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 6, 2017
RE: MSBA Construction Cost Policy Update

In accordance with the established MSBA practices, staff has completed an updated review of construction cost data. The information and the recommendation below were presented at the Facilities Assessment Subcommittee meeting on November 29, 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 since 2012 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.

Discussion

Historically, staff has monitored new construction costs for the two prior fiscal years to assess the overall trend in new construction costs for projects in the MSBA capital pipeline. This information would be compared to both an estimated growth forecast for that same fiscal year and the statutory maximum allowed increase in grants of 4.5%. The lessor of these three factors defines recommended adjustments in MSBA funding levels for new building costs plus eligible demolition and abatement. In years past staff would defer any potential adjustment to the MSBA's eligible construction funding limit until the end of the fiscal year in order to base the review on the latest SMART fund growth estimates.

To increase the certainty of the annual cap calculation and maximize funds available to support the estimated grants of district proposed and Board approved projects, the Board approved at the May 12, 2017 Board meeting, a staff recommendation to calculate the annual program funding cap based upon SMART fund growth for the prior fiscal year and to provide reconciliation of annual cap at the end of each fiscal year. To coincide with these recommendations and to further maximize and focus resources, staff is presenting its annual construction cost policy update in the middle of the fiscal year (targeting the December Board meeting annually) while continuing to present its reconciliation of approved estimated grants to the annual cap at the end of each fiscal year.

Updated Annual Review

Staff has completed its updated annual review of new construction costs and notes the following:

