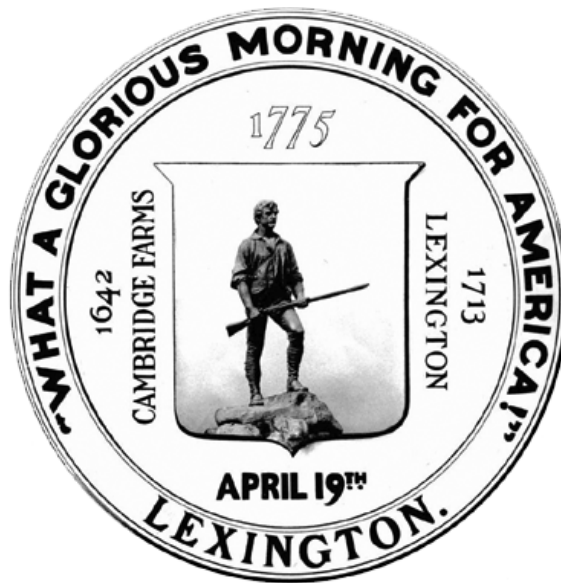


APPROPRIATION COMMITTEE TOWN OF LEXINGTON



REPORT TO THE MARCH 2017 SPECIAL TOWN MEETING 2017-1

Released March 12, 2017

APPROPRIATION COMMITTEE MEMBERS

John Bartenstein, Chair • Ellen Basch • Carolyn Kosnoff (ex-officio; non-voting)
Alan Levine, Vice Chair/Secretary • Eric Michelson • Richard Neumeier • Sanjay Padaki
Andrei Radulescu-Banu • Lily Manhua Yan • Jian Helen Yang

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Summary of Warrant Article Recommendations

Abbreviations

EF	Enterprise Fund	CPA	Community Preservation Act
GF	General Fund	DSSF	Debt Service Stabilization Fund
RE	Retained Earnings	IP	A motion to Indefinitely Postpone is expected
RF	Revolving Fund	TDM	Traffic Demand Management
SF	Special Fund		

Special Town Meeting 2017-1

Ar- ticle	Title	Funds Requested	Funding Source	Committee Recommendation
2	Appropriate Design Funds for Fire Station	\$450,000	GF Debt	Approval (9-0)
3	Appropriate Design Funds for Fire Station Swing Space	\$50,000	GF debt	Approval (9-0)
4	Appropriate Design Funds for Lexington Children's Place/20 Pelham Road	\$581,500	GF Debt	Approval (7-2)
5	Appropriate Bonds and Notes Premiums to Pay Project Costs	See article discussion	Premiums	Approval (9-0)

Introduction

The Appropriation Committee submits this report on four financial articles which have been advanced for early consideration at a Special Town Meeting (STM 2017-1) to be held on March 20, the first day of the 2017 Annual Town Meeting. Since appropriations become available for use only after the close of the special or annual town meeting at which they are approved, addressing these matters at an early special town meeting allows timely commencement of the work to which they pertain.

The first three articles seek the appropriation of design funds to continue the planning process for three important capital projects: reconstruction of the Fire Headquarters station at 45 Bedford Street; adaptation of the former Liberty Mutual Building at 171/173 Bedford Street for use as swing space while the main fire station is being reconstructed; and renovation of the former Armenian Sisters Academy at 20 Pelham Road, the purchase of which had not yet been announced by the time of publication of this report, for use as a permanent facility for the Lexington Children's Place. The fourth article concerns financial protocol with respect to borrowings, and provides for the appropriation of bond premiums received in connection with a bond and note sale on February 16, 2017 to lower the amount borrowed and thereby reduce borrowing costs.

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 by-law 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 analysis regarding the warrant articles that we deem 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 is normally published a week prior to the session when the articles are anticipated to be taken up in Town Meeting.

Acknowledgements

The content of this report, except where otherwise noted, was researched, written and edited by members of the Committee with support from Town staff. Our Committee has had the pleasure and the privilege of working with Town Manager Carl Valente; former Assistant Town Manager for Finance Rob Addelson; current Assistant Town Manager for Finance Carolyn Kosnoff; Budget Officer Jennifer Hewitt; the Capital Expenditures Committee; the School Committee; the Permanent Building Committee; Superintendent of Schools Dr. Mary Czajkowski; Director of Finance and Operations Ian Dailey; and the Board of Selectmen. We thank the municipal and school staff, Town officials, boards and volunteers who have contributed time and expertise to help us prepare this report. Last but not least, we thank Sara Arnold, who records and prepares the minutes for our meetings.

Special Town Meeting 2017-1 Analysis and Recommendations

The warrant for the March 2017 Special Town Meeting 2017-1 lists four articles with financial implications for the Town. Three articles concern major capital projects. The fourth article concerns financial protocol with respect to borrowings.

Article 2017-1.2: Appropriate Design Funds for Fire Station		
Funds Requested	Funding Source	Committee Recommendation
\$450,000	GF Debt	Approval (9-0)

The Town purchased the property formerly owned by Liberty Mutual at 171/173 Bedford St. in late 2016, with the intent to prepare that property to serve as swing space, see Article 2017-1.3 below, while the Fire Headquarters station is demolished and rebuilt. This article requests an appropriation of \$450,000 to fund the design of the new station through the schematic design and design development stages.

The justification for replacement of the Fire Headquarters station is documented elsewhere. This Committee briefly reviewed the rationale in our “Report to the Special Town Meeting on September 21, 2016” dated September 14, 2016, under Article 2016-5.2. A brief synopsis of the rationale may also be found in the report of the Capital Expenditures Committee to that special town meeting. The reasons to replace the facility are discussed at length in a report submitted to the Town by consultants Donham & Sweeney Architects in 2011¹.

If this article is approved, we anticipate that there will be a follow-up request at a special town meeting in the early fall of 2017 for the appropriation of funds to prepare construction documents, do the construction, and manage the project. The preliminary estimate for the cost of preparing construction documents is \$550,000; and the preliminary estimate for the sum of the costs of design work, actual construction and project management services is \$17,800,000. It is anticipated that the fall appropriation request will be contingent on approval of the exclusion of debt service for the project at a referendum to be held later in the fall. The debt exclusion authority would cover the present request for design funds, which will be financed in the interim by short-term, interest-only bond anticipation notes (BANs), as well as the expenses for subsequent phases of the project. In the event that a debt exclusion for the fire station is not approved by voters this fall or in the next year or two, the fire station replacement will not proceed and the \$450,000 of debt incurred under this article for preliminary design work would have to be serviced within the non-exempt tax levy.

If all approvals are granted according to the anticipated schedule, the new Fire Headquarters station would likely be available for occupancy in late 2019.

The Committee unanimously recommends approval of the article (9-0).

¹ “Lexington Fire Station Schematic Design Study Report”, dated 2/15/2011, Donham & Sweeney Architects. This report is available on the Town website at: <http://records.lexingtonma.gov/weblink/0/doc/142658/Page1.aspx>.

Article 2017-1.3: Appropriate Design Funds for Fire Station Swing Space		
Funds Requested	Funding Source	Committee Recommendation
\$50,000	GF Debt	Approval (9-0)

As noted above under Article 2017-1.2, the Town purchased the property formerly owned by Liberty Mutual at 171/173 Bedford St. late last year, with the intent to prepare that property to serve as swing space. The purchase of the site and building, as well as the evaluation of the site as a temporary location of the Fire Headquarters station, was funded by an appropriation made at Special Town Meeting 2016-5. This article is the next step in the process of preparing the site for use as swing space, i.e., the appropriation of \$50,000 to fund the design of required modifications to the 171/173 Bedford St. building, the provision of a temporary heated structure to house fire vehicles at the site, and other site changes.

It is presently envisioned that the modifications to the building will be confined to the first floor and the partial lower level, since those spaces will be sufficient for the intended purpose. Any use of the second floor would require creating a second means of egress from that floor. Modifications to the building also include the installation of sprinklers since there will be dormitory-style rooms on the first floor for use by the firefighters. A temporary structure connected to the main building with a covered walkway will be constructed to house four fire vehicle bays and to provide space for storing equipment.

A study of traffic and vehicle access indicates that a single-mast-arm traffic signal should be installed in front of the site on Bedford St. with stop lines painted on the road at appropriate distances from the signal, and that the signals at the intersections of Bedford St. with Revere St. and Worthen Rd. should be controlled by radio signals. The driveways at the 173 Bedford St. site will need to be widened to accommodate turning of the fire vehicles, especially the ladder truck, onto and from Bedford St. The goal is to maintain response times comparable to those achieved from the current Fire Headquarters.

If this article is approved, we anticipate that there will be a follow-up request at a special town meeting in the early fall of 2017 for the appropriation of funds needed for the final design phases of the project and to complete preparation of the site for use as a temporary fire station. The total cost of the present request plus the remaining phases has been estimated by a professional cost estimator, based on preliminary documents, at \$2,092,121. The fall request would be contingent on approval of the exclusion of debt service for the project at a referendum to be held later in the fall. The debt exclusion authority would cover the present request for design funds, which will be financed in the interim by short-term, interest-only bond anticipation notes (BANs), as well as the expenses for subsequent phases of the project. In the event that a debt exclusion for the fire station is not approved by the voters this fall or in the next year or two, the preparation of the site as swing space will not proceed and the \$50,000 of debt incurred under this article for preliminary design work would have to be serviced within the non-exempt tax levy.

If this article is approved, the project schedule shows the Fire Department moving to the temporary location in 2018.

The Committee unanimously recommends approval of the article (9-0).

Article 2017-1.4: Appropriate Design Funds for Lexington Children's Place/20 Pelham Road		
Funds Requested	Funding Source	Committee Recommendation
\$581,500	GF Debt	Approval (7-2)

The property at 20 Pelham Road was formerly known as the Armenian Sisters Academy, a private K-8 school. It comprises about 8.4 acres of land with a mostly one-story school building constructed in 1959, two paved driveways, and two small paved parking lots. Between three and four acres of the plot is covered by woods, with a small clearing on the west side of the building. Some of the area is considered to be wetlands; a rough estimate suggests that 6 to 7 acres may be considered developable. The building has slightly less than half the capacity of other Lexington public elementary schools; it contains 10 classrooms, a two-story gym, a cafeteria, and administrative offices. The property abuts the location of the Lexington Community Center (LexCC) and carriage house.

On December 2, 2015, under Article 4 of the November 2, 2015 Special Town Meeting #1, \$150,000 was appropriated for studies of vehicular access to and egress from the site, pedestrian access between the site and the LexCC, and other engineering studies. Professional consultants performed the access studies, and have submitted a report to Town officials.

The amount of \$8,000,000 was appropriated in May 2016 under Article 2 of Special Town Meeting 2016-2 to acquire the property. On February 15, 2017, this Committee approved a transfer of \$17,115 from the Reserve Fund for due diligence studies that needed to be done prior to acquisition of the property. The agenda for the Board of Selectmen meeting on March 8, 2017, just prior to press time, contained an executive session item to "... Review and Authorize Town Manager to Sign Purchase and Sale Agreement for 20 Pelham Road Property". However, by press time no details of a negotiated agreement were available for public release.

The Town's preschool, Lexington Children's Place (LCP), provides services to preschool children, including children with special needs who qualify under the state mandate for free educational services. Due to growing enrollment, LCP currently uses space in both the new and old Harrington School buildings. Having the program split between two buildings presents substantial inconveniences for the LCP staff. At the same time, K-5 enrollment at the new Harrington School continues to grow. The demand for space for administrative uses in the old Harrington building also continues to grow, especially with the current transition to central registration that will be administered in the School Administration building. Increased use by LCP of the old Harrington building would present building code compliance issues, and there is only limited parking at the site, which must accommodate elementary school, preschool, and administrative staff and visitors. Given this situation, the School Committee has been looking for a way to move one or more uses off site.

With the assistance of the architectural firm DiNisco Design Partnership, Inc., the School Committee evaluated five alternative sites for the Lexington Children's Place program and determined that the Pelham Road property is the preferred location. Since the building was formerly used as an elementary school, the floor plan of a major portion, i.e., the part laid out for classroom use that comprises just under half the floor area, is favorable for conversion to LCP use. The cafeteria and gym occupy large portions of the floor area not currently planned for use by LCP.

At the present time there are open questions in regard to the future locations of a number of Lexington Public Schools facilities, including LCP, the Central Offices, and a possible seventh elementary school. As noted above, five sites were considered as possible sites for LCP. A decision to renovate the Pelham Road building for LCP would foreclose for the foreseeable future the possibility of using the 20 Pelham Road property for an elementary school. However, the Pelham Road site is not particularly well-suited to use as an elementary school for several reasons. The lot is small, and it seems unlikely that it could sup-

port a full size, i.e., 24-section, elementary school. While the site could support a 12-section school, there would, at best, be insufficient space for athletic fields. Vehicular access may be acceptable for relatively low traffic volumes, such as for the LCP, but unacceptable for heavier volumes, such as those that would be generated by either a half or full-size elementary school. In this regard, there has been discussion of the possibility of constructing a road through the Community Center property in order to provide better access to the Pelham Road site. Such a road would not only involve considerable expense (preliminarily estimated at \$3,000,000) but could also have negative effects on the environmental characteristics of the Community Center property.

The move of LCP away from the site containing the new and old Harrington Schools may be an important step toward making the old Harrington site available for a seventh elementary school should one be needed in the future. With LCP out of the way, the next step would be to find an alternative location for the School Administration. This would likely be easier to accomplish than to find a home for LCP somewhere other than the Pelham Road building. In regard to the location of a seventh elementary school, the old Harrington site may present traffic issues, but those issues are likely to be less serious than those that would need to be addressed for a full elementary school at the Pelham Road location. The developable site areas of the 20 Pelham Road lot and the portion of the Harrington complex occupied by the old school building may be similar; rough estimates indicate that both areas are likely to be in the range of 6 to 7 acres. However, the Harrington site could allow for shared use of the athletic fields that are adjacent to the new Harrington School.

The 20 Pelham Road gymnasium and cafeteria with adjoining commercial kitchen could also serve as an annex of the neighboring LexCC which has neither a gym nor a room as large as the Pelham Road building cafeteria. This would require installation of a walking path over a short distance from the Community Center to the Pelham Road building. These aspects of using the 20 Pelham Road site for the LexCC are not contemplated in the current article.

The present preliminary estimate of the cost to renovate the building for use by LCP is \$18,300,000, of which approximately \$14,700,000 would be for remediation, construction, and site costs and \$3,600,000 for design and construction management costs. The \$14,700,000 comprises \$1,300,000 for costs of remediation of asbestos, PCBs, and surfaces with lead paint, \$10,200,000 for the LCP renovations, and \$3,200,000 for site work. The \$18,300,000 estimate includes amounts for replacement of the entire roof, all windows, all HVAC systems, and remediation costs for the entire building.

The current preliminary estimate of the cost to renovate the remainder of the building for use by the LexCC is an additional \$6,100,000; this cost is dependent on approval of the LCP renovations.

Design funds for these renovations in the estimated amount of \$771,250 are needed to accomplish the design work for the entire site. Since the scope of this article is limited to the LCP uses, only the amount needed to do the design work required to accommodate the LCP, \$581,500, is requested under the present article. The \$581,500 represents a portion of the \$3,600,000 for design and project management services for the LCP portion cited above. These funds would be used to cover expenses for schematic design, design development, and miscellaneous expenses. Furthermore, one of the goals of the design process will be to find ways to lower the likely project costs of both the LCP and LexCC portions without sacrificing important objectives.

Funds for preparation of construction documents, construction, construction oversight, and other soft costs are anticipated to be requested at a special town meeting to be held in the early fall of this year (2017) prior to presenting voters with a question on this project on a debt exclusion referendum later in the fall of 2017. If all approvals are received, the LCP and LexCC could occupy the building in late 2019 or early 2020.

The funds needed to do the design work required to accommodate the LexCC uses on Pelham Rd., i.e., the balance of \$189,750 will be obtained through \$72,000 in funds appropriated at the 2016 Annual Town Meeting under Article 16(e): *Public Facilities Bid Documents* and through a request for an appropriation

of \$117,750 in funds under Article 16(e): *Public Facilities Bid Documents* of the 2017 Annual Town Meeting.

A minority of the Committee recommends deferring approval of this article because they would prefer to have more extended discussions of comparisons of the proposed plan with a range of alternative plans taking into account LPS needs at the elementary and high school levels. They argue that the LCP program at present has a student enrollment equivalent to 127 “slots” but has a total capacity of 157 slots. They further argue that obtaining more capacity for the LCP and freeing up 2-4 general education classrooms at the Harrington School do not together justify a price tag of roughly \$26 million for the purchase of the property and the building renovations for the LCP. They also would prioritize the expansion of the LexCC below those of other upcoming school and public safety facility capital projects, and therefore do not want to proceed towards spending approximately \$6 million on the renovations for the cafeteria and gym portion of the building for the LexCC at this time. Finally, the minority position is that, with the renovation cost estimates so high for both the LCP and LexCC portions of the building, it would make sense to evaluate the option to build a brand new facility for the LCP and compare the pros and cons with the current plan to renovate.

The Committee recommends approval of this article (7-2)

Article 2017-1.5: Appropriate Bonds and Notes Premiums to Pay Project Costs		
Funds Requested	Funding Source	Committee Recommendation
See Below	Premiums	Approval (9-0)

This article provides for the appropriation of premiums received by the Town in connection with a bond and note sale made on February 16, 2017, to lower the amount of the associated borrowing. The article is included in the warrant in response to the Municipal Modernization Act (MMA), which was enacted in the summer of 2016 and became effective on November 1, 2016.

Background

It is common, in connection with the issuance of both corporate and public bonds, for underwriters to specify that the bonds will be issued at a stated interest rate based on the bond’s “par” value, but effectively to adjust the interest costs paid by the borrower upwards or downwards, depending on market conditions, by selling those bonds at a premium or a discount. When a bond is sold at a premium, the effective interest rate or “True Interest Cost” (TIC) paid by the borrower is lower than the stated interest rate on the bonds because some of the interest cost to be paid in the future is, in effect, returned to the borrower up front. The same practice is followed for Bond Anticipation Notes (BANs), which are short-term, interest-only loans made in anticipation of a future bond issuance and fully retired when the bonds are issued. This market practice raises the question of how municipalities should account for such bond and note premiums (collectively referred to as “bond premiums”) when received.

Before the MMA was enacted, bond premiums for debt within the levy went into the General Fund and could be appropriated for any purpose; bond premiums for debt issued under a debt exclusion and exempt from the limits of Proposition 2½, on the other hand, had to either be reserved and applied against future interest costs of the particular borrowing for which they were received, or appropriated up front to lower the amount of the borrowing.

Under the MMA, the rules have been changed for both exempt and non-exempt bond debt authorized and sold after that date. In the case of exempt debt, any bond premium, net of issuance costs, must be appropriated up front to lower the amount of the borrowing. In the case of within-levy debt, the municipality

has the option either to: (i) appropriate the premium up front to lower the amount of the borrowing; or (ii) reserve the funds for future appropriation to another, similar capital project for which borrowing may be authorized for an equal or longer term.

Premiums from February 16, 2017 Bond and Note Issuance

At the recommendation of the Town’s finance staff and bond counsel, it is proposed that option (i) be followed for all premiums received in connection with the Town’s most recent sale of bonds and notes on February 16, 2017, whether for exempt or non-exempt debt, *i.e.*, that the premiums, net of issuance costs, be applied up front to lower the amount of the associated borrowing for which the premiums are received. This is a cleaner and simpler approach, and helps to assure that legal obligations are satisfied without the need for inordinate tracking and paperwork. Thus:

- The low bid for a proposed bond issue of \$47,423,000 included a premium of \$2,041,133, for a TIC of 3.06%. After applying the bond premium, net of issuance costs, the amount borrowed is reduced to \$45,423,000.
- The low bid for proposed BANs totaling \$13,426,052 included a premium of \$38,956, for a TIC of 0.96%. After applying the premium, the amount borrowed, net of issuance costs, is reduced to \$13,387,096.

It is anticipated that all future warrant articles authorizing within-levy debt will include a clause providing for the application of option (i) to bond premiums if so recommended by the Board of Selectmen. In addition, option (i) will be used for in-levy debt that has been previously authorized by the 2016 Town Meeting but for which bonds/notes have yet to be issued. When option (i) is applied to borrowing that includes both exempt and non-exempt debt, the premiums will be applied strictly pro rata to all borrowings, both exempt and non-exempt, for which they are received.

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