City of Boston – BuildBPS
Financial Planning Report
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1 – Executive Summary

The City of Boston is embarking on the challenging task of upgrading Boston Public Schools facilities to meet the needs of a 21st century education. BuildBPS establishes a 10-year, $1 billion investment commitment, funded primarily by the City from annual general obligation bond issues and grants from the Massachusetts School Building Authority (MSBA). Mayor Walsh’s commitment is more than double the capital spending on BPS facilities over the last decade and his dedication to providing BPS students with quality facilities is reflected in the plan’s vision.

To make this groundbreaking investment, the City of Boston will increase borrowing within its debt affordability policy and dedicate a larger share of the capital plan to BPS projects. This will allow Boston to invest $730 million from general obligation bonds in BPS projects over ten years. The magnitude of this capital investment breaks new ground, and relies on building on the City’s new relationship with the Massachusetts School Building Authority (MSBA) to find ways to help increase Boston's flow of funding from the Commonwealth. Boston has contributed almost $1 billion to the MSBA over the past decade; apart from annual payments it receives from the MSBA for projects approved under the old school building assistance program managed by the Department of Education, the City has been reimbursed roughly $60 million on $105 million in capital spending on collaborative work with the MSBA - a result, in part, of fixed unit cost caps and high costs of construction in Boston.

Through maximizing the City's borrowing within its debt affordability policy and improving its ability to leverage resources from the MSBA, the City will upgrade its schools to meet the needs of a 21st Century Education.
2 – Introduction

The City of Boston and the Boston Public Schools (BPS) have undertaken BuildBPS, a strategic framework for Boston’s schools over the next ten years. BuildBPS includes an assessment of its facilities in order to plan capital investments. The “Facilities” component of BuildBPS, outlines the approaches to modifying existing schools and building new schools in accordance with the overall strategic framework.

BuildBPS combines a variety of technical analyses including condition assessments and projected student body needs. As with many long-range capital plans, costs can be substantial. The City of Boston understands this challenge well and has developed a plan to ensure that BPS has the resources to continue delivering quality education.

This report provides background on the City’s existing funding sources for BPS’s capital needs as context for a discussion of how it plans to approach funding BuildBPS.

3 - Current BPS Capital Funding

The City of Boston's Five Year Capital Plan supports improvements to the Boston Public Schools' facilities through annual borrowing (general obligation bonds) and funding from the Commonwealth through the Massachusetts School Building Authority (MSBA).

It is important to note that capital funding must be used to improve infrastructure, and cannot be used for operations such as salaries, supplies, transportation, routine building maintenance, and utilities. Operating funds come from a variety of reoccurring state, federal, and local revenue sources and vary, in the Commonwealth of Massachusetts, based on the size and composition of the student body.

City of Boston General Obligation Bonds

The largest source for the City of Boston’s Five Year Capital Plan is general obligation bonds. The City of Boston annually issues general obligation bonds that are repaid with revenues generated by the City, primarily property taxes, though all Boson revenues including fees, fines, excises, state aid, and other revenues are technically dedicated for repayment.

Over the past ten years, capital expenditures on Boston Public Schools projects totaled $405 million. The City financed $327 million of the total through annual sales of general obligation bonds. The bonds are repaid through debt service expenditures in the City's operating budget.

To ensure long-term financial stability, the City of Boston maintains a debt affordability policy that limits the City's borrowing and provides for stable and manageable debt service payments from the City's operating budget. This policy along with other fiscally prudent debt policies has contributed to Boston’s Triple A credit rating with a stable outlook, which has kept Boston's cost of borrowing low. The policy requires debt service to remain at or below 7.0% of total General Fund expenditures each year. With Boston's debt service currently at 5.8% of General Fund expenditures, the City plans to increase its
borrowing to the 7.0% limit. This additional borrowing within its debt affordability policy will allow the City to commit $730 million to BPS projects over the next ten years.

**Revenue Supporting Boston’s Debt**

Property taxes, the primary repayment source for Boston’s general obligation bonds, are subject to annual growth caps established in Proposition 2½. Proposition 2½ has two checks on growth: 1) an annual growth cap which limits the growth of the property tax levy by 2.5 percent annually and 2) a total assessment cap reflected in a total collection ceiling of 2.5 percent of total assessed value. The levy is positively impacted by taxable new value or “new growth.” Combined with the allowable 2.5 percent property tax revenue increase which Boston typically applies, the effective growth rate of property tax revenues has been hovering around 5 percent annually since 2000. The City collected about $1.9 billion in property taxes in Fiscal Year 2015, accounting for approximately 67 percent of the City’s total recurring revenues.¹ Figure 1 below shows historical property tax collections from within the City of Boston.

