

*The New MSBA Rules: How will the
new program for
school building grants work?*

Treasurer Tim Cahill, Chair
Katherine Craven, Executive Director

The Independent Massachusetts School Building Authority Runs the Commonwealth's School Building Grant Program

The MSBA was created to replace the former unsustainable school building assistance program:

- 428 projects built up on a Waiting List
- 10-15 year wait for state funding
- Committed over \$11 Billion in state funding without a dedicated funding source
- Audit backlog of over 800 projects
- Little control or oversight

Chapter 208 of the Acts of 2004 ended the former school building assistance program and created the MSBA, charged with:

- Succeeding to the powers of the Department of Education, inheriting over \$11 billion in outstanding payments for 1,156 projects authorized under the former program;
- Achieving the effective management, planning and financial sustainability of a new program for school building construction grants;
- Revising regulations for a new program of grants for school construction
- Maintaining new Grant Program within a statutory cap and availability of funds.
- Ending moratorium and accepting applications for new Grant Program starting July, 2007

Massachusetts' Version of the Marshall Plan for School Construction

Massachusetts has expended over \$20B -- \$15B in state tax dollars -- on local schoolhouse capital facilities over the past 20 years

- Of the 1,817 schools in the Commonwealth, 1,156, or 63%, are currently or recently reimbursed for construction or renovation projects undertaken between 1986 and 2005 with an approximate MSBA cost of \$11 billion

The condition of the 1,817 Massachusetts schools is generally good

- Over 76% rated in generally good condition
- Only 3%, or 62 schools, rated in need of substantial work
- There was little correlation between the relative wealth of a school district and the general condition of the school buildings within that district

Almost one-half of the current school facility square footage is new or recently renovated—are these projects being maintained?

Massachusetts schools have been built 32% to 39% larger, on average, than the maximum gross square footage space requirements per student in the Department of Education regulations

City/Town/Regional School District	Students in District 2006	# of schools	# of Recent Projects	Estimated Total Cost of Recent Projects	Enrollment trend since 2003
Boston	57,349	139	176	\$ 869,651,224	-6.8%
Springfield	25,206	43	34	\$ 709,356,708	-5.2%
Lowell	14,096	23	26	\$ 436,381,608	-8.9%
Worcester	24,023	47	39	\$ 433,292,655	-6.6%
Lawrence	12,273	18	10	\$ 369,429,607	-2.5%
Fall River	10,969	30	16	\$ 294,739,347	-9.6%
Newton	11,567	22	19	\$ 272,726,539	1.8%
Taunton	8,245	16	26	\$ 261,438,030	-1.8%
Salem	4,638	10	14	\$ 231,001,024	-7.2%
Wachusett Regional	7,085	11	11	\$ 230,342,369	3.4%
Cambridge	5,803	13	20	\$ 221,620,331	-14.3%
Brockton	15,896	25	22	\$ 179,292,848	-4.8%
Somerville	5,136	12	13	\$ 173,861,105	-10.8%
Chelsea	5,495	9	7	\$ 167,686,446	-4.9%
Shrewsbury	5,873	9	6	\$ 155,974,088	10.4%
Westford	5,216	10	14	\$ 146,338,915	5.9%
Barnstable	4,728	11	4	\$ 132,403,998	-24.1%
Attleboro	6,196	10	12	\$ 131,237,451	-7.9%
Easton	3,875	7	4	\$ 127,002,735	0.7%
Holliston	2,971	4	10	\$ 107,056,431	-3.6%
Falmouth	4,144	7	17	\$ 105,649,413	-9.5%
Plymouth	8,451	14	8	\$ 100,440,436	-5.4%
Belchertown	2,602	5	4	\$ 83,236,280	6.6%
Danvers	3,592	7	9	\$ 77,641,557	-2.8%
Norwell	2,217	4	5	\$ 64,735,401	9.8%
Gateway Regional	1,391	7	12	\$ 47,634,837	-4.6%
Mohawk Trail	1,314	5	6	\$ 41,070,322	-15.9%
Wayland	2,925	5	4	\$ 26,924,364	0.1%
Burlington	3,551	6	6	\$ 24,106,576	1.1%
Norwood	3,616	8	24	\$ 20,979,888	-3.3%

Problems Inherited – Efficient Solutions Implemented

Inherited Problem	Implemented Solution
428 Waiting List projects with no certain funding date for reimbursement	250 projects fully paid; most projects have received payments
\$5.5 billion Waiting List projects with no funding solution	\$3.5 billion already paid for Waiting List projects; funding solution in place for balance
10-15 year wait for first payment of state funding led to local uncertainty	MSBA provides funds promptly under Progress Payment system
Over \$11 billion in state funding for 1,156 locally owned school projects without a dedicated funding source	One Cent of statewide sales tax dedicated to the MSBA. MSBA cannot expend funds in excess of statutory spending cap
Audit backlog of over 800 projects; Commonwealth did not know what it actually owed to communities	Over half of the auditable projects have been audited, and nearly all remaining audits in progress. Audits have identified \$359 million in savings to MSBA
Little centralized state oversight	MSBA statute and new regulations provide accountability over local school construction spending decisions

Old Process Unsustainable – New Process Measured

Programmatic Problem

MSBA Solution

Local Communities developed project scope; little room for State input in local decisions

MSBA reviews designs, scope and cost decisions at designated benchmarks during process

State did not exercise consistent policy of distribution of resources

MSBA grant distribution based upon need (building condition) and urgency (enrollment)

State did not live within an annual budget for grant distribution

MSBA must adhere to \$500M annual project cost cap

State did not have any way to benchmark projects submitted by locals

MSBA has already completed first Needs Survey, more thorough Facilities Assessments to follow.

Locally derived enrollment estimates were significantly overstated in many cases

MSBA will have process in place for districts to double check enrollment figures

Many districts have problems maintaining, operating, even opening new buildings due to local funding constraints

MSBA asks for your district's facility problem, then may assist in finding an affordable, equitable, and educationally sound solution

Significant Progress Made in Short Time Frame

FINANCE & MUNICIPAL AID INITIATIVES:

- Developed an accelerated payment system to distribute nearly \$5B since 2004
- Bond rating upgrade for Authority to AA+ (S&P, 9/06)
- Issued \$4B in bonds in 2 years to fund Waiting List projects
 - Largest bond deal in MA history, 2005
 - Initiated a \$500M Commercial Paper program, 2007
- Developed and implemented a Progress Payment System for projects under construction: Pay as you Build
- Cities and towns have saved millions of dollars in interest costs related to school construction
- More efficient financing through the Authority has freed up over \$1B in municipal resources which otherwise would have been issued for school construction

New Regulations: Highlights

Completed first major redraft in 60 years

Created logical application process

- Process begins with local identification of a problem, not a solution
- MSBA validates the problem through independent facility/maintenance assessment and enrollment projection
- MSBA works in collaboration with local districts on formulating a solution that is in best interest of both the MSBA and the local district
- MSBA works in collaboration with local districts on implementing agreed upon solution – clearly defined scope and budget, MSBA change-order review process
- MSBA and local district agree on an itemized construction budget, schedule and scope prior to MSBA approval

Sliding scale for school sizes based upon enrollment

- New size standards are more sensitive to actual building layouts, and they remove bias toward larger and more costly facilities

“Pay as you Build” Payment System

- Approved projects reimbursed monthly based on submitted project invoices
- Approved projects will not wait indefinitely for state funding

“Audit as you Build” Audit System

- Monthly submissions of invoices are audited as they are submitted
- No longer years of delay between project completion and final audit results

Finishing the Waiting List Projects

- Many communities are not ready for funding when we are ready to pay 100%
- MSBA initiated \$150M low-interest loan program (2%) to help further fund the Waiting List projects
- Many communities dropped projects that they didn't even need/want/could afford any more in favor of projects that were over-budget...

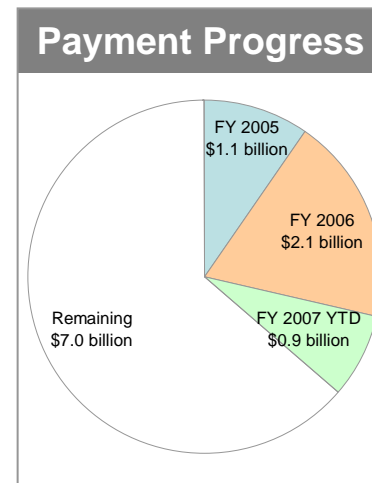
MSBA Has Made Significant Progress in 2 Years

Payments

Paid approximately \$4.5 billion to cities, towns, and school districts, for 350 of 428 Waiting List projects

“Pay as you Build” Payment System

- *Approved projects reimbursed monthly based on submitted invoices*
- *Approved projects will not wait indefinitely for state funding*

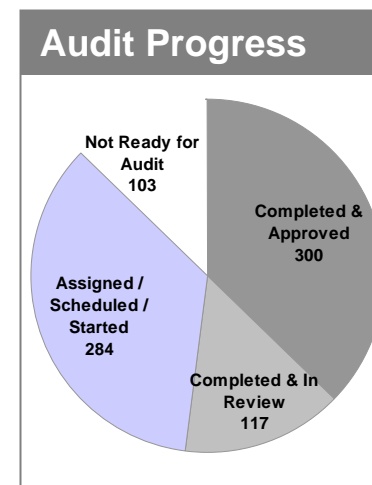


Audits

- Significantly reduced the 804 project audit backlog inherited from the Department of Education

“Audit as you Build” Audit System

- *Monthly submissions of invoices are audited as they are submitted*
- *No longer years of delay between project completion and audit results*



Sales Tax Performance

- FY2007 sales tax dedicated to MSBA has experienced little growth.
- For FY2008, the MSBA anticipates receiving the sales tax guaranteed minimum amount of \$634.7M
- Legislature and Governor have committed an increase of 14% to cover losses in sales tax—only until guarantee runs out in FY2009
- Sales tax revenues received each month in accordance with the MOU

Fiscal Year	Percentage of DSTRA	Guaranteed Minimum
2006	70%	\$488.7
2007	78	557.4
2008	85	634.7
2009	90	702.3
2010	95	NA
2011 and thereafter	100	NA

• Note: tax on meals and sales in convention center areas are not included in the MSBA Dedicated Sales Tax Revenue

New MSBA Approval Process

- \$500M/year annual MSBA grant cap
- State match leverages \$800M+ total school facilities spending annually
- Statements of Interest due by July 31, 2007 for FY2008 funding consideration
- Projects will be selected on the basis of need and urgency as compared to other communities
- Approved Projects will be reimbursed as communities build them

\$500M in FY2008 is cause to rejoice!

- \$2.5B over 5 years for local schools is more capital funding than the Commonwealth gives to its highways, higher education facilities, or its own infrastructure
- Waiting List experience tells us that matching our funds to local readiness is important
 - Out of 428 projects put on the “list” between 2000-2003, almost 70 remain in early construction stage 4-8 years later
 - Some districts will not be able to make substantial completion date of July, 2009

The New Process Overview

1. Identify the Problem

- Local community identifies deficiencies in school facilities through the Statement of Interest process

2. Validate the Problem

- MSBA and local community work together to validate deficiencies identified

3. Evaluation of potential solutions

- MSBA and local community work in collaboration to identify potential solutions

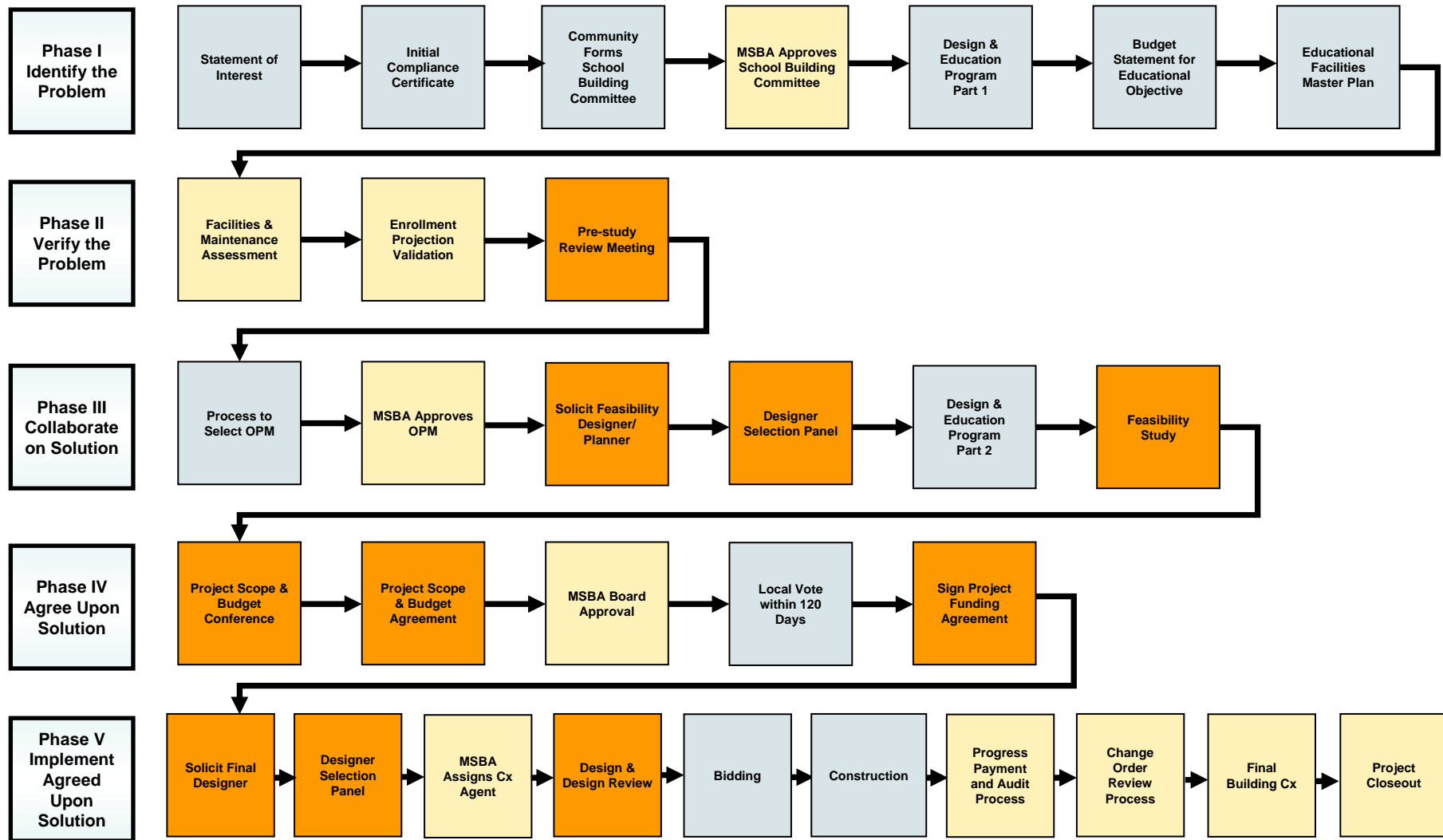
4. Confirm the solution

- MSBA and local community agree on solution and appropriate course of action

5. Implement the agreed upon solution

- MSBA and local community continue collaboration through design and construction

MSBA New Project Process Flow



Statement of Interest filing

- Available on our website, online submittal next week through our website
- Not an application for funding
- DEADLINE: July 31, 2007 for submission of the SOI and all related documentation
- Districts must have local sign-off and describe facility problem according to our 8 statutory criteria

The eight (8) statutory funding priorities are listed on the first page of the Statement of Interest. They are:

1. Replacement or renovation of a building which is structurally unsound or otherwise in a condition seriously jeopardizing the health and safety of school children, *where no alternative exists, as determined in the judgment of the Authority;*
2. Elimination of *existing severe overcrowding, as determined in the judgment of the Authority;*
3. Prevention of loss of accreditation, *as determined in the judgment of the Authority;*
4. Prevention of severe overcrowding expected to result from increased enrollments, which must be substantiated, *as determined in the judgment of the Authority;*
5. Replacement, renovation or modernization of the heating system in any schoolhouse to increase energy conservation and decrease energy related costs in the schoolhouse, *as determined in the judgment of the Authority;*
6. Short term enrollment growth, *as determined in the judgment of the Authority;*
7. Replacement or addition to obsolete buildings in order to provide a full range of programs consistent with state and approved local requirements, *as determined in the judgment of the Authority;* and
8. Transition from court-ordered and approved racial balance school districts to walk-to, so-called, or other school districts, *as determined in the judgment of the Authority.*

Statements of Interest Received

- 215 statements already submitted
- 105 different districts represented
- 91 of the SOI's are related to buildings that were rated 1 or 2 in MSBA Needs Survey (pretty good shape to brand new schools)
- Over half the requests relate to Elementary Schools
- Many requests are for roofs, boiler renovations, and other moderate repairs
- Include everything from overcrowding to obsolescence

SOI analysis is ongoing

- 42 high schools
- 29+ middle schools
- 120 elementary schools
- If every problem required a new school, these costs would be more than \$9B.
-the MSBA has \$2.5B in the first five years.

Priority 1: Imminent / Emergent Facility Crises with no alternative

- 162 schools have checked off #1
- Claims made by school districts:
 - Staff parking lot too small
 - Beaver dam in close proximity to school
 - Well-head close to parking lot
 - Sewer facility inadequate
 - Cracked windows
 - Track area needs to be relined

Priority 2: Severe Existing Overcrowding with no alternative

- 109 schools have checked off #2
- MSBA staff has been visiting schools with students in them to review any overcrowding conditions
 - Some districts create their own problem by closing school facilities
 - Some districts will not redistrict schoolchildren into less crowded local schools when space is available
 - Some have as few as 17 students per classroom yet still claim overcrowding. Some have as many as 35 desks in a classroom.
 - Some crowding created by conversion of classrooms to administrative space
 - Poor scheduling strategy may lead to overcrowding

Yet, some districts have special ed classes in vestibules, 5 lunches for crowded cafeterias, multiple old modular classrooms.

Priority 3, 4, 5: NEASC accreditation issues, future overcrowding, energy inefficiency, short term enrollment growth

- MSBA is reviewing documentation
 - “must satisfy the MSBA” that the issue is higher priority than other educationally obsolete facilities awaiting NEASC review
- Enrollment projections based upon formula
- Energy costs reviewed in Facilities Assessment

Priority 7: Educational Obsolescence

- Ever-moving target for most up-to-date educational facility
- Is there new technology for older buildings that enhances educational opportunity?
- MSBA will have to triage SOI's into categories of High, Medium, Low Priority
 - Does District have a clear plan for educational policy consistent with local resources?
 - MSBA will “pipeline” all SOI's for better local planning

MSBA Due Diligence

- MSBA will perform, when necessary, a detailed facility and maintenance assessment to collect very specific data at the school and district level
- Districts moving forward in the process will be asked to submit educational program goals to MSBA and relevant local budget tie-in
- MSBA will participate in defining the scope of the solution to the facility problems
 - Feasibility Study will be reviewed and solution agreed upon jointly
 - Pre-audit will let districts know what we will or won't pay for—no surprises

Intensive Pre-Design Planning Process Yields Better Results

- Goal: Feasibility Studies should be informed by educational goals, available operating resources to achieve those goals, realistic enrollments, realistic site assessments.
 - *“Defining exact need*
 - *Coordinating the project with institutional policy*
 - *Creating a project program, a project budget and a project schedule”*
 - » *From the Society for College and University Planning*

Designer Selection Panel

- Designer selection board exemption for school projects funded by MSBA allowed in recent legislation (section 6 of c. 122, St. 2006)
- GOAL: Standardize the A/E selection process, ensure “highest quality” under M.G.L. c.7
- Include local and educator participation on the DSP
- Include architects, planners and engineers on the DSP

Community-MSBA Involvement at Each Step of Process

- ✓ Eligible Applicant and School Building Committee roles: definition and communication
- ✓ Statement of Interest: voted on locally
- ✓ Pre-Study Review conference: agreement between MSBA and Community
- ✓ Educational Goals and Budget Review: formulated locally with community participation and discussed with MSBA
- ✓ Feasibility Study: Community controls the process within MSBA parameters
- ✓ Project Scope, Cost and Timeline: Need to be discussed locally once agreement with MSBA is reached on these items

Reimbursement Rates, per C.70B

- Base rate of 31%
- Ability to Pay Factors:
 - EQV Property Wealth 0-28% (Source:DOR)
 - Median Income Comparison 0-12% (Source:DOR)
 - % of Students in Federal Free/Reduced Lunch 0-17% (Source: DOE)

Reimbursement Rates (continued)

- INCENTIVE POINTS:
 - 3% Innovative Community Use
 - 2% Energy Efficiency
 - 0-8% Maintenance of Other Buildings
 - .5% match for every 1% privately raised....
 - 4% “Alternatives to Construction”: CM at Risk?
 - 0-5% for Renovations:
 - 5% Reno
 - 4% Major Reconstruction
 - 0% New



Impact on Local Budgets

MSBA is good for municipal and state balance sheets

- MSBA grants have had a dramatic positive impact on communities' balance sheets due to the new funding mechanism for Waiting List and Prior Grant Projects
- Massachusetts credit rating outlook has improved, according to Moody's, in part because of the creation of the MSBA
- MSBA finance success is passed along to locals
- Local balance sheets with Waiting List projects are seeing significant asset increases
- Certainty of payments brings stability that never existed to local balance sheets—communities were rolling billions of dollars of short term BANS awaiting uncertain state reimbursement
- If MSBA fails, that failure is passed along to locals and could lead to local downgrades

Impact on Balance Sheet

More efficient financing through the Authority has freed up over \$1B in municipal resources which otherwise would have been issued for school construction

Sample Actual Community Balance Sheet

Government-Wide Financial Analysis

The following is a summary of condensed government-wide financial data for the current and prior fiscal years.

	<u>Governmental Activities</u>	
	2005	2004
Current and other assets	\$7,734,424	\$3,718,830
Capital assets	63,576,372	64,826,212
Total assets	<u>71,310,796</u>	<u>68,545,042</u>
Long-term liabilities outstanding	12,246,366	9,107,609
Notes Payable	35,919,770	47,007,770
Other liabilities	3,499,677	2,814,140
	<u>51,665,813</u>	<u>58,929,519</u>
Net assets		
Invested in capital assets, net	14,413,601	8,067,890
Restricted	193,945	230,866
Unrestricted	5,037,437	1,316,767
Net assets	<u>\$19,644,983</u>	<u>\$9,615,523</u>



Massachusetts School Building Authority

Timothy P. Cahill
Chairman, State Treasurer

Katherine P. Craven
Executive Director

3 Center Plaza , Suite 430
Boston , MA 02108

Phone: 617-720-4466
Fax: 617-720-5260

<http://www.massschoolbuildings.org>

Questions?

Matt Donovan
Matt.donovan@massschoolbuildings.org