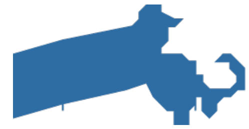
What about the Schools? Factors Contributing to Expanded State Investment in School Facilities – Case Study State #4: Massachusetts



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Overview of State School Facilities Investment Over Time

The Commonwealth of Massachusetts has spent the last 12 years systematically addressing its public educational facilities and working with school districts at the project level. According to the State of Our Schools analysis of NCES statistics, the Commonwealth of Massachusetts and local districts spent $22.2 billion in capital outlay from FY 1994-2013, or about $27,652 per student. The state's share of total capital outlay was 67 percent. Massachusetts' student population decreased by approximately 5 percent from the 1993-94 school year to the 2012-13 school year.

State level facility administration and oversight

The Massachusetts School Building Authority (MSBA) was created in 2004 as an act of the legislature and replaced the "former school building assistance program administered by the Department of Education" (MSBA website, 2016). Before the MSBA was created, school districts around the state would sell bonds (and pay interest) to build schools with the hope that they would eventually be reimbursed (MSBA staff, interview, August 5, 2016). As staff explained, when economic times were good, school districts received money for facilities, but when times were bad, school districts were left waiting for money. There was little oversight of educational facilities planning and construction, and there were not enough state resources dedicated to educational facilities (MSBA staff, interview, August 5, 2016).

The MSBA itself is a quasi-public entity. As an authority, MSBA staff are considered public employees, but the MSBA is not a state agency and does not have to answer to governor's office, but rather to a board. Board members meet bi-monthly, with additional subcommittee meetings held throughout the year. "The Administration and Finance Subcommittee meets to review budgetary and financing matters. The Facilities Assessment Subcommittee meets to hear district presentations regarding proposed projects and provide feedback to districts before the project is presented to the Board. The Project Management Subcommittee meets to review audit appeals for MSBA projects" (MSBA website, 2016). The MSBA's board works closely with school districts, providing needed guidance and technical assistance. "We stay with them from the moment we invite them in until 10 months after they've occupied the building because we actually pay for the commissioning agent 100 percent, MSBA pays for that, because we want to leave buildings knowing that they're working properly... It's one of the things I think works very well" (MSBA staff, interview, August 5, 2016). The MSBA also works with districts to ensure that their facilities plans are aligned with their educational goals.

Relevant litigation and legislative history

Unlike other case study states, Massachusetts' modern facilities policies were not created as a direct result of litigation, but rather the result of a program audit that made deficits in its facilities program transparent (MSBA representative, interview, July 15, 2016). The legislation to create the MSBA followed closely behind the audit.

However, Massachusetts does have a history of school finance litigation emphasizing that the "commonwealth has an obligation to education all of its children," including those in less affluent communities (National Access Network, 2008). In addition, Massachusetts' school districts are still affected by the state's 1980 Proposition 2½, passed during the period of tax revolts in states around the country. To this day, no city or town can raise a levy of more than 2.5 percent in any year. However, districts hoping to raise money for educational facilities can ask voters to pass a debt exclusion override, which will remain in place as long as the debt is outstanding.

Factors Contributing to Expanded State Investment in Equitable Public School Facilities

Taxation mechanisms (sources of funding)

Massachusetts' share of state tax revenue by source is similar to the United States on average, though with less of a reliance on sales and gross receipts taxes (31 percent in Massachusetts versus 48 percent U.S. state average) and a higher reliance on state income taxes (61 percent in Massachusetts versus 41 percent U.S. state average) (U.S. Census Bureau, 2016). Massachusetts has committed to dedicating a portion of its sales taxes to the MSBA. According to the MSBA's website, "The MSBA, which has a dedicated revenue stream of one penny of the state's 6.25-percent sales tax, is collaborating with municipalities to equitably invest" in schools. Last year, the MSBA received $798 million from a penny on the sales tax. While revenues fluctuate from year to year, legislation established a minimum amount the MSBA can receive in any given year. As a result, the MSBA is not dependent on fluctuating legislative appropriations, which provides the authority with stability and independence. In addition to the sales tax revenue, the MSBA also "sells bonds to leverage the $798 million" sales tax, which allows the authority to make some pay-as-you-go grant payments to school districts, pay administrative expenses (less than 1 percent of the total MSBA budget) and pay existing debt service (MSBA staff, interview, August 5, 2016). The sales tax fund pays annual payments under the old program until 2024.

The MSBA also utilized Qualified School Construction Bond proceeds to fund a $60 million Science Lab initiative (MSBA website, 2016). Massachusetts' districts are fiscally dependent and coterminous with cities or towns, so school districts go through their local municipality to issue bonds. Local municipalities can issue both bond anticipation notes and general obligation bonds to provide the local share of facilities funding, with the MSBA providing grant funding for the state match.