![Property Tax Revenue Collected in Boston ($M)](source: 2008 Boston CAFR (pg. 112-113), 2015 Boston CAFR (pg. 122-123)

While Boston’s property tax has performed well, Boston’s state aid as a share of its total revenue has declined significantly over the past 15 years. In 2000, State Aid made up 29% of Boston’s revenue and today, it only makes up approximately 15%. Figure 2 illustrates the relatively slow growth of state contributions to Boston between 2000 and 2015. The annual state contribution increased from $476 million in 2000 to $523 million in 2015 – a 10% increase. This compared to a 115% increase in property tax receipts and a 91% increase in all other excises and fees, if bundled together.

¹ City of Boston Comprehensive Annual Financial Report, 2015
Boston’s largest state aid source Chapter 70 Education Aid has been stagnant; per pupil Chapter 70 Education Aid decreased from $3,519 in FY08 to $3,365 in FY17. With the continuing reduction in state aid for education, Boston has become increasingly reliant on its property tax as a main driver of revenues available for education and many other services.

Other significant categories of recurring revenues collected by the City that are dedicated for GO bond repayment include local receipts such as excises, fines, interest on investments, urban redevelopment chapter 121, licenses and permits, and other miscellaneous items make up the remaining 16 percent of recurring revenues (together represented by “Other Excises and Fees” in Figure 2). The City is limited by state law in its ability to raise such taxes as motor vehicle, room occupancy and aircraft fuel. Figure 3 shows a historical time series of major non-property tax recurring revenue sources.
In 2009, the Commonwealth allowed municipalities to begin collecting a local option meals tax and increase local option room occupancy tax. Both of these tax increases were adopted by the City in October of 2009 and began collection in 2010. Other cities have a more diverse mix of local revenue options, including local option sales or income taxes. New York City, for example, has a 4 percent local sales tax in addition to a variable income tax. Chicago has a 1.25 percent local sales tax. Philadelphia has a 2 percent city sales tax and a 3.9 percent income tax. Philadelphia’s income tax includes both an earned income tax, and an unearned income tax, both of which are 3.9 percent.

Boston ranks 43rd among the 50 most populous cities in the US for total combined sales tax rates.² Because Boston is restricted by state law in its ability to levy local taxes, Boston’s strong economic growth profile, including employment, income, development, and retail sales, which could produce significant revenues for Boston, cannot be leveraged.

State Funding
The City receives project specific funding from the Commonwealth through the MSBA, which is funded with one cent of the 6.25 percent Commonwealth sales tax. The MSBA uses this funding to issue tax exempt debt and administer two programs; 1) the Core Program, and 2) the Accelerated Repairs Program (ARP).

The MSBA’s Core Program funds a percentage of major renovation or new construction projects through a reimbursement system, with a reimbursement rate assigned to each school district based on income

² http://taxfoundation.org/blog/sales-tax-rates-americas-largest-cities
and poverty factors. The reimbursement rates typically range between 40 and 80 percent of eligible project costs. BPS's calculated reimbursement rate has ranged recently between 65 and 75 percent based on this system, but the City of Boston can actually receive a lower effective rate based upon MSBA-established caps on allowable costs per square foot.

Construction in Boston is more expensive than the state average which reduces the effective reimbursement rate that the MSBA will provide for a given project. For example, the Dearborn STEM Academy's project budget is roughly $73 million, and the MSBA reimbursement rate for this project is 75.43%, which should result in upwards of $55 million in reimbursement. However, as a result, in part, of the MSBA's construction cost square foot cap of $275 per sq/ft that was in place at the time, the actual reimbursement rate is 50.8% and the maximum grant amount is $37.3 million.

To obtain funding through the MSBA a school district must submit a statement of interest (SOI) describing the project and overall financial need. The MSBA evaluates projects based on a priority system, which is reflected in the following list:

1) Replacement / renovation of a structurally unsound building.
2) Elimination of severe overcrowding.
3) Prevention of loss of accreditation.
4) Prevention of forecast severe overcrowding.
5) Replacement, renovation, or modernization of facility systems including roofs, boilers, windows, ventilation systems to increase conservation / decrease costs.
6) Short term enrollment growth.
7) Replacement of or addition to obsolete buildings to provide range of programs consistent with state and local requirements.
8) Transition from court-ordered and approved racial balance school districts.

The Accelerated Repair Program (ARP) is a second program administered by the MSBA, which is narrowly focused on window, roof, and boiler replacement projects. A similar SOI process is followed for the ARP but due to the smaller size and narrower focus, the MSBA can process multiple projects through the ARP for a single school district each year. In 2015, seven window projects were submitted by BPS, and these are currently under review. In 2016, five City roof and boiler replacement projects were invited by the MSBA Board to participate in the ARP program.

As noted, the MSBA is funded by a one cent carve-out of sales taxes in Massachusetts. This carve-out in Boston accounts for nearly 10 percent of the annual funding received by MSBA, or about $86 million in 2016. Between 2004 and 2016, Boston contributed almost $1 billion to the MSBA. In that same time period, the City received reimbursements totaling $21.5 million from the MSBA. The City expects additional reimbursements totaling $38.1 million. This $60 million in grants represents a small fraction of the program funding contributed by sales tax receipts collected in Boston.

