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TOWN OF CONCORD FINANCE COMMITTEE REPORT CONCORD MIDDLE SCHOOL BUILDING PROJECT

**Special Town Meeting
Thursday, January 20, 2022*
7:00 PM
Concord Carlisle Regional High School
500 Walden Street, Concord, MA 01742**

****Inclement Weather Date: January 27, 2022 at 7PM
Concord Carlisle Regional High School***

INTRODUCTION

The sole warrant article to be considered at the Special Town Meeting to be held on January 20, 2022 is CONCORD MIDDLE SCHOOL BUILDING PROJECT. In fulfillment of its obligation to review and make recommendations with respect to all finance related warrant articles, the Concord Finance Committee has prepared this report for Special Town Meeting.

The Finance Committee has been receiving regular updates from the Concord Middle School Building Committee (CMSBC), has monitored presentations made by CMSBC in various forums including to the Select Board, and has conducted a public hearing on the proposed warrant article to get input from the public in advance of the Special Town Meeting.

RECOMMENDATIONS

The Finance Committee recommends affirmative action on Article 1 with a bond authorization not to exceed \$102,816,000.

The Select Board recommends affirmative action on Article 1 in the amount of \$102,816,000.

BACKGROUND

Town Meeting in 2019 appropriated \$1.5M for a feasibility study and follow-on development of a schematic design for a new Middle School to replace the Sanborn and Peabody buildings. Those studies have now concluded and the CMSBC seeks full funding to construct the building envisioned by that work. As printed in the Warrant, the Article seeks bond authorization for \$103,700,000, however, based on votes taken by the CMSBC, it is anticipated that the actual funding request that will be moved at Special Town Meeting will be \$102,816,000. To assist voters in their consideration of this warrant article, this report includes an analysis of the potential impact of approval of the warrant article on property taxes and a discussion of how the debt could be financed.

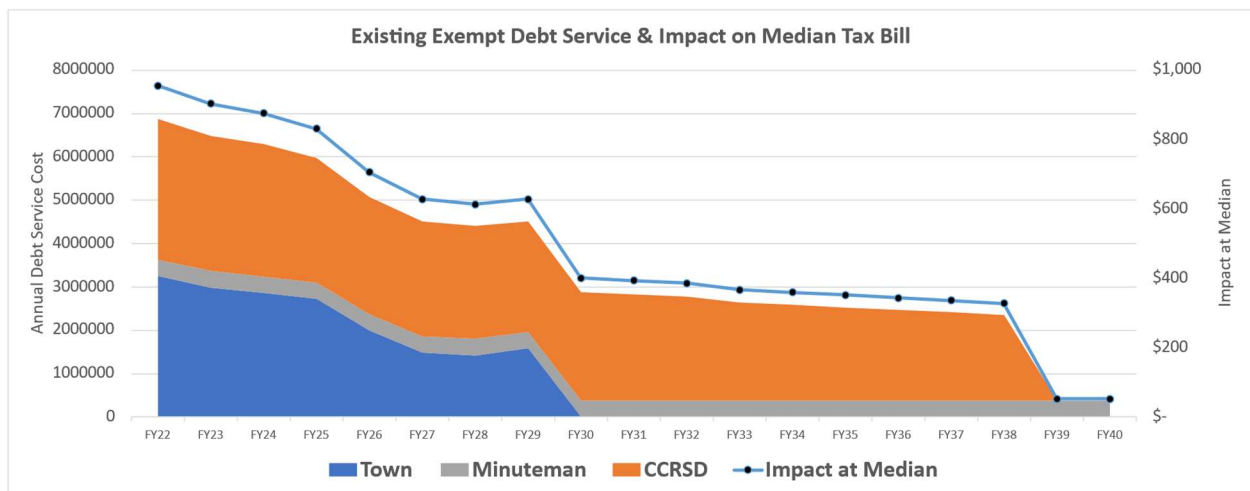
Proposition 2 ½ and the proposed Concord Middle School (CMS) debt authorization

Mass General Laws Ch 59 Section 21C, otherwise known as Proposition 2 ½ limits annual tax levy increases generally to 2.5% unless action is taken to override this limit. Given the amount of the borrowing that would be authorized by the warrant article at Special Town Meeting, the Town recommends excluding this debt from the 2.5% levy limit. That requires approval by a 2/3rds majority at Special Town Meeting, and a simple majority at a subsequent ballot vote. This procedure has been used in Concord in the past for large municipal construction projects such as school buildings. The underlying excluded bond issues associated with prior large construction projects are in the process of being retired.

Concord’s current debt profile

Concord is financially healthy due to its budgeting practices and adherence to stated fiscal policies. Moody’s rates the Town credit worthiness as Aaa, the highest rating for municipal debt. Concord is currently carrying (FY22) \$32M in tax supported debt, divided between excluded bond issues (\$15.4M), and bond issues for \$16.6M funded within the limits of Proposition 2 ½. In addition, Concord is responsible for its share of the excluded debt held by the Concord Carlisle Regional School District (\$35.9M Concord debt share) and Minuteman Regional Vocational School (\$6.2M Concord share). For the purposes of this analysis, we will focus on the portion of this aggregate debt which has been excluded from Proposition 2 ½ .

The aggregate annual debt service on the excluded obligations is currently \$6.87M (FY22). That equates to \$977 in property taxes on the median property in Town, valued at \$971,200. All of the bonds issued for our schools were structured with level principal payments throughout the life of the bond, which, as the bonds are retired, leads to declining interest payments as the outstanding principal is reduced. Below is a graphic showing the future, gradual decline (and retirement) of our current excluded debt, not including any debt which may be incurred in connection with the CMS project.



This gradual decline provides increasing capacity to absorb new future debt service, but as the full retirement of the Town excluded debt does not occur until 2030, we will face a large increase in debt service when the CMS project funding is required (late FY23 and following).

CMS project scale and debt impacts

The current CMS project is projected to cost \$100,796,385. The motion anticipated under Article 1 adds a ‘bid contingency’, as recommended by the Select Board, of \$2,019,312, as a strategic relief valve during this volatile time, should bids not come in near the estimated cost, yielding a total debt authorization request of \$102,816,000 (rounded). Once a construction bid

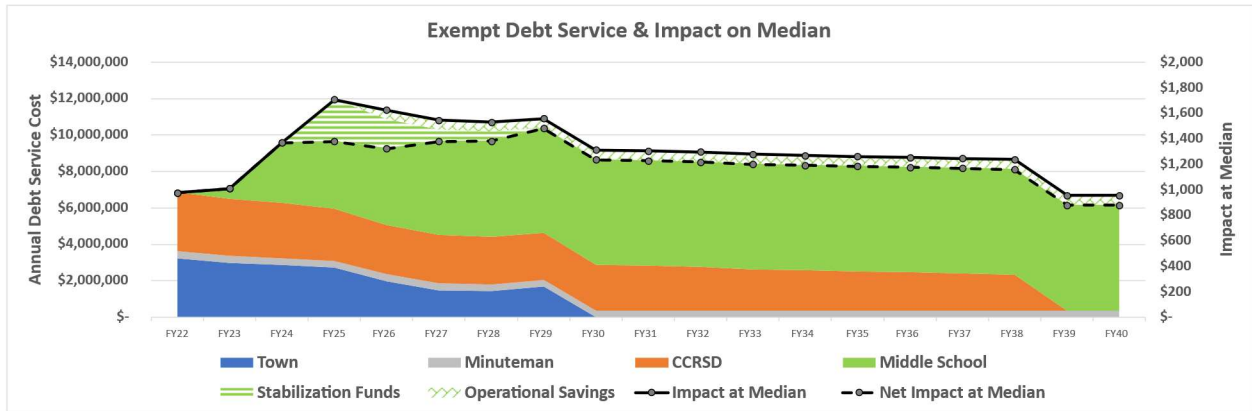
has been accepted, any unneeded portion of the bid contingency will become unavailable to the project without further action by Town Meeting. This is the largest debt the Town has ever authorized. For context, Concord Carlisle High School cost approximately \$95M, and with state (MSBA) grants, the total obligations of Concord and Carlisle were reduced to \$67M, with Concord’s share being approximately \$47M. Bonds issued by the Regional School District were 25-year, level principal payment bonds.

Due to a favorable debt market, on advice of the Town’s financial advisor, Concord is anticipating interest rates of 2.75%-3.75% on bonds the Town issues. For all Concord Public Schools building projects to date, Concord has issued 20-year bonds, with level principal payments, meaning (as shown in the chart above) that the amount of the payment declines because as the principal decreases the interest owed decreases as well. Given the tax impact of the new debt, a “Level Debt” approach is being considered for this new debt, a strategy similar to a home mortgage, of making level aggregate payments for the life of the bonds. The chart below shows the impact of a borrowing (that is, the amount of the likely increase in property taxes) using 25-year Level Debt for properties of median and average value, and also provides a rate per \$1,000 of valuation, so that you can calculate the tax impact on property of any value.

	Level Debt Estimated Annual Impact, 25 years
Median Value (\$971,200)	\$ 901.94
Average Value (\$1,125,400)	\$ 1,045.14
Per \$1,000 in property value (mil rate)	\$ 0.9287

The Town is evaluating various strategies for mitigating the large impact this project will have on individual tax bills. One tool available is to set aside as many available funds now as possible to soften the impacts of tax increases when the project is underway. The Town began a program at 2020 Town Meeting of directing budget surplus (taxes collected but not expended) in a stabilization fund for this purpose. \$2 million was allocated then, but last year’s pandemic effects were too great to allow continuation of that program. In order to have an appreciable impact on tax increases, the stabilization fund would have to be \$5 million by the time we are making large drawdowns on the borrowing authority. The Finance Committee will study and make recommendations to this year’s regular Town Meeting regarding further deposits of budget surplus into the stabilization account. Other sources of available funds are also being pursued.

The chart below shows what the exempt debt service and median property tax impact will be if the borrowing for the CMS project is approved by the Town. The chart also shows how a \$5M stabilization fund can help mitigate the near-term impacts of this large borrowing.



The Town may also explore a 30-year maturity, which would have the benefit of reducing the immediate property tax impact, but also constrain the Town for a longer time in undertaking additional large scale infrastructure projects and add significantly to the overall cost of the project.

The bottom line is that approval of the borrowing proposed in the warrant article would result in an annual increase in debt service of \$7.17M, or more than debt service on all current excluded Town debt.

In summary, the Town has utilized the Peabody (1964) and Sanborn (1970) buildings to the limits of their useful lives. After several years of applying for Mass State Building Authority funding without success, the Town has completed a feasibility study which recommended total replacement of the buildings with a single school. The follow-on schematic design process has resulted in the design contemplated by the funding request in Article 1. The financial impact on taxpayers will be significant, as outlined above. The Finance Committee takes this potential burden very seriously and so should you. The best way to have your opinion recognized is to attend Special Town Meeting on January 20th.

SPECIAL TOWN MEETING & SPECIAL ELECTION VOTER REGISTRATION INFORMATION

To be eligible to participate, unregistered residents must register to vote by the following deadlines:

**FOR SPECIAL TOWN MEETING -- JANUARY 10, 2022
FOR SPECIAL TOWN ELECTION – JANUARY 14, 2022**

Residents who are currently not registered to vote in Concord must be registered prior to the above deadlines in order to participate and vote at the Town Meeting or at the Town Election. Voter registration may be done online: <https://www.sec.state.ma.us/ovr/>, by mail, or in person. For mail registration forms, contact the Town Clerk's office at (978) 318-3080 or e-mail townclerk_concordma.gov. For registration in person, the Town Clerk's office at the Town House, 22 Monument Square is open Monday – Friday 9:00 AM - 3:00 PM, and by appointment.

The Town Clerk's Office will also be open until 8:00 pm for voter registration on both January 10 and January 14.

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