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: August 19, 2026
RE: Recommendation to Revise MSBA Project Funding Level Policy

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In accordance with past practices, staff have completed an updated review of proposed project costs, grant data, and the MSBA's annual program funding cap. This memorandum presents revisions to MSBA funding levels for Core Program projects regarding construction costs, including building costs, sitework costs, and demolition and abatement costs, as well as Owner's Project Management ("OPM") and Designer services. As outlined in this memorandum, Revisions to the MSBA's Funding Level Policies regarding eligible costs are recommended to be effective on or after January 1, 2027. Information regarding staff recommendations was presented and discussed at the Facilities Assessment Subcommittee meeting on July 15, 2026.

Background

The MSBA's enabling statute places a limit upon the estimated amount of grants, or 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 has been revised by an amount 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 that could be approved by the MSBA to $800 million, resulting in an increase of approximately $175 million to the statutory limit for FY20. In the Commonwealth's FY24 Budget, the legislature increased the Annual Cap to $1.2 billion and removed grants related to the Accelerated Repair Program from the accounting of the Annual Cap, also retroactively applying these changes to FY23, adding approximately $364 million combined to the MSBA's Annual Cap. Further, this legislative action also increased the allowable annual growth rate in the Annual Cap from a maximum increase of 4.5% to a maximum increase of 6.5%.

To most effectively meet the needs of districts across the Commonwealth while ensuring a sustainable program within the Annual Cap, the MSBA has, throughout the course of its grant program, set funding levels on reimbursable costs and has adjusted those levels with the intent to help districts effectively within the Annual Cap.

Table 1 – Current Funding Limits

Item	Current Funding Limits
Building Funding Limit	$605/eligible sf
Sitework Cost Allowance	$73/eligible sf (12% of $605)
Demolition & Abatement	$42/sf of existing school
Owner's Project Management Basic Services	$23.73/eligible sf (3.5% of $678)
Designer Basic Services	$67.80/eligible sf (10% of $678)
FF&E	$1,915/student
Computer Equipment	$1,570/student
Construction Contingency – Based on District's Construction Budget	New – 1% Add/Reno – 2%
Owner's Contingency – Based on District's Construction Budget	New – 0.5% Add/Reno – 1%

Discussion

This year's review, described below, includes an evaluation of the MSBA's Building Funding Limit, Sitework Cost Allowance, Demolition and Abatement Funding Limit, and consultant funding limits. The evaluation of funding limits is similar in its approach to the analysis performed previously. The evaluation compares anticipated grant obligations for projects currently in the grant program to the estimated value of the MSBA's Annual Cap over time, to then plan for available Annual Cap space that could be applied to future SOI invitations.

Sitework Cost Allowance Review

Prior to October 2022, the MSBA reimbursed districts for otherwise eligible sitework based on 8% of the district's building cost as part of an overall funding limit that included both the building cost and a sitework cost allowance. Currently, the MSBA reimburses districts for otherwise eligible sitework at 12% of the MSBA's Building Funding Limit. To assess the potential benefit to district grants and the estimated impact to the MSBA's Grants Cap Space, staff reviewed 119 Core Program projects that received Project Scope & Budget approval by the MSBA Board of Directors on or before April 29, 2026. Staff compared approved grants to various Sitework Cost Allowance levels expressed as a percentage of the Building Funding Limit.

Applying the current Sitework Cost Allowance as a percentage of MSBA Building Funding Limit to the 119 projects revealed that eight of the projects had site costs that were below the estimated total Sitework Cost Allowance for each project. Staff assessed the impact of three Sitework Cost Allowance options:

- Reducing the Sitework Cost Allowance from 12% to 8% of the MSBA's estimated Building Funding Limit would have reduced the number of projects with sitework costs below MSBA funding levels from eight to five, while restoring about $160 M to the overall Grant Cap Space associated with these 119 projects.
- Increasing the Sitework Cost Allowance from 12% to 15% of the MSBA's Building Funding Limit would have increased the number of projects with sitework costs below MSBA funding levels from eight to ten, while increasing overall Grants associated with these 119 projects by about $110 M.
- Increasing the Sitework Cost Allowance from 12% to 18% of the MSBA's Building Funding Limit would have increased the number of projects with sitework costs below MSBA funding levels from eight to 21, while increasing overall Grants associated with these 119 projects by about $209 M.

Most projects, approximately 80%, could benefit directly from an increase in MSBA's Sitework Cost Allowance levels. However, all projects could benefit from higher Building Funding Limit.

Evaluating Potential Funding Limits and Potential Future Project Invitations

Similar to the FY26 funding level review, staff analysis includes projects currently in the grant program and potential future SOI invitations, based on a typical project reflecting the average enrollment, eligible building size, and reimbursement rate as described below. MSBA staff applied its funding policies and project averages to estimate a maximum total facility grant for each potential project. The potential grant obligation for future SOI invitations and the available Annual Cap is estimated based on the assumptions in Table 2 – Cost Review Assumptions, below. For comparison, the assumptions from FY26 and FY27 are provided.

Table 2 – Cost Review Assumptions

Factor	**FY26 Assumptions**	**FY27 Assumptions**
Feasibility Study Agreement Maximum Total Facility Grant	$1,117,000 obligated 2 fiscal years after SOI submittal	$1,165,241 obligated 2 fiscal years after SOI submittal[1]
Average Enrollment	740 students	788 students[2]
Eligible Building Area	155,000 sf	165,979 sf[2]
Demolition & Abatement Assumed sf (existing building gross square feet)	124,000 sf	126,144 sf[2]
Consultant Fee Funding Level OPM – 3.5% of Funding Level Designer – 10% of Funding Level	Varies by Option (Building + Site)	Varies by Option (Building + Site)
Fixtures, Furniture & Equipment	$1,915/student	$1,915/student
Computer Equipment	$1,570/student	$1,570/student
Reimbursement Rate with Incentive Points	62% with incentives	58.92% with incentives[2]
Project Obligation of District's Proposed Project Scope and Budget	90% approved 4 fiscal years after SOI submittal	90% approved 4 fiscal years after SOI submittal

Factor	FY26 Assumptions	FY27 Assumptions
Annual Escalation in Future Construction Costs	3.25%	Varies by Option
Growth Rate in Annual Cap	3.25%	3.25%

1. Based on 45 Feasibility Study Agreement Maximum Total Facilities Grants approved between FY24 and FY26.
2. Based on 37 Project Scope & Budgets approved between FY24 and FY26.

For each potential funding level option, staff estimated the maximum total facilities grant for projects currently in the grant program that have not yet secured Board approval of a proposed project scope and budget, and a number of future SOI invitations. The total of the projected grants in each year was compared to the estimated Annual Cap. This process was repeated iteratively for each option to assess potential numbers of future SOI invitations that could be financially supported within the estimated Annual Cap. The process considered the potential numbers of future SOI invitations in the next four years as well as the years that follow. The results are summarized in Table 3, below.

Table 3 – MSBA Funding Level Options

Building and Site Cost Funding Level Options	Consultant Fee Maximum Funding Level[3] ($/sf)	Applied Annual Escalation Rate in Construction Cost Funding Levels (%)	Estimated Average 2026-2029 Invitations	Estimated Average Sustainable Level of Invitations
Building: $605 (Current) Site: $73 (12%[1]) Demo & Abatement: $42[2]	$678	0.00%	19	26
Building: $605 Site: $109 (18%[1]) Demo & Abatement: $42[2]	$714	0.00%	17	24
Building: $625 Site: $75 (12%[1]) Demo & Abatement: $44[2]	$700	3.25%	15	17
Building: $625 Site: $113 (18%[1]) Demo & Abatement: $44[2]	$738	3.25%	13	16

1. Percentage of MSBA Building Cost Funding Level.
2. Eligible existing school building area that is subject to abatement and selective or complete demolition.
3. OPM funding level is 3.5% and designer funding level is 10% of Consultant Fee Maximum Funding Level.

Recommendations

Based on this review, the findings described above, and discussions during the Facilities Assessment Subcommittee meeting on July 15, 2026, staff recommend the following changes to the MSBA's project funding limits policy:

- Adjust the current policy of funding from $605/sf for building costs, plus eligible demolition and abatement (exclusive of eligible sitework costs), to $625/sf for building costs, plus eligible demolition and abatement (exclusive of eligible sitework costs);
- Apply MSBA's Sitework Cost Allowance guidelines to include $75/sf for otherwise eligible sitework costs in addition to the proposed Building Funding Limit of $625/sf, plus eligible demolition and abatement;
- Adjust the current policy of funding 3.5% of a maximum funding level of $678/sf, or the construction budget, whichever is less, to funding 3.5% of a maximum funding level that is equal to the sum of MSBA's Building Funding Limit ($625/sf) and MSBA's Sitework Cost Allowance ($75/sf), or $700/sf, or the construction budget, whichever is less, for otherwise eligible Owner's Project Management basic services;
- Adjust the current policy of funding10% of a maximum funding level of $678/sf, or the construction budget, whichever is less, to funding 10% of a maximum funding level that is equal to the sum of MSBA's Building Funding Limit ($625/sf) and MSBA's Sitework Cost Allowance ($75/sf), or $700/sf, or the construction budget, whichever is less, for otherwise eligible Designer basic services;
- Adjust the current policy of funding $42/sf of the existing school building, inclusive of costs associated with the demolition and abatement of asbestos containing floor and ceiling tiles, to $44/sf; and
- Make all policies effective for districts receiving Board approval of a Project Scope and Budget on or after January 1, 2027.