Figure 4 – MSBA Funding Relative to Boston Contribution
Historic Funding Source: (Retail Sales) Moody’s Analytics, 2016, WSP Analysis.
4 – Funding Approach for the BuildBPS

The previous section discussed the sources that the City currently uses to fund its school capital spending. It illustrated that there are strong funding streams available for BuildBPS, however growing costs associated with aging buildings and contemporary teaching approaches, necessitates some exploratory research into how those funding sources could be maximized, and allocated most efficiently.

City of Boston BuildBPS Contribution

As described above, Boston’s GO bond revenues are a primary source of funding for capital projects. Boston is planning to dedicate $730 million from its projected GO bond issuances to BPS over the next ten years to help pay for BuildBPS.

The expansion in borrowing is planned within the City’s existing debt affordability policies and limits. The City’s debt service expenditures are currently at 5.8% of General Fund expenditures, below the City’s 7% policy ceiling. The City of Boston plans to increase its borrowing within the following assumptions:

- No deviation from the City’s Debt Affordability Policy
- Proposed debt issuance plan is consistent with the City’s debt management policy.

By increasing borrowing assumptions, the City has identified that it can afford to dedicate a projected $730 million to BuildBPS projects between FY18 and FY27. The following graph shows how the City’s increased borrowing assumptions will maximize capital spending within the City's limits.

![Figure 5 – Boston Debt Service Cap Projection](image)

The City has also reviewed other potential options to help pay for BuildBPS, however Commonwealth law does not provide latitude for cities to create new funding streams. For instance, new sales or income based taxes would not be possible without a special legislative action. A Proposition 2 ½ override to increase property tax would require a referendum, and would make the City further reliant on the property tax, its only broad-based tax. Given these constraints to raising additional general revenues, Boston’s GO bond capacity is not expected to increase materially in the foreseeable future.
MSBA Funding

The MSBA’s grant programs have the potential to be a significant source of support for implementing the BuildBPS. Many opportunities exist. The City will seek to maximize its participation in the Accelerated Repair Program. Active engagement in this program will assist the City in addressing the capital maintenance needs of its existing school buildings. Over the next 10 years it is not unreasonable to imagine that projects totaling $100 million or more in projects could be funded through the ARP. Over the past two ARP funding rounds, the City has gained approval for projects totaling $35 million, of which $23 million is eligible for MSBA reimbursement.

Opportunities also exist with the MSBA’s Core Program. This program involves the renovation or replacement of existing school buildings. Where the BuildBPS Master Plan recommends major renovations, building additions, or new construction, the MSBA’s Core Program could play a key funding role.

There are challenges as well. The MSBA has historically invited only one project at a time from an individual district to participate in the Core Program. The Committee recommends the City engage the MSBA in a constructive conversation on this topic. Increasing the ability of Boston to have more than one project approved at a time will accelerate the School District’s transformation.

The amount of sales tax flowing to the MSBA from Boston annually is forecasted to exceed $100 million on average over the BuildBPS time period. Given its great funding need, the City hopes to receive a significant portion of this funding back from MSBA to support BuildBPS.

BuildBPS will require an unprecedented level of communication and coordination between the City of Boston and MSBA. This cooperation could be accomplished by establishing a program within the framework outlined by the MSBA’s Supplemental Capital Improvement Pilot Program (SCIPP), which the MSBA announced in 2009. The SCIPP program was developed to help larger school districts fund capital improvement programs, but requires the district to commit to certain levels of maintenance and capital improvement program funding, among other things, all of which would support the BuildBPS program.

The City, including BPS, is committed to working with the MSBA to develop a program that achieves both organizations’ goals. The City will identify and promote capital projects that meet the MSBA criteria, submit Statements of Interest (SOIs) for these in packages, and collaborate with the MSBA to develop a an acceptable reporting and oversight system, detailing local funding commitments and ongoing maintenance activities.

This organization and efficiency, coupled with an equitable share of funding, should help significantly increase funding from the MSBA to the City in a way that supports BuildBPS.

5 – Conclusion

Boston is investing heavily in its educational facilities with a clear vision to undertake the $1 billion improvement plan outlined in BuildBPS. However, the plan relies on successfully managing scarce financial resources of the City and cultivating organizational change that will enable the City to more readily access funding from the MSBA.
With $730 million in general obligation bond funding identified, the City must next prioritize working out the details of their proposed partnership with the MSBA. The MSBA and BPS share overarching goals of delivering quality educational facilities where they are most needed; the foundation for partnership already exists. Mayor Walsh and Superintendent Chang will lead the effort with the MSBA to establish new approaches to achieve these common goals.