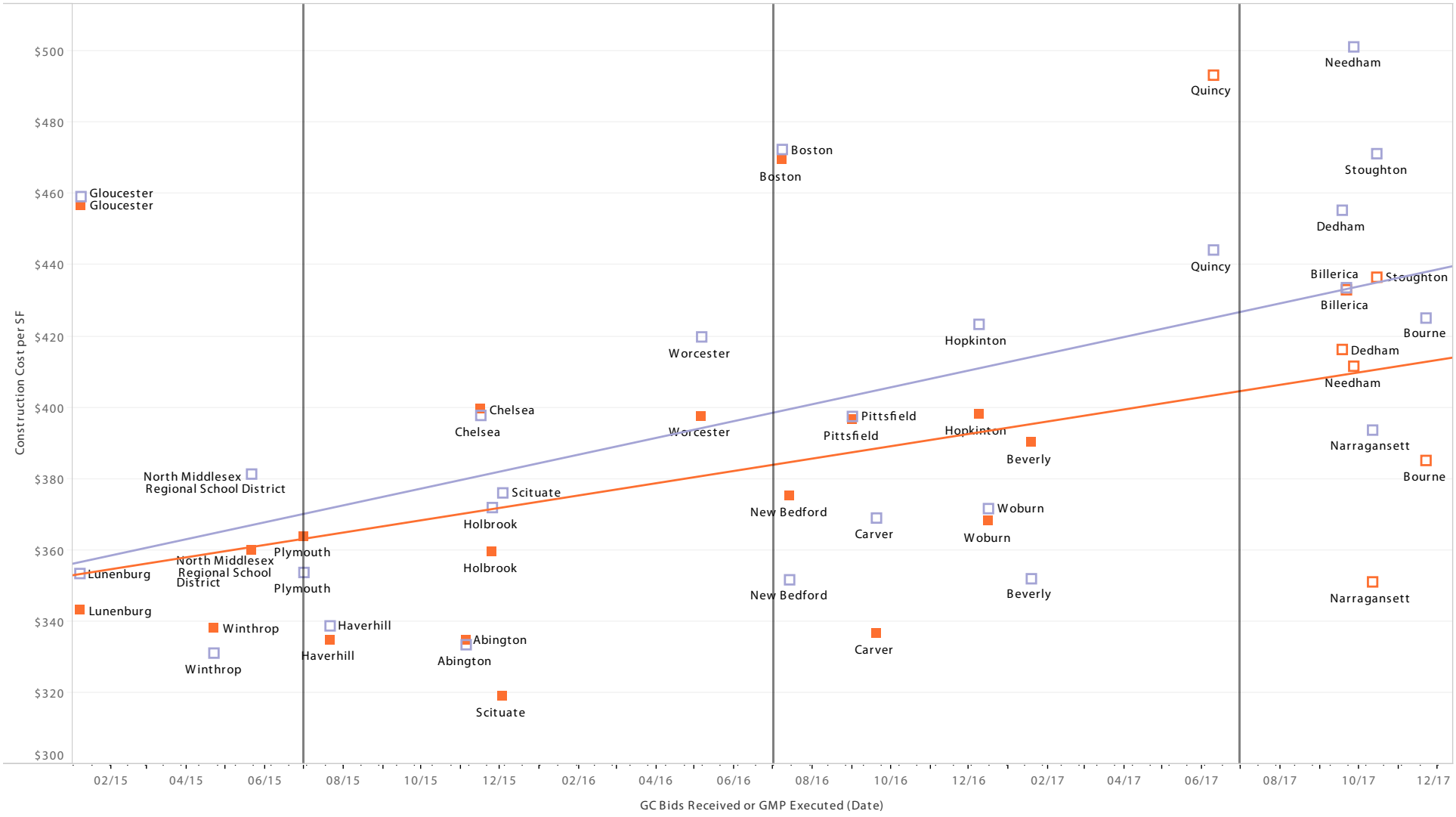
- Schematic Design Estimates, Construction Estimates, and Construction Bid Results from 2015 to present are presented on "Chart 1 – Total Construction Cost Trends", attached hereto. The Orange Line in Chart 1 is a trend line for Bid Costs and the Purple Line is a trend line for Schematic Design estimated costs;
- New building plus eligible site costs for 18 MSBA funded projects that bid during the two prior calendar years (between January 1, 2015 and December 31, 2016) ranged in cost from $303/sf to $435/sf with an overall average of $340/sf;
- Four of the 18 projects were outside of one standard deviation;
- New building costs plus eligible site costs are forecast to reach $372/sf on June 30, 2018, the midpoint of the upcoming calendar year, (based on the 14 projects within one standard deviation), refer to "Chart 2 – New Building Plus Eligible Site Costs", attached hereto;
- The growth in dedicated sales tax revenue for Fiscal Year 2017 was 2.28%; and,
- MSBA's School Construction Costs information, which is available on the MSBA website under "Building with Us \ Capital Planning Information: Cost Data", includes:
    - Construction costs for new construction projects as bid from FY09 through FY17;
    - Construction cost estimates at preferred schematic and at schematic design for projects recently approved by the Board and expected to bid in FY 18 and FY 19;
    - Inset with a closer look comparing the schematic design estimates to the bids received for FY 16, FY 17 and the first quarter of FY 18; and
    - Common economic indicators.

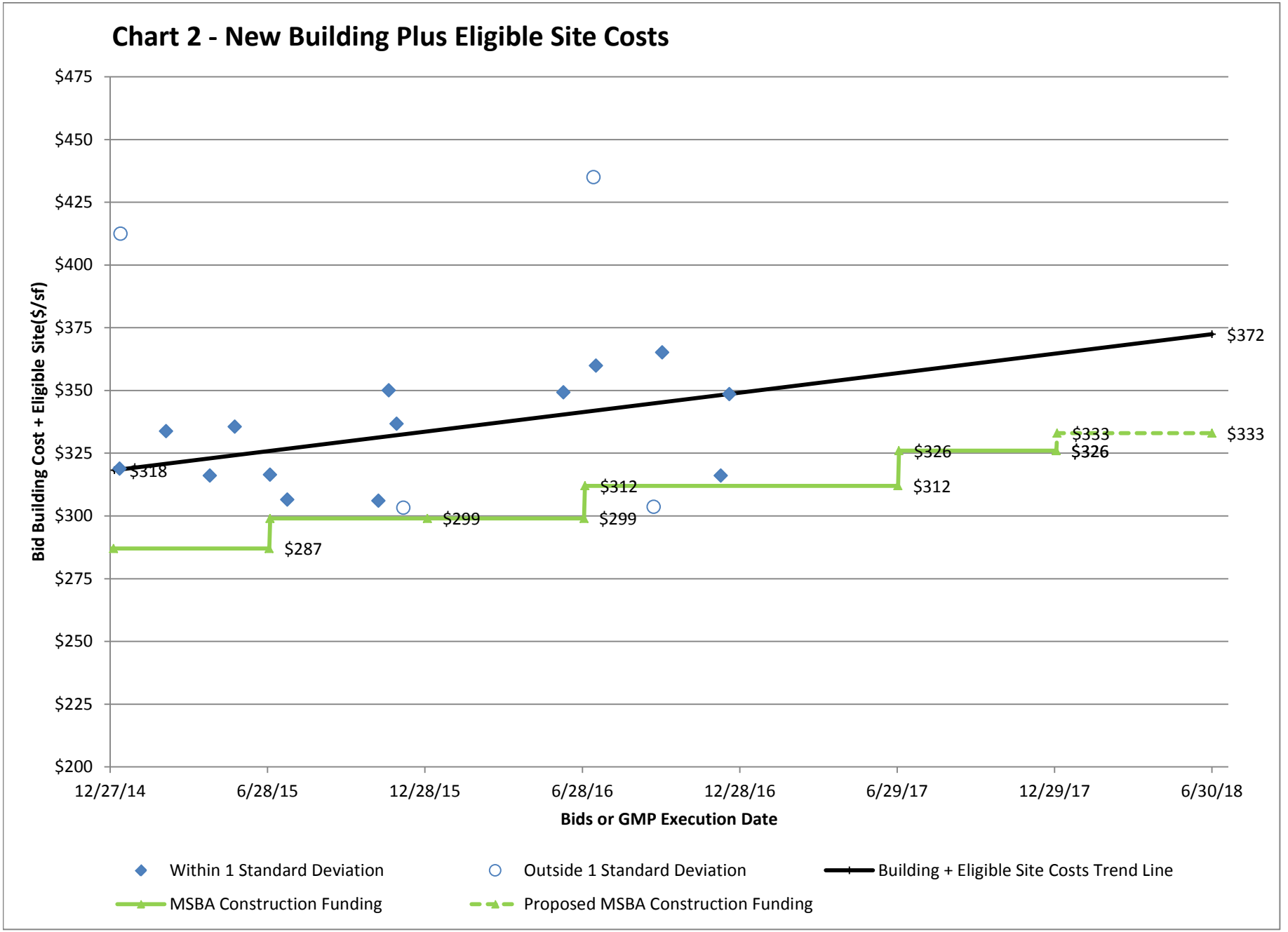
Recommendation

Based on the review and findings described above, staff recommends the following:

- Adjust the current policy of funding up to $326/sf plus eligible demolition and abatement to $333/sf plus eligible demolition and abatement, based on FY 17 sales tax growth of 2.28%;
- Make the policy effective for districts receiving an approval of a proposed project on or after January 1, 2018; and,
- Staff review the construction cost trends and present an update to the Board regarding MSBA's Construction Cost policy on or about December 2018.

Chart 1 - Total Construction Cost Trends




Chart 2 - New Building Plus Eligible Site Costs
$475
$450
$425
$400
$375
$350
$325
$300
$275
$250
$225
$200
Bid Building Cost + Eligible Site($/sf)
12/27/14
6/28/15
12/28/15
6/28/16
12/28/16
6/29/17
12/29/17
6/30/18
Bids or GMP Execution Date
$318
$287
$299
$299
$312
$312
$326
$326
$333
$333
$372
Within 1 Standard Deviation
Outside 1 Standard Deviation
Building + Eligible Site Costs Trend Line
MSBA Construction Funding
Proposed MSBA Construction Funding