Distribution of state facility funding

After the creation of the MSBA, the state changed its funding formula and actually lowered the percentage that the state pays for educational facilities relative to the local school districts. Whereas before, school districts had more latitude over the scope of their facilities improvements, now the state more carefully restricts and limits the facilities for which it will help pay. The MSBA's website describes its funding as "a non-entitlement, competitive, funding program. We determine grants based on need and urgency, as expressed by the district and validated by us. We work with the district to determine the most educationally-appropriate and fiscally-responsible solution and determine the portion of funds to appropriate."

The MSBA conducted an extensive inventory of all educational facilities in 2010 and did another in 2016 looking at all 1,800 school buildings (MSBA staff, interview, August 5, 2016). The MSBA provides grants to school districts on a sliding scale, which is specifically laid out in statute. The state applies three factors that can increase the base: (1) poverty, (2) property value, and (3) income. The MSBA inputs these values into their funding formula to determine the grant percentage school districts will receive. Grants range from 31 percent to 80 percent of the project cost. School districts can determine their grant percentages from the MSBA website.

When determining how to address a given project, Vincent (2016) described, "The guidelines are flexible, but school districts must provide justification for any variance from the space standards... MSBA staff are given significant discretionary power to work with school districts on project specifics to meet state guidelines" (p. 6). The only time a project would not go forward once a need is determined is if the municipality does not approve the local matching funds, which has occurred fewer than 10 times in the history of the MSBA. Before school districts begin a project, they get voter approval for a debt exclusion override and then issue bonds to pay for their educational projects as they go. Once school districts have educational facilities projects underway, they submit monthly bills to the MBSA and receive state grants as a monthly reimbursement.

According to the MSBA, 23 percent of MSBA spending was pay-as-you-go, with the rest funded through bonds. Because school districts know how much money they will receive, they can plan their bond issuances accordingly and limit the amount of debt they take out at any one time, thus limiting the overall debt and interest payments. The MSBA has made $12.2 billion in payments since its inception in 2004.

Public debt policies

In Massachusetts, Filardo (2010) reported, "The cities and towns are permitted to use the state's credit rating when they borrow funds for school district capital projects" (p. 36). Through the *State Qualified Bond Act*, school districts can "issue general obligation bonds payable from state appropriations for local aid. The State Treasurer's Office administers the State Qualified Bond Program, serving as paying agent," thus allowing school districts to issue bonds with higher credit ratings, saving money on interest payments (Commonwealth of Massachusetts Investor Program, 2016). With regard to debt limits, the MSBA has a debt limit of $10 billion. Local communities can only issue up to 5 percent of their equalized assessed valuation. If they need a higher debt limit, they have to get approval from the Municipal Finance Oversight Board, chaired by the state auditor. The state has worked hard to help school districts pay down their existing debt in the first years of the MSBA's existence, retiring billions of dollars of school district debt. This has allowed districts around the state to save money on interest payments and freed up assessed valuation, providing localities the capacity to issue new bonds for additional projects if needed. outstanding.

Discussion of Equity of State Facilities Programs

Massachusetts fundamentally altered the way it addresses educational facilities when it created the MSBA. To address mounting debt and inequitable facilities spending between the state's communities, the MSBA undertook an unprecedented effort to pay off existing debt and fulfill its existing obligations in a timely manner. It then created a new, organized system for addressing all district's needs in a fair and consistent way, based on need and urgency. Under the new system, the MSBA works with local districts to pay for facilities jointly by requiring that local communities pay their share. Transparency is a key factor in MSBA's equity goals, and the MSBA's website is a model for other states. With regard to quality, the MSBA's board and staff work to ensure that school projects meet industry best practices, without overspending.

With regard to adequacy, the board collects and distributes current and historical cost data for the design phase, including architectural, engineering, and owner's project manager fees, for various school types, as well as current and historical data for estimated construction and total project costs for various school types. This information helps school districts determine whether their budgeting is accurate and realistic and provides more information about how much money they can expect to receive from the state.

With regard to reliability, the statute guaranteeing sales tax revenue for the MSBA as well as a revenue floor provides the system with reliability and stability. However, because educational facilities in Massachusetts are still funded through a mix of state and local revenues, there is room for inequity at the local level. Local municipalities are still limited by their local tax base with regard to providing a local match through bond sales. However, districts with the lowest ability to pay receive a higher percentage match from the state, which offsets much of the inequity in local taxation.

See the full report and other state highlights at http://budurl.com/IDRAsymposium.

The IDRA José A. Cárdenas School Finance Fellows Program honors the memory of IDRA founder, Dr. José Angel Cárdenas. The goal of the program is to engage the nation's most promising researchers in investigating school finance solutions that secure equity and excellence for all public school students. An assistant professor of education and community leadership at the Texas State University College of Education, Dr. Marialena Rivera was named the 2016 José A. Cárdenas School Finance Fellow.