

Memorandum

To: Finance Committee
From: David Davison, ^{DAV}Assistant Town Manager/Director of Finance
CC: Select Board, Kate Fitzpatrick, Town Manager
Date: October 12, 2022
Re: General Fund Debt Within the Levy Limit Update

The purpose of this memo is to summarize the changes to the projects to be funded in part or whole by General Fund debt within the levy limit, the inclusion of the appropriation requests for the October 24, 2022 Special Town Meeting, and the impact they may have on the 3% debt ratio.

When the capital plan for FY2023 and the four-year outlook (FY2024 – FY2027) was released in January 2022, there were five capital projects recommended for funding which included debt within the levy limit. The projects were the Emery Grover for FY2023 at \$13.4 million (another \$6 million was proposed funded by CPA); replacement of the roof top HVAC units at the Broadmeadow and Eliot schools for FY2024 at \$5.25 million; replacement of the fire ladder truck (Quint) at \$1.6 million for FY2024; replacement of a fire engine at \$0.9 million for FY2025; and safety upgrades for a quiet zone for FY2025 at \$2.8 million (\$1.3 million was recommended for FY2024 to be funded by cash). There were no projects proposed for FY2026 or FY2027 to be funded by General Fund debt within the levy limit.

Since the plan was released in January 2022 there were changes to the funding sources, cost estimates, and timing considerations. The Emery Grover project was approved with cash funding of \$3.2 million from General Fund sources and \$2 million from CPA cash sources. The amount authorized for debt was \$14.2 million (\$10,150,000 General Fund and \$4,000,000 CPA Fund). The length of time that there would be outstanding debt was 20 years, the rate of interest was assumed at 7.0% for the bonds and 3.5% for the notes. The length of time and the interest rate assumptions have not changed. The Town has been waiting on the results of the bids to do the Emery Grover project. The PPBC met last night (Tuesday, October 11, 2022) to vote on an award and determine what the contingency amount should be. There were four bids which ranged from a low of \$15,747,000 to a high of \$20,505,000 on the base bid. The bids including the two alternates increased the range between \$16,759,000 and \$21,457,160. For the purposes of this update, we assume the appropriation request will be \$2,725,000 with \$1,430,000 funded by cash and the balance (\$1,295,000) by General Fund debt.

The cost estimate for the roof top units has increased significantly from \$5.3 million to \$9.0 million. The timetable to do the project is two to three years because the feedback the Town has received is one construction season is an insufficient amount of time to do the two schools and not impact the occupants. The total project is still assumed to be financed by debt, but the amount of time that debt would be outstanding has increased from 15 years to 20 years. This is due to the amount of the authorization. The cashflow requirement still assumes a shorter construction period to complete the work and the timing of the debt issuance is based on that assumption. If the project does take two to three years to complete, the fiscal impact would be for a more gradual increase in the annual debt service payments. The interest rate assumptions remain the same at 3.5% for notes and at 7.0% for bonds.

The cost for capital equipment has increased as well, and there are no indications that the prices will decline, but may moderate. The estimate for the fire ladder truck replacement has increased from \$1.6 million to \$2.0 million. The funding year is still FY2024, the length of time that debt would be outstanding remains at four years, and the interest rate assumptions remain the same. The fire engine replacement cost, planned for FY2025 funding, has increased from \$0.9 million to \$1.1 million. The length of time that debt would be outstanding (three years), and the rate interest (7%) also remain the same.

There have been no changes with the quiet zone safety upgrades project. The FY2024 request would be funded by cash and the FY2025 request of \$2,775,000 would be funded by General Fund debt. The amount of time that debt would be outstanding is ten years and the interest rate assumptions are retained (3.5% and 7.0%).

Other debt authorizations, previously approved and not yet borrowed which were included in the January 2022 future debt service estimates, which now have been reduced include the Jack Cogswell DPW storage facility, with \$2,218,000 to be rescinded at the October 24, 2022 Special Town Meeting, and \$200,000 for the Mitchell School restroom project which the PPBC has released and is not needed. This will be rescinded in the spring. With close out of those two projects, the Town will be able to paydown a greater amount of the Emery Grover design cost reducing the amount of time debt will be outstanding for that authorization by one year. Previously the last debt payment would have been FY2026, now it will be FY2025.

The requested \$2.5 million to purchase a portion of the Foster property is proposed to be funded by debt. The amount would be amortized over 20 years, with an assumed interest rate of 7.0%. Unlike most construction projects, we expect that there will be a single bond issued to finance the acquisition. Depending on the actual timing of the purchase, there may be temporary borrowing necessary which then would roll to a bond when the Town issues bonds in 2023 or 2024.

In calculating the debt service ratio, the following assumptions are used. General Fund revenue within the levy limit consists of property taxes (after subtracting excluded debt), state aid (after subtracting aid meant for excluded debt), and local receipts. We have assumed a straight 4.5% increase in the total of these revenues annually, with the FY2023 spring estimate as the base year. The table appear on page 3.

**General Fund Capital Projects
Funding by Debt**

Project	Amount	Years +	Bond Rate [^]	2023	2024	2025	2026	2027	2028
General Fund Within the Levy									
Emery Grover Building Renovation Amended	11,535,000	20	7.00%		\$403,725	\$1,305,588	\$1,408,450	\$1,362,950	\$1,317,450
Roof Top Unit Replacements (Broadmeadow & Eliot) (2024)	9,000,000	20	7.00%			\$315,000	\$922,500	\$1,048,500	\$1,017,000
Quint Ladder Truck (2024)	2,000,000	4	7.00%			\$570,000	\$605,000	\$570,000	\$535,000
Fire Engine (2025)	1,085,000	3	7.00%				\$440,950	\$410,400	\$385,200
Quiet Zone Safety Upgrades (2025)	2,775,000	10	7.00%				\$122,125	\$467,500	\$448,250
Land Purchase (2023)	2,500,000	20	7.00%		\$175,000	\$300,000	\$291,250	\$282,500	\$273,750
Estimated Debt Service for Recommended New Authorizations					\$578,725	\$2,490,588	\$3,790,275	\$4,141,850	\$3,976,650
General Fund Debt									
Authorized & Issued				\$3,167,356	\$2,983,168	\$2,576,803	\$2,218,453	\$2,134,484	\$1,651,051
Authorized Not Yet Issued & Short Term Costs				\$2,385,050	\$2,138,500	\$876,850	\$208,600	\$198,800	\$189,000
Proposed Authorizations					\$578,725	\$2,490,588	\$3,790,275	\$4,141,850	\$3,976,650
Total General Fund Debt Service Within the Levy				\$5,552,406	\$5,700,393	\$5,944,240	\$6,217,328	\$6,475,134	\$5,816,701
General Fund Within the Levy Revenue				\$192,321,667	\$200,976,142	\$210,020,068	\$219,470,971	\$229,347,165	\$239,667,788
Debt Service % of General Fund Revenue				2.9%	2.8%	2.8%	2.8%	2.8%	2.4%