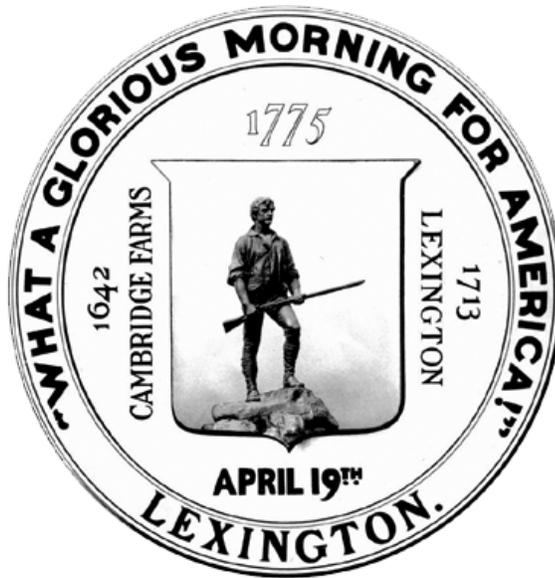


APPROPRIATION COMMITTEE
TOWN OF LEXINGTON



REPORT TO THE
SPECIAL TOWN MEETING 2016-4
(Part 1)

Released April 18, 2016

APPROPRIATION COMMITTEE MEMBERS

Glenn P. Parker, Chair • John Bartenstein, Vice Chair/Secretary
Robert N. Addelson (ex-officio; non-voting) • Kathryn Colburn • Mollie Garberg
Alan Levine • Beth Masterman • Eric Michelson • Richard Neumeier • Andrei Radulescu-Banu

Introduction

The Appropriation Committee is appointed by the Town Moderator and serves as an advisory group to the elected members of Town Meeting. The Committee is required by Town bylaw to present its recommendations to Town Meeting prior to any vote with a financial impact on the Town. This report summarizes the Committee's deliberations and analyses regarding the warrant articles deemed to have financial significance, along with the vote of the Committee for each article. The Committee also gives oral reports and responds to questions during Town Meeting as necessary, or when important information has become available following the publication of a report.

This report is distributed to the members of Town Meeting as a printed document and as an electronic document via the Town website. It was published on April 18, 2016, a week prior to the session when the articles discussed in this report are anticipated to be taken up in Town Meeting.

Two remaining Special Town Meeting articles will be deferred until May 9, 2016:

Article 2016-2.2: Land Purchase – 20 Pelham Road

Article 2016-4.5: Purchase of Belmont Country Club Land

The Committee will publish Part 2 of this report on May 2, 2016, one week in advance of this debate.

Special Town Meeting 2016-4 Analysis and Recommendations

The Warrant for Special Town Meeting 2016-4 contains three Articles of interest to the Committee, two of which are discussed below.

Article 2016-4.2: Bond Approval – Minuteman Regional High School		
Funds Requested	Funding Source	Committee Recommendation
None	N/A	Approve (7-0-1)

This Article seeks Town Meeting’s approval of the Minuteman Regional School District’s use of debt to fund the construction of a new school building. Although Town Meeting’s approval is not explicitly required, because inaction would be taken as tacit approval under the Regional Agreement, the Board of Selectmen have opted to notify Town Meeting and seek a formal vote due to the 30-year impact of the expected debt service on the Town operating budget.

Background

The Minuteman Regional High School (MRHS) is an independent vocational and technical high school governed by a regional school district with ten member towns¹, including Lexington.

MRHS has graduated hundreds of Lexington high school students using an alternative style not available in the Lexington Public Schools. The school continues to adapt its technical and vocational offerings, keeping them relevant to the needs of the local economy. A high percentage of the students are in Instructional Education Programs, nevertheless it is common for graduates to pursue college education. Despite this history of success, this school is operating within a physical plant that can no longer be economically sustained, and this fact alone is threatening its academic accreditation.

The District issues annual assessments to its member towns to cover the costs of running and maintaining the school. Assessments are calculated each year based on a formula in the current MRHS Regional Agreement, which Town Meeting recently approved under Article 2 of Special Town Meeting 2016-1. Lexington’s assessment for MRHS appears as “Line 1200 – Regional Schools” in the Town’s annual operating budget.

Existing Building

The existing school building, which first opened in 1975, suffers from design, code and construction problems cited in multiple engineering reports. It does not meet modern fire and building codes, and fails many handicap accessibility standards. Due to a long backlog of deferred maintenance, there are problems with the roof, exterior shell, electrical systems, plumbing systems, ventilation, egress and parking lots.

These problems have jeopardized the school’s educational accreditation. The New England Association of Schools and Colleges (NEASC) cited multiple deficiencies in the facilities. In December 2012,

¹ Membership of the MRHS District is currently in transition. Technically, the MRHS still has 16 member communities, but as part of the negotiations to approve the recently amended Regional Agreement, six members will withdraw from the District at the end of the next fiscal year (June 30, 2017). Only the ten remaining communities will receive capital assessments for the MRHS reconstruction.

NEASC placed MRHS on “Warning” status solely due to the condition of the building. This warning has forced the school to provide regular progress updates to NEASC on addressing these issues.

In addition, the existing 40 year-old building is no longer properly sized. With a total gross floor area of 305,000 sq. ft., it was built to handle 800 students. Experience has shown that this is much larger than the actual enrollment coming from member towns.

Renovation is not a practical option. A capital project to renovate the existing building would trigger a mandate to correct all outstanding code violations, raising the price to over \$100 million. With no swing space, the renovations would create up to ten years of continual disruption and displacement. The renovation would not receive MSBA support, and would not be eligible for supplemental funding from capital fees for out-of-district students. Therefore, a renovation project would take longer and cost member towns more than the proposed reconstruction.

