Town of Danvers
Office of the Town Manager

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M e m o r a n d u m

To: Board of Selectmen

From: Steve Bartha, Town Manager SB

Date: January 17, 2019

Subject: Smith School Financing FAQ

As requested, this memo attempts to answers questions related to the Smith School project and financing options that have been asked since the December 4, 2018 Financial Summit, which was attended by members of the BOS, FinCom, School Committee, Planning Board, and Library Trustees. The February 4, 2019 Special Town Meeting Warrant provides additional detail on the project and many of the questions below.

- ***Why such a big school?*** MSBA is projecting 17% growth in the K-5 population by 2025. The current kindergarten class is the largest the Town has seen. In 2005, MSBA's projections for the DHS project were within 1% of the actual 2015 student population. There currently isn't enough space in the five elementary schools to accommodate this projected growth.

- ***Can we afford to build the school without a debt exclusion?*** Yes, the Town maintains a School Stabilization Fund (SSF) to offset peak debt years on school building projects. As of 7/1/18, the balance in the SSF account is $5.8 million, and current projections and assumptions put the total amount needed to get through peak debt years (FY 20-26) under the 30-year funding model at $8.3 million, or $2.5 million more than what has been appropriated to date into the SSF by Town Meeting. Based on recent trends and budgetary performance, funding the school within the current levy appears achievable; otherwise, the Article could not be put before the Special Town Meeting.

- ***If we can afford to build the school without an exclusion, why consider one?*** In addition to the $14.3 million in cost avoidance described below, excluding the Smith debt will position the Town financially to be able to address future service and project demands. This year, the Town budget was $45,000 from its statutory levy limit (on a $78 million levy), despite a long history of fiscal conservatism and proactively managing both employee wages and overall headcount; over the past 10 years, the number of Town employees per thousand residents has gone from 9.1 (in 2007) to 8.4 (in 2017), and salaries as a percent of operating expenditures has remained unchanged since 2009 (at roughly 57%).

  Many budgetary costs are increasing much faster than 2.5% per year, including utility costs, health insurance, MGL required pension contributions, the regional school, etc., which leaves the Town with fewer resources each year to pay for basic services like police, fire, DPW, the schools, recreation, etc. Eventually, the Town will have no choice but to cut back services. There are also future capital needs, including the need to update or expand our senior center, build an adequate DPW facility, protect priority open spaces, make improvements to the waterfront, and fund future school renovations, that all become increasingly difficult to fund when debt service is backloaded (as was done on the DHS project).

- ***Why is it less expensive to pay for the school using a debt exclusion?*** Just like with a home mortgage, paying back principal faster results in much less interest paid over the life of the borrowing. In this case, the difference is around $14.3 million in future tax avoidance. See table to the left for detail.

Facts & Figures	**30-year level debt**	**20-year equal principal**
Total Project Cost	$60.5 million	$46.2 million
Total Interest Cost	$28.5 million	$14.2 million
Cost Avoid (vs. 30 yrs.)	$0	($14.3 million)
Average Tax Bill Incr.	$157/year, 30 years	$179/year, 20 years
Req'd SSF to stay @ 6%	$8.3 m (FY 20-26)	$13.0 m (FY20-26)
Budget Impact	Service Solvency	Debt Exclusion

- ***Didn't the Town save money by completing the high school and middle school projects without debt exclusions?*** No, by funding the two separate schools without a debt exclusion, the Town spent an additional $20 million in principal (CPI adjusted) and $10 million to $20 million in interest; the costs were just spread out over a much longer period to avoid the debt exclusion and reduce the up front costs.

- ***Would a debt exclusion mean higher taxes?*** Yes and no. An exclusion would cost taxpayers an average of $22/year more during the first 15 years of the bond, but would save an estimated $14.3 million from years 15 to 30, which averages out to $1,143 in total savings for the average taxpayer.

- ***What will happen to the School Stabilization Fund ($5.8 million on 7/1/18) if we exclude the debt?*** The funds will still be used to reduce the tax impact of the project, as has been the practice for many years. If the debt were excluded, one option would be to use the funds to reduce the difference between the two debt options on an annual basis, so that the long-term savings could be achieved while the short-term cost difference could be reduced.

- ***I understand that excluding the debt is less expensive in the long run, but what about residents on fixed incomes in the meantime?*** The BOS began discussing ways to offset the tax impact of this project on residents with fixed incomes back in December, including increases to the senior tax work off and elderly tax exemption programs, both of which would require votes at Annual Town Meeting.

- ***Are there other financial benefits to excluding the debt?*** Yes, the Town of Danvers for many years has enjoyed a bond rating of AA+, which is the second highest rating a municipality can receive (AAA is highest). Based on feedback from our financial advisors and S&P, one of the last factors preventing the Town from achieving AAA is the fact that it has never approved a budget override or debt exclusion (which, in the ratings, is considered a measure of ability and willingness to pay for vital services and projects). On a project like Smith ($32 million principal), AAA status could save the Town anywhere from 5 to 25 basis points, or an additional $400,000 to $1.7 million.

- ***What exactly is a debt exclusion and why isn't Town Meeting asked to vote on them?*** A debt exclusion is a temporary increase to a community's levy capacity (tied to the duration of a specific project's debt financing, e.g. 20 years), whereas a budget override is a permanent levy increase. Under MGL Ch. 59, s. 21C(a), debt exclusions are placed on a local ballot by a 2/3 vote of a selectboard or city council, and require majority support from voters to become effective.