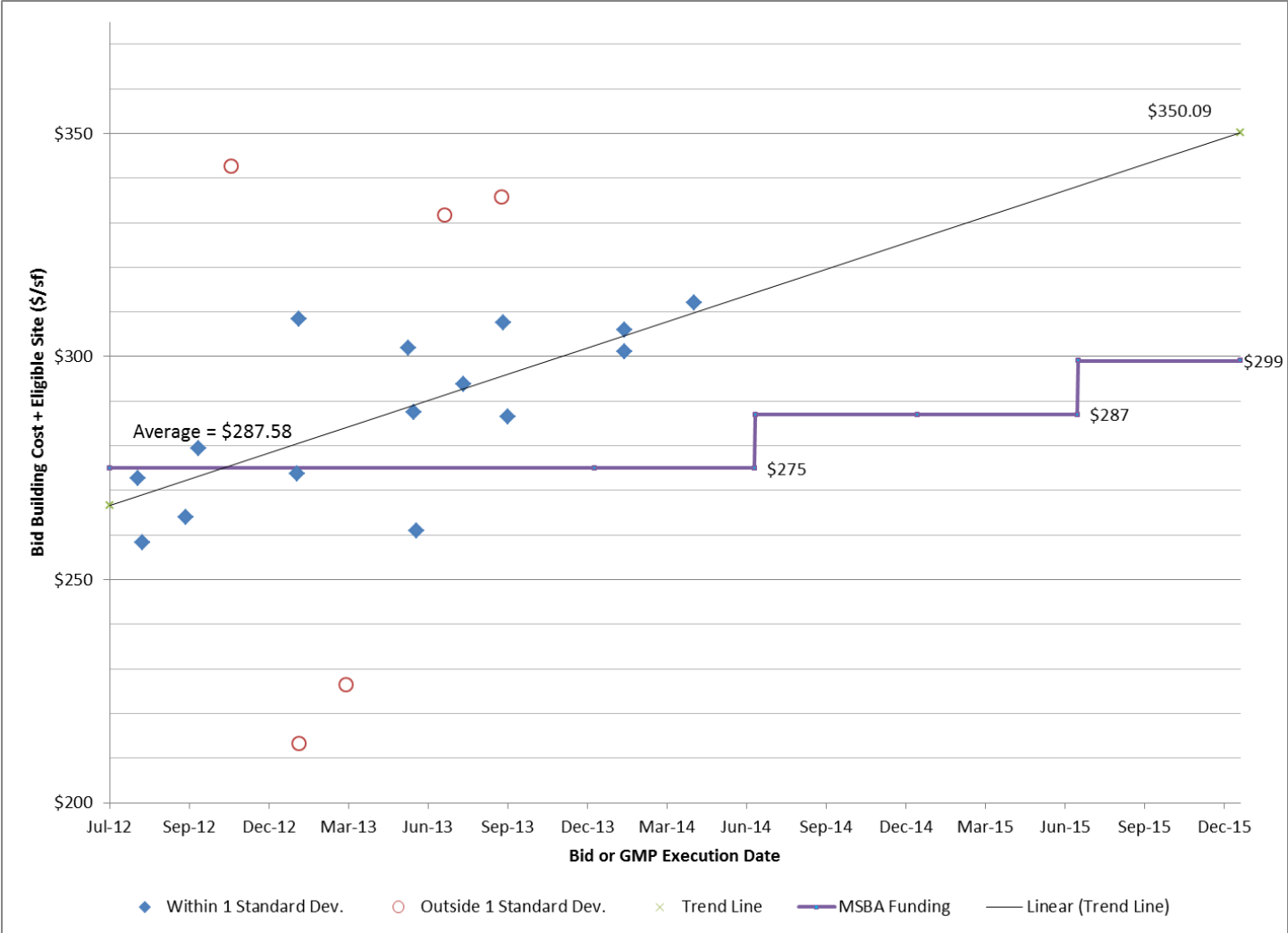


# Funding Policy Impact





# New Building + Eligible Site Costs





# Statutory Language

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- Chapter 70B: Section 7 Determinations to be made before board of education approves school projects; appropriation items
  - Section 7. There shall be a limit on the estimated amount of grants approved by the authority during a fiscal year. For fiscal year 2008, the limit shall be \$500,000,000. For each fiscal year thereafter, the limit shall be the limit for the previous fiscal year plus the lower of the rate of growth in the dedicated sales tax revenue amount, as defined in subsection (a) of section 35BB of chapter 10, or 4.5 percent. [Amended by Ch. 139 of the Acts of 2006, §47]
- MSBA construction funding policies and practices will be informed by:
  - Lesser of the projected rate of growth in dedicated sales tax revenue or 4.5%
  - Construction cost will inform



# Recommendations

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- Adjust current policy of funding up to \$287/sf plus eligible demolition and abatement to \$299/sf plus eligible demolition and abatement based on the projected FY 16 dedicated sales tax revenue growth estimate of 4.1%.
- Make effective for districts receiving an approval of a proposed project on or after July 1, 2015.



# New Building + Eligible Site Costs

Fiscal Year	No.	Marked Up Building + Eligible Site Cost (\$/sf)			
		Schematic Design Estimates		GC Bid or CMR GMP	
		Average	Range	Average	Range
2010	6	\$294	\$256-\$359	\$226	\$197-\$261
2011	13	\$267	\$241-\$294	\$242	\$188-\$279
2012	14	\$264	\$242-\$292	\$259	\$224-\$289
2013	11	\$286	\$243-\$317	\$274	\$213-\$343
2014	8	\$312	\$275-\$339	\$309	\$286-\$336
2015	9	\$349	\$312-\$441	-	-

Estimates are presented by GC Bid or CM-R GMP execution dates.



# New Building Costs Compared to Common Economic Indicators