Reconstruction

In 2009, the MSBA agreed to partner with MRHS on a school renewal project with a reimbursement rate of at least 40%. The next step was to initiate the Feasibility Study required by the Massachusetts School Building Authority (MSBA). A school building committee was formed and an owner’s project manager, architect and estimator were hired. However, the project planning missed key MSBA deadlines while the District’s towns disagreed on details of the school project, including the size of the new school.

Understanding the critical nature of this project, the MSBA was patient and granted several deadline extensions, but in 2014 they set a final deadline of June 30, 2016. In 2015 the School Committee agreed to design the school for an enrollment of 628 students. The MSBA process moved forward, creating preliminary costs estimates for three options: school renovation, school renovation with an addition, and a new school. The cost estimates showed that the new school option was not only the most cost-effective, but also that it had the shortest construction time, with an expected opening on or before September 2020.

The new school will be constructed adjacent to the existing building on land that the school currently owns in Lincoln, MA. It will have a total gross floor area of 257,745 sq. ft. and will support an enrollment of 628 students. The design of the new school will enhance the MRHS educational program by allowing the implementation of a Career Academy Model, which closely connects and integrates career education with rigorous academics. The District will seek LEED Silver certification for the new building.

Funding

The total project budget now stands at \$144,922,480, with a construction budget of \$119,200,892. The MSBA has agreed to a reimbursement rate of 44.75%, but only for costs that it deems eligible. The ineligible costs total \$46,018,268, the majority of which are due to the project’s \$446 per sq. ft. construction cost which exceeds the maximum MSBA reimbursement rate \$299 per sq. ft. This means \$33,829,737 of the project costs are ineligible for reimbursement. The project’s cost per square foot ratio is comparable to that of other recently completed renovations at Massachusetts vocational technical schools, which typically have a higher ratio due to the specialized spaces needed for vocational education. Additional ineligible cost include \$6,192,009 for a construction contingency; \$3,050,538 for site work costs, which exceed the MSBA reimbursement level of 8%; \$1,295,588 for construction bonds, insurance and other costs; \$1,150,396 for permitting; and \$500,000 for moving and communications costs. The total MSBA reimbursement is estimated to be \$44,100,000, which is 30.4% of the total project budget.

The MRHS funding plan anticipates issuing a series of 30-year bonds to fund the construction. Three bonds would be issued: one in July of 2016, a second in July of 2018 and a final issue in 2020. The bonds would use a level debt-service schedule, with relatively consistent annual payments. This bonding schedule creates a higher total interest cost, but it provides some advantages. It significantly reduces the higher debt service payments that happen in the early years for municipal bonds on a level-principal schedule. It also allocates debt service evenly over the life of the bonds.

Additional funding will come from a “capital fee” added to the tuition for out-of-district students. These funds will offset annual debt service assessed to District members.

Capital assessments will be recalculated annually according to a formula spelled out in the school’s Regional Agreement. Half of the total annual debt service is allotted to each member proportionally based on the four-year enrollment averages. Another 40% of the total annual debt service is allotted proportionally based on the State’s “Combined Effort” (this is the “wealth factor” in the Chapter 70 formula). The remaining 10% comes from a flat 1% of the total annual debt service in every member’s assessment.

A financial model provided by MRHS projects Lexington’s FY2020 assessment at \$2,499,221, of which \$665,537, or 27%, would go towards debt service on this project. This would account for approximately \$37 out of the projected FY2020 tax bill for a home of median-assessed value. The model assumes that the relative proportion of Lexington’s enrollment does not deviate widely from the current average, and that the number of out-of-district enrollments at MRHS does not change significantly.

If this project is not approved, the impact on both the Town and the school will be severe. MRHS will be forced to undertake a more expensive and time-consuming renovation project. The estimated cost for a renovation that would solve only the existing building system and code deficiencies is \$106 million. This option would not reconfigure the school’s layout for the Career Academy model, nor would the building be “right-sized” for a smaller school enrollment. With no swing space, the renovation would create up to ten years of continual disruption and displacement. The District would forego \$44,100,000 of MSBA reimbursement, and member towns would face higher capital assessments, because the District cannot add a capital fee for out-of-district tuition without an MSBA-approved project.

This project is the result of years of planning. It considers and respects the financial needs of the member communities and the educational goals of the school. It is the most affordable approach, and it is the most effective way to continue educating an important segment of Lexington’s high school population.

The Committee recommends approval of this request (7-0-1).

Article 2016-4.4: Amend General Bylaws – Capital Expenditures Committee		
Funds Requested	Funding Source	Committee Recommendation
None	N/A	Approve (8-0)

This article has no direct financial impact on the Town, but the Committee feels it is important to offer its endorsement of this article.

The Capital Expenditures Committee (CEC) is currently required to have five members, which recent experience has shown places an undue burden on the CEC. The motion would raise the upper limit on the size of the CEC to seven.

The Appropriation Committee recognizes the heavy workload taken on by the volunteers serving on the CEC. Starting in the fall of each year and continuing for up to five months of weekly and sometimes bi-weekly meetings lasting hours, they perform an intensive annual review of the Town’s capital planning, purchasing, and funding, covering every municipal department item by item. This does not include the numerous liaison visits to meetings of other Town boards and committees. Town staff have expressed appreciation for the insights that this process yields, and the resulting reports form a vital part of the Town’s institutional memory.

With the advent of several major capital projects, and more on the horizon, the Town’s capital budget has been increasing in both capacity and complexity, and this has increased the burden on the CEC. In order to continue providing the same quality of work, the CEC must have more members.

The Committee recommends approval of this request (9-0).