



Massachusetts State Taxpayer Funded School Construction Grants

Massachusetts School Building Authority

Like many other states, Massachusetts has struggled with out-of-control spending on school construction, often putting money into many unnecessary projects at the expense of more deserving ones. State Treasurer Tim Cahill, a long-time entrepreneur who took office in 2003, traced the wasteful spending to poor administrative organization, a lack of oversight, and an antiquated system of reimbursements whose legacy had become exorbitant debt and a backlog of projects. Applying his business acumen and experience, Cahill in 2004 created the Massachusetts School Building Authority, an entity that would bring the rigors of the private sector to eliminate wasteful spending while raising the quality of education offered by the state.

Since 1948, Massachusetts state taxpayers have subsidized local school construction through a reimbursement program that initially reimbursed 20 to 60 percent of local school construction costs, but today reimburses at rates between 50 and 90 percent. Without an oversight entity like the MSBA, the reimbursement system operated without a budget, had no system to verify the necessity of projects, allowed local communities to build what could not be paid for, and resulted in a backlog of reimbursement requests.

The consequences of these policies were staggering. For example, by fiscal year 2004, the liability for what the Commonwealth had promised to communities grew to approximately \$11 billion for projects at more than 1,100 schools. Meanwhile, the wait for funding reimbursements had

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grown to 13 years before a community would receive their first payment.

Compounding the problem, the state program was entirely driven by local “wants” rather than a state policy based on need. Demand for increasingly more expensive school projects drove a wait list for state funding, while the distribution of state funding was determined by where a project was on the list. Separate funding lists were maintained pursuant to a former statute, stoking resentment between communities who were lower on the list and continually denied funding, and those communities who were on the higher end of the list and did receive money to pay for their school projects.

With no oversight review, Massachusetts simply paid local communities what they asked for, rather than conducting audits to see if the projects were warranted. By 2004, more than 800 approved school projects were awaiting audits, while approximately 400 of these were already receiving local aid payments based upon flawed estimates. Furthermore, schools regularly submitted space requests that exceeded state standards, as well as enrollment projections that consistently surpassed real-world figures. The result was overbuilding and ballooning budgets.

Since its creation in 2004, the MSBA has initiated a total reform of the way the state pays for school construction. The MSBA is funded by a 1 percent state sales tax, drawn from an existing five percent sales tax. This dedicated funding stream provides a certain, structured and limited budget for the program, while the MSBA cannot overspend its annual allocation of sales tax revenues and is prohibited by trust agreements from borrowing more than it can repay.

The MSBA requires districts to articulate why a project is “necessary,” versus “desirable,” and to support their request with evidence. Towards this end, the MSBA has developed a simple, standard system for introducing a community’s self-described facility problem for potential inclusion in the MSBA capital pipeline. Through a “Statement of Interest,” a

community simply describes the facility problem in the context of eight statutory priorities that the MSBA is required to use when judging which projects have priority. The community has to provide evidence that the problem has been discussed with both school and local administrative officials. The MSBA responds to the request with due diligence, such as double-checking student enrollment projections and site visits to verify problems and review proposed solutions. The sales tax dedication, coupled with the accountability measures, has forced local school boards and the MSBA to align expectations with fiscal reality.

The MSBA has also created an off-budget, independent authority chaired by the state Treasurer, whose seven members represent educators, construction professionals, the Executive Office for Administration and Finance and the Department of Education, and whose mission is to create a structured capital pipeline of projects based upon available MSBA resources. For much of this work, the MSBA has relied upon a business model of having private sector partners perform everything from auditing school projects to conducting site visits and facilities assessments and reporting to MSBA’s lean professional staff. The MSBA has used 18 local CPA firms to perform hundreds of audits in just under three years. They have also used private architectural, engineering and cost estimator firms to help develop policies and review projects.

The results are telling. In the past three years, the MSBA has completed more than 700 of 800 outstanding audits inherited from the former program, and generated over \$700 million in savings for taxpayers. The MSBA’s “pay-as-you-build” payment system for school construction projects audits and pays a community monthly, based on invoices submitted through a website the community can access. This provides communities with much needed cash flow during construction while avoiding the need to issue bond anticipation notes or other debt financing, which saves on interest and other finance-related costs.

Reimbursement rates have been reduced to a range of between 40 percent and 80 percent, based upon a community's relative wealth or poverty.

The former program was acknowledged as a budget buster with over \$11B in obligations accrued with no direct funding source. Rating agencies looking at the Commonwealth's books and cited the former program as an area of concern given the lack of funding and unknown financial liability. Creating the MSBA removed the budget buster from the Commonwealth's books, and was a primary reason for a recent upgrade in the Commonwealth's bond rating, which saves money for all Massachusetts taxpayers.

Under the former program, a community would issue long-term debt for both the state and local share of an approved school construction project. Now, the MSBA can pay the state's share of approved school construction costs in a lump sum for projects that were recently completed. This allows communities to issue long-term debt for only the local share of project costs and has saved communities more than \$2 billion in interest costs. These and other savings can be returned to taxpayers or invested in more urgent projects or other more meaningful ways besides interest payments.

The MSBA started with an "upside down" workload – one in which it has more work in its first few years of existence than it will a decade from now. This is due in part to the fact that the MSBA had to create a new municipal credit capable of raising \$4 billion from capital markets to fund prior liabilities, continue making local aid payments for over 700 projects being paid over 20 years that were inherited from the former program, manage and oversee dozens of the ongoing construction projects inherited from the former program, develop new policies and regulations to address the issues with the prior program, and do due diligence and intake on several hundred "statements of interest" after pent-up demand from a four year moratorium on new applications.

Despite the progress that the MSBA has made, officials understand that complacency would be a mistake. Thus, the MSBA is expected to grow to a model of roughly 50 employees eventually to manage and oversee the competitive selection process for a project's introduction into our capital pipeline, and manage and oversee the design and construction of approved projects.

In addition to fully implementing the new rules and processes, and structuring the five-year, \$2.5B capital pipeline for school construction projects, the Authority is looking at school technology and science lab spaces as points of opportunity for upgrading parts of school buildings without having to replace entire structures. The MSBA's goal is to target the MSBA's coveted resources towards directly improving the core educational mission of a facility, rather than expending funds on solely aesthetic items.

These measures will accelerate the reform process, whose goal is to provide students with stimulating and safe learning environments while getting the taxpayers the most for their